

Report on Review of Interim Financial Information
Public Joint-Stock Company KuibyshevAzot
and its subsidiaries
for the six-month period ended 30 June 2018

August 2018

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Public Joint-Stock Company KuibyshevAzot
and its subsidiaries

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Report on Review of Interim Financial Information

To the shareholders of Public Joint-Stock Company KuibyshevAzot

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Public Joint-Stock Company KuibyshevAzot (PJSC KuibyshevAzot) and its subsidiaries (the Group), which comprise the interim condensed consolidated statement of financial position as at 30 June 2018, the interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management of the Group is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting.

Other matters

Review of interim condensed consolidated financial statements of the Group for the six-month period ended 30 June 2017 was not performed.

Report on supplementary information

Our review was conducted for the purpose of identifying facts that would cause us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting. The information on the translation into US dollars of the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, accompanying the interim condensed consolidated financial statements, which has been disclosed as supplementary financial information on pages 5 to 8, is presented for purposes of additional analysis and is not within the scope of IFRS. Such supplementary financial information has been subject to the procedures applied in our review of the interim condensed consolidated financial statements and, based on our review, nothing has come to our attention that causes us to believe that the supplementary financial information is not prepared, in all material respects, in accordance with the basis described in Note 2.2 to the interim condensed consolidated financial statements.



E.E. Zlokazova
Partner
Ernst & Young LLC

24 August 2018

Details of the audited entity

Name: Public Joint-Stock Company KuibyshevAzot
Record made in the State Register of Legal Entities on 17 January 2003, State Registration Number 1036300992793.
Address: Russia 445007, Togliatti, ul. Novozavodskaya, 6.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.



KuibyshevAzot Group

Interim condensed consolidated statement of financial position

as at 30 June 2018

(In millions of Russian rubles unless otherwise stated)

| | Note | Unaudited | | Audited | | Supplementary information USD million (Note 2.2) | |
|--|------|-----------------|---------------------|-----------------|---------------------|---|---------------------|
| | | 30 June 2018 | 31 December 2017 | 30 June 2018 | 31 December 2017 | 30 June 2018 | 31 December 2017 |
| Assets | | | | | | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | 5 | 1,636 | 1,381 | 26 | 24 | | |
| Trade and other receivables | 6 | 5,966 | 5,866 | 95 | 102 | | |
| Inventories | 7 | 7,912 | 7,820 | 126 | 136 | | |
| Current income tax receivable | | - | 61 | - | 1 | | |
| Financial assets | 11 | 1,169 | 1,199 | 19 | 21 | | |
| Total current assets | | 16,683 | 16,327 | 266 | 284 | | |
| Non-current assets | | | | | | | |
| Property, plant and equipment | 8 | 28,640 | 28,620 | 456 | 497 | | |
| Intangible assets | 9 | 4,254 | 4,496 | 68 | 78 | | |
| Prepayments for property, plant and equipment and intangible assets | | 1,745 | 339 | 28 | 6 | | |
| Investments in associates and joint ventures | 10 | 5,533 | 5,338 | 88 | 92 | | |
| Financial assets | 11 | 2,800 | 3,073 | 45 | 53 | | |
| Total non-current assets | | 42,972 | 41,866 | 685 | 726 | | |
| Total assets | | 59,655 | 58,193 | 951 | 1,010 | | |
| Liabilities | | | | | | | |
| Current liabilities | | | | | | | |
| Trade payables | | 3,991 | 3,919 | 64 | 68 | | |
| Income tax liability | | 40 | 17 | 1 | - | | |
| Other than income taxes payable | 14 | 283 | 241 | 5 | 4 | | |
| Short-term loans and borrowings | 12 | 9,426 | 10,411 | 150 | 181 | | |
| Advances received | | 1,025 | 1,650 | 16 | 28 | | |
| Other current liabilities | 13 | 583 | 898 | 9 | 16 | | |
| Total current liabilities | | 15,348 | 17,136 | 245 | 297 | | |
| Non-current liabilities | | | | | | | |
| Long-term loans and borrowings | 12 | 14,088 | 12,773 | 224 | 222 | | |
| Deferred tax liabilities | | 1,156 | 1,181 | 19 | 21 | | |
| Retirement benefit obligations | | 392 | 424 | 6 | 7 | | |
| Other non-current liabilities | | 622 | 1,108 | 10 | 19 | | |
| Total non-current liabilities | | 16,258 | 15,486 | 259 | 269 | | |
| Total liabilities | | 31,606 | 32,622 | 504 | 566 | | |
| Equity | | | | | | | |
| Equity and reserves attributable to equity holders of the Company | | | | | | | |
| Share capital | 15 | 634 | 634 | 10 | 11 | | |
| Additional share capital | | 919 | 919 | 15 | 16 | | |
| Treasury shares | 15 | (2,225) | (2,225) | (35) | (38) | | |
| Foreign currency translation reserve | | 590 | 477 | 9 | 8 | | |
| Retained earnings | | 27,925 | 25,594 | 445 | 444 | | |
| | | 27,843 | 25,399 | 444 | 441 | | |
| Non-controlling interests | | 206 | 172 | 3 | 3 | | |
| Total equity | | 28,049 | 25,571 | 447 | 444 | | |
| Total liabilities and equity | | 59,655 | 58,193 | 951 | 1,010 | | |

Approved for issue and signed on behalf of Board of Directors on
24 August 2018

A.V. Gerasimenko
General Director

V.N. Kudashev
Chief Accountant



KuibyshevAzot Group

Interim condensed consolidated statement of comprehensive income

for the six months ended 30 June 2018

(In millions of Russian rubles unless otherwise stated)

| | Note | Unaudited | | Supplementary information USD million (Note 2.2) | |
|---|------|-------------------------------------|--------------|---|-------------|
| | | For the six months ended 30 June | | Unaudited For the six months ended 30 June | |
| | | 2018 | 2017 | 2018 | 2017 |
| Sales | 16 | 30,814 | 23,913 | 519 | 412 |
| Cost of sales | 17 | (22,539) | (17,752) | (380) | (306) |
| Gross profit | | 8,275 | 6,161 | 139 | 106 |
| Distribution costs | 18 | (3,096) | (2,032) | (52) | (35) |
| General and administrative expenses | 19 | (1,276) | (1,197) | (21) | (21) |
| Other operating income | 20 | 794 | 499 | 13 | 9 |
| Other operating expenses | 21 | (324) | (314) | (5) | (5) |
| Operating profit | | 4,373 | 3,117 | 74 | 54 |
| Finance income | 22 | 133 | 552 | 2 | 10 |
| Finance costs | 23 | (1,322) | (737) | (22) | (13) |
| Share of profit of associates and joint ventures | 10 | 236 | (168) | 4 | (3) |
| Profit before tax | | 3,420 | 2,764 | 58 | 48 |
| Income tax expense | 24 | (718) | (618) | (12) | (11) |
| Profit for the period | | 2,702 | 2,146 | 46 | 37 |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods | | | | | |
| Foreign currency translation reserve | | 113 | (48) | 2 | (1) |
| Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods | | 113 | (48) | 2 | (1) |
| Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods | | | | | |
| Re-measurement of income/(losses) on defined benefit plan | | 59 | 19 | 1 | - |
| Income tax effect | 24 | (12) | (4) | - | - |
| Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods | | 47 | 15 | 1 | - |
| Other comprehensive income/(loss) for the period, net of tax | | 160 | (33) | 3 | (1) |
| Total comprehensive income/(loss) for the period, net of tax | | 2,862 | 2,113 | 49 | 36 |
| Profit attributable to: | | | | | |
| Equity holders of the Company | | 2,660 | 2,156 | 45 | 37 |
| Non-controlling interests | | 42 | (10) | 1 | - |
| | | 2,702 | 2,146 | 46 | 37 |
| Total comprehensive income attributable to: | | | | | |
| Equity holders of the Company | | 2,820 | 2,123 | 48 | 36 |
| Non-controlling interests | | 42 | (10) | 1 | - |
| | | 2,862 | 2,113 | 49 | 36 |
| Earnings per share, basic/diluted (in Russian rubles and USD per share): | | | | | |
| - for profit attributable to the equity holders of the Company | | 14.13 | 11.45 | 0.24 | 0.20 |

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



KuibyshevAzot Group

Interim condensed consolidated statement of changes in equity

for the six months ended 30 June 2018

(In millions of Russian rubles unless otherwise stated)

| | Equity attributable to equity holders of the Company | | | | | | | Non-controlling interests | Total equity |
|---|--|---------------------------------|----------------------------------|---|--------------------------|--------------|----------------------------------|---------------------------|--------------|
| | Share capital | Additional share capital | Treasury shares (Note 15) | Foreign currency translation reserve | Retained earnings | Total | | | |
| Balance at 31 December 2016 | 634 | 919 | (2,225) | 470 | 23,582 | 23,380 | 244 | 23,624 | |
| Profit for the period | - | - | - | - | 2,156 | 2,156 | (10) | 2,146 | |
| Other comprehensive income/(loss) | - | - | - | (48) | 15 | (33) | - | (33) | |
| Total comprehensive income/(loss) | - | - | - | (48) | 2,171 | 2,123 | (10) | 2,113 | |
| Dividends declared by a subsidiary to non-controlling interests | - | - | - | - | - | - | (8) | (8) | |
| Dividends declared (Note 15) | - | - | - | - | (188) | (188) | - | (188) | |
| Balance at 30 June 2017 (Unaudited) | 634 | 919 | (2,225) | 422 | 25,565 | 25,315 | 226 | 25,541 | |
| Balance at 31 December 2017 | 634 | 919 | (2,225) | 477 | 25,594 | 25,399 | 172 | 25,571 | |
| Profit for the period | - | - | - | - | 2,660 | 2,660 | 42 | 2,702 | |
| Other comprehensive income | - | - | - | 113 | 47 | 160 | - | 160 | |
| Total comprehensive income | - | - | - | 113 | 2,707 | 2,820 | 42 | 2,862 | |
| Dividends declared by a subsidiary to non-controlling interests | - | - | - | - | - | - | (8) | (8) | |
| Dividends declared (Note 15) | - | - | - | - | (376) | (376) | - | (376) | |
| Balance at 30 June 2018 (Unaudited) | 634 | 919 | (2,225) | 590 | 27,925 | 27,843 | 206 | 28,049 | |
| | Equity attributable to equity holders of the Company | | | | | | | | |
| Supplementary information USD million (Note 2.2) | Share capital | Additional share capital | Treasury shares (Note 15) | Foreign currency translation reserve | Retained earnings | Total | Non-controlling interests | Total equity | |
| Balance at 31 December 2017 | 11 | 16 | (38) | 8 | 444 | 441 | 3 | 444 | |
| Balance at 30 June 2018 (Unaudited) | 10 | 15 | (35) | 9 | 445 | 444 | 3 | 447 | |



KuibyshevAzot Group

Interim condensed consolidated statement of cash flows

for the six months ended 30 June 2018

(In millions of Russian rubles unless otherwise stated)

| | Note | Unaudited | | Supplementary information USD million (Note 2.2) | |
|---|----------|-------------------------------------|----------------|---|-------------|
| | | For the six months ended 30 June | | Unaudited For the six months ended 30 June | |
| | | 2018 | 2017 | 2018 | 2017 |
| Cash flows from operating activities | | | | | |
| Profit before tax | | 3,420 | 2,764 | 58 | 48 |
| Adjustments for: | | | | | |
| Depreciation of property, plant and equipment and intangible assets | 8, 9 | 1,461 | 1,299 | 25 | 22 |
| Retirement benefit obligations | | 27 | 23 | - | - |
| Impairment of accounts receivable | 19 | 3 | (17) | - | - |
| Share of profit of associates and joint ventures | 10 | (236) | 168 | (4) | 3 |
| Finance income | 22 | (133) | (124) | (2) | (2) |
| Finance costs | 23 | 776 | 737 | 13 | 13 |
| Net foreign exchange effect on non-operating balances | 22, 23 | 546 | (428) | 9 | (7) |
| Operating cash flows before working capital changes | | 5,864 | 4,422 | 99 | 77 |
| (Increase)/decrease in trade and other receivables | | (103) | (1,080) | (2) | (19) |
| (Increase)/decrease in inventories | | (92) | (455) | (2) | (8) |
| Increase/(decrease) in trade and other payables | | (1,392) | 383 | (23) | 7 |
| Increase/(decrease) in other taxes payable | | 42 | 234 | 1 | 4 |
| Cash flows from operating activities | | 4,319 | 3,504 | 73 | 61 |
| Income tax paid | | (659) | (679) | (11) | (12) |
| Interest received | | 59 | 9 | 1 | - |
| Interest paid | | (940) | (970) | (16) | (17) |
| Net cash generated from operating activities | | 2,779 | 1,864 | 47 | 32 |
| Cash flows from investing activities: | | | | | |
| Purchase of property, plant and equipment | | (2,436) | (2,326) | (41) | (40) |
| Proceeds from sale of property, plant and equipment | | 114 | 6 | 2 | - |
| Purchase of intangible assets | | (350) | (494) | (6) | (9) |
| Disposal of non-current financial assets | | 25 | - | - | - |
| Purchase of non-current financial assets | | (23) | (418) | - | (7) |
| Disposal of current financial assets | | 1,096 | 937 | 18 | 16 |
| Purchase of current financial assets | | (171) | - | (3) | - |
| Net cash used in investing activities | | (1,745) | (2,295) | (30) | (40) |
| Cash flows from financing activities: | | | | | |
| Proceeds from short-term loans and borrowings | | 350 | 800 | 6 | 14 |
| Proceeds from long-term loans and borrowings | | 3,576 | 2,309 | 60 | 40 |
| Repayment of loans and borrowings | | (4,148) | (2,433) | (70) | (42) |
| Dividends received from associates | 10 | 15 | 27 | - | - |
| Dividends paid to non-controlling interests | | (8) | (8) | - | - |
| Dividends paid to equity holders of the parent | 15 | (564) | (190) | (10) | (3) |
| Net cash (used in)/generated from financing activities | | (779) | 505 | (14) | 9 |
| Net increase/(decrease) in cash and cash equivalents | | 255 | 74 | 3 | 1 |
| Net foreign exchange difference | | - | - | (1) | 1 |
| Cash and cash equivalents at the beginning of the period | 5 | 1,381 | 1,264 | 24 | 21 |
| Cash and cash equivalents at the end of the period | 5 | 1,636 | 1,338 | 26 | 23 |

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



KuibyshevAzot Group

Selected notes to the interim condensed consolidated financial statements at 30 June 2018

(In millions of Russian rubles unless otherwise stated)

1 The Group and its operations

Public Joint Stock Company “KuibyshevAzot” (“the Company” or “KuibyshevAzot”) and its subsidiaries’ (“the Group”) principal activities include the manufacture, distribution and sales of caprolactam and its derivatives, nitrogen fertilisers and ammonia and other chemical products. The Group’s manufacturing facilities are primarily based in the Samarskaya oblast of Russian Federation. Part of the Company’s shares is publicly traded on Moscow Exchange MICEX-RTS.

The parent, KuibyshevAzot, was incorporated as a public joint stock company in the Russian Federation on 25 November 2016. The registered office of KuibyshevAzot is ul. Novozavodskaya, 6, Togliatti, 445007, Samarskaya oblast, Russian Federation.

As at 30 June 2018 a blocking shareholding of 27% of total share capital of the Company is held by a limited liability company Kuibyshevazot Plus, which was established in 2005 by the Company’s management who contributed their shares in the Company into share capital of Kuibyshevazot Plus. 21% of total share capital of the Company is held by subsidiaries of the Group, as disclosed in Note 15. The remaining part of share capital of the Company is distributed among a number of individuals and legal entities. Therefore, the Company does not have an ultimate controlling party.

These interim condensed consolidated financial statements were authorised for issue by General Director of KuibyshevAzot on 24 August 2018.

2 Basis of preparation and changes to the Group’s accounting policies

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended 30 June 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2017.

2.2 Foreign currency transaction

Functional and presentation currency

Functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The Company’s functional currency and the Group’s presentation currency is the national currency of the Russian Federation, Russian rubles (“RUB”).

Supplementary information

In addition to presenting these interim condensed consolidated financial statements in Russian rubles, supplementary information in US dollars (USD) has been prepared for the convenience of users of these consolidated financial statements. The method used to determine the supplementary information is as follows:

- (i) all items in the interim condensed consolidated statement of financial position, including all components of equity, are translated at the closing rate for each consolidated statement of financial position presented.
- (ii) income and expenses have been translated using the average rate of exchange for each for the period presented.

The Company has converted the financial information into USD by translating all items in the interim condensed consolidated statement of financial position, including all components of equity, using the closing rate. Such conversion is not in accordance with IFRS as translation differences resulting from translating opening net assets using the prior period closing rate has not been presented separately within other comprehensive income.



KuibyshevAzot Group

Selected notes to the interim condensed consolidated financial statements at 30 June 2018

(In millions of Russian rubles unless otherwise stated)

2 Basis of preparation and changes to the Group's accounting policies (continued)

2.2 Foreign currency transaction (continued)

The relevant exchange rates of the RUB to USD 1 as quoted by the Central Bank of the Russian Federation (CBR) were as follows:

| | <u>RUB / USD</u> |
|---|------------------|
| 30 June 2017 | 59.0855 |
| Average for the period ended 30 June 2017 | 57.9862 |
| 31 December 2017 | 57.6002 |
| Average for the period ended 30 June 2018 | 59.3536 |
| 30 June 2018 | 62.7565 |

The translation of RUB denominated assets and liabilities into USD for the purpose of these interim condensed consolidated financial statements does not indicate that the Group could or will in the future realize or settle in USD the translated values of these assets and liabilities.

2.3 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

(a) Sale of goods and services

The Group's contracts with customers for the sale of goods and services generally include one performance obligation. The Group has concluded that revenue from sale of goods and services should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and discounts. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception and updated thereafter.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group assessed individual contracts to determine the estimated variable consideration a related constraint. Application of the constraint did not have an impact on the Group's interim condensed consolidated financial statements.



KuibyshevAzot Group

Selected notes to the interim condensed consolidated financial statements at 30 June 2018

(In millions of Russian rubles unless otherwise stated)

2 Basis of preparation and changes to the Group's accounting policies (continued)

2.3 New standards, interpretations and amendments adopted by the Group (continued)

(b) Advances received from customers

The Group receives only short-term advances from its customers. While adopting IFRS 15 the Group used the practical expedient. According to the practical expedient, the Group will not adjust the promised amount of the consideration for the effects of a significant financing components in the contracts, where the Group expects, at contract inception, that the period between the Group transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

(c) Presentation and disclosure requirements

As required for the condensed interim consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Information about disaggregated revenue is disclosed in Note 16.

Adoption of IFRS 15 did not have an impact on the Group's interim condensed consolidated financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 and without adjusting the comparative information for the period beginning 1 January 2017.

(a) Classification and measurement

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis.

The Group performed detailed analysis and has not determined significant effects from moving from an incurred loss model under IAS 39 to an expected loss model as required by IFRS 9. As a result of this analysis, the Group concluded that IFRS 9 did not have an impact on the Group's interim condensed consolidated financial statements.

The Group also applied some other amendments and interpretations for the first time in 2018, but they do not have an impact on its interim condensed consolidated financial statements.

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*
- Amendments to IAS 40 *Transfers of Investment Property*
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Deletion of short-term exemptions for first-time adopters



KuibyshevAzot Group

Selected notes to the interim condensed consolidated financial statements at 30 June 2018

(In millions of Russian rubles unless otherwise stated)

3 Operating segment information

For management purposes, the Group is organised into business units based on their products lines, and has the following reportable operating segments:

- (1) Production and sale of caprolactam and derivatives;
- (2) Production and sale of ammonia and nitrogen fertilisers.

Unallocated activities includes activities of the Company that do not relate to chemical production and subsidiaries' activities. Group financing and income taxes are managed on a group basis and are not allocated to operating segments.

Management monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on management accounts, which in a number of respects, as explained in the table below, differs from the interim condensed consolidated financial statements.

Transactions between the business segments are mainly done on ordinary commercial terms and conditions.

The following tables present revenue, profit, assets and liabilities information regarding the Group's operating segments:

| | Caprolactam and derivatives | | Ammonia and nitrogen fertilisers | | Unallocated / elimination | | Total | |
|---|-----------------------------|--------|----------------------------------|-------|---------------------------|-------|--------------|--------------|
| | Unaudited | | Unaudited | | Unaudited | | Unaudited | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Six months ended 30 June | | | | | | | | |
| Sales | 17,328 | 14,015 | 10,528 | 7,642 | 2,958 | 2,256 | 30,814 | 23,913 |
| Segment operating profit for the period | 1,736 | 559 | 2,611 | 2,884 | 404 | 108 | 4,751 | 3,551 |
| IFRS adjustments | | | | | | | | |
| Difference in depreciation of property, plant and equipment | | | | | | | (297) | (323) |
| Provision for retirement benefit obligations | | | | | | | (26) | (23) |
| Other | | | | | | | (55) | (88) |
| IFRS operating profit for the period | | | | | | | 4,373 | 3,117 |

Difference in depreciation of property, plant and equipment relates to different useful life period of property, plant and equipment in management accounts and in IFRS consolidated financial statements.

Unallocated amount relates mainly to activities of non-core subsidiaries.

| | Caprolactam and derivatives | | Ammonia and nitrogen fertilisers | | Unallocated / elimination | | Total | |
|---|--------------------------------|---------------------|----------------------------------|---------------------|--------------------------------|---------------------|--------------------------------|---------------------|
| | As at 30 June 2018 (unaudited) | At 31 December 2017 | As at 30 June 2018 (unaudited) | At 31 December 2017 | As at 30 June 2018 (unaudited) | At 31 December 2017 | As at 30 June 2018 (unaudited) | At 31 December 2017 |
| | Segment assets | 27,798 | 27,497 | 5,020 | 5,763 | 26,714 | 24,868 | 59,532 |
| IFRS adjustments: | | | | | | | | |
| Difference in depreciation of property, plant and equipment | | | | | | | 292 | 428 |
| Impairment of the Group's assets | | | | | | | (156) | (245) |
| Other | | | | | | | (13) | (118) |
| IFRS total assets | | | | | | | 59,655 | 58,193 |



KuibyshevAzot Group

Selected notes to the interim condensed consolidated financial statements at 30 June 2018

(In millions of Russian rubles unless otherwise stated)

3 Operating segment information (continued)

| | Caprolactam and derivatives | | Ammonia and nitrogen fertilisers | | Unallocated/elimination | | Total | |
|--------------------------------|--------------------------------|------------------------|----------------------------------|------------------------|--------------------------------|------------------------|--------------------------------|------------------------|
| | As at 30 June 2018 (unaudited) | As at 31 December 2017 | As at 30 June 2018 (unaudited) | As at 31 December 2017 | As at 30 June 2018 (unaudited) | As at 31 December 2017 | As at 30 June 2018 (unaudited) | As at 31 December 2017 |
| Segment liabilities | 2,627 | 3,487 | 1,181 | 1,984 | 27,711 | 27,111 | 31,519 | 32,582 |
| IFRS adjustments: | | | | | | | | |
| Retirement benefit obligations | | | | | | | 392 | 424 |
| Deferred tax | | | | | | | (303) | (347) |
| Other | | | | | | | (2) | (37) |
| IFRS total liabilities | | | | | | | 31,606 | 32,622 |

Unallocated amounts relate mainly to borrowings of RUB 23,514 (as at 31 December 2017: RUB 23,184) and liabilities of non-core subsidiaries.

4 Related party disclosures

For the purpose of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence 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. During the six months ended 30 June 2018 and 2017 the Group entered into transactions with the following related parties: associates, joint ventures and key management personnel.

The following table provides the total amount of transactions that have been entered into with related parties for the six-month period ended 30 June 2018 and 2017.

Sales of goods and services

| | Unaudited | |
|--|--------------|--------------|
| | 2018 | 2017 |
| Sales of finished goods and other sales | 2,679 | 1,858 |
| Sale of electric power | 373 | 332 |
| Rental services | 27 | 14 |
| Interest income on loans issued to related parties | 112 | 88 |
| | 3,191 | 2,292 |

Purchase of goods and services

| | Unaudited | |
|--------------------------------|--------------|--------------|
| | 2018 | 2017 |
| Purchase of goods and services | 5,388 | 3,304 |
| | 5,388 | 3,304 |

The following table represents outstanding balances with related parties as at 30 June 2018 and 31 December 2017.

| | Unaudited | |
|---------------------|--------------|------------------|
| | 30 June 2018 | 31 December 2017 |
| Receivables | 679 | 517 |
| Payables | 711 | 1,360 |
| Borrowings issued | 3,342 | 3,789 |
| Lease payable | - | 1 |
| Borrowings received | 350 | 300 |



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4 Related party disclosures (continued)

As at 30 June 2018 borrowings issued to related parties mainly relate to a euro-denominated borrowing in the amount of RUB 3,319 issued to Linde Azot Togliatti at the interest rate of 4% (31 December 2017: RUB 3,766, interest rate of 4%).

As at 30 June 2018 borrowings from related parties include an interest-free borrowing amounting to RUB 350 obtained from Praxair Azot Togliatti (31 December 2017: an interest-free borrowing amounting to RUB 300).

Key management compensation

The remuneration of 20 key management personnel of the Company amounted to RUB 43 and RUB 44 for the six months ended 30 June 2018 and 2017, respectively. It comprised salaries, discretionary bonuses and other short-term benefits. Statutory social payments made in respect of key management personnel remuneration amounted of RUB 9 and RUB 9, respectively. Dividends paid to key management personnel amounted to RUB 87 and RUB 29, respectively.

5 Cash and cash equivalents

| | Unaudited | |
|--|-----------------|---------------------|
| | 30 June 2018 | 31 December 2017 |
| RUB-denominated cash on hand and balances with banks | 575 | 441 |
| Short-term promissory notes, deposits | 554 | 563 |
| Foreign currency denominated balances with banks | 507 | 377 |
| | 1,636 | 1,381 |

As at 30 June 2018 cash deposits of RUB 554 (31 December 2017: RUB 563) bear interest of 2.7%-6.5% (31 December 2017: 4.79%-7.3%).

Balances with bank are not interest-bearing.

Foreign currency denominated balances with banks consist of the following:

| Currency | Unaudited | |
|----------------|-----------------|---------------------|
| | 30 June 2018 | 31 December 2017 |
| US dollars | 229 | 209 |
| Euros | 203 | 98 |
| Yuans | 55 | 52 |
| Serbian Dinars | 20 | 18 |
| | 507 | 377 |

6 Trade and other receivables

| | Unaudited | |
|-------------------|-----------------|---------------------|
| | 30 June 2018 | 31 December 2017 |
| Trade receivables | 2,495 | 2,319 |
| Impairment | (52) | (68) |
| | 2,443 | 2,251 |
| VAT recoverable | 2,092 | 1,967 |
| Prepayments | 867 | 996 |
| Other receivables | 564 | 652 |
| | 5,966 | 5,866 |



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6 Trade receivables and prepayments (continued)

Movements in the provision for impairment of receivables were as follows:

| | Unaudited |
|------------------------------------|------------------|
| Balance at 31 December 2016 | 51 |
| Accrued/(unused amounts reversed) | 17 |
| Utilised | - |
| Balance at 30 June 2017 | 68 |
| Balance at 31 December 2017 | 68 |
| Accrued/(unused amounts reversed) | (3) |
| Utilised | (13) |
| Balance at 30 June 2018 | 52 |

7 Inventories

| | Unaudited | |
|------------------|-------------------------|-----------------------------|
| | 30 June 2018 | 31 December 2017 |
| Raw materials | 3,203 | 2,893 |
| Work in progress | 1,684 | 1,511 |
| Finished goods | 3,025 | 3,416 |
| | 7,912 | 7,820 |

During the six months ended 30 June 2018 RUB 19 was recognised as an expense for slow-moving inventories and inventories carried at net realisable value (six months ended 30 June 2017: RUB 4). This was recognised in cost of goods and services sold.

8 Property, plant and equipment

Movements in property, plant and equipment were as follows:

| | Unaudited |
|------------------------------------|------------------|
| Balance at 31 December 2016 | 26,801 |
| Additions | 2,305 |
| Disposals | (17) |
| Depreciation charge | (1,085) |
| Foreign exchange differences | 23 |
| Balance at 30 June 2017 | 28,027 |
| Balance at 31 December 2017 | 28,620 |
| Additions | 1,346 |
| Disposals | (169) |
| Depreciation charge | (1,182) |
| Foreign exchange differences | 25 |
| Balance at 30 June 2018 | 28,640 |

At 30 June 2018 property, plant and equipment carried at RUB 8,201 (31 December 2017: RUB 8,355) have been pledged as collateral for bank loans and other borrowings (Note 12).



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9 Intangible assets

Movements in intangible assets were as follows:

| | Unaudited |
|------------------------------------|------------------|
| Balance at 31 December 2016 | 55 |
| Additions | 4,913 |
| Disposals | (2) |
| Depreciation charge | (214) |
| Balance at 30 June 2017 | 4,752 |
| Balance at 31 December 2017 | 4,496 |
| Additions | 40 |
| Disposals | (3) |
| Depreciation charge | (279) |
| Balance at 30 June 2018 | 4,254 |

In 2010 the Group signed a license agreement with DSM FIBRE INTERMEDIATES B.V. (subsequently renamed to FIBRANT B.V.) and received a non-exclusive license for energy-efficient production of cyclohexanone (EPC). As at 30 June 2018 net book value of the license was RUB 4,218 and the remaining useful life was 103 months.

10 Investments in associates and joint ventures

| | Unaudited | | | | | | |
|----------------------------|-----------------------------------|-----------------------------|---------------------------|---------------------|--------------|--------------|--|
| | JV Linde | | Other joint | | Total | | |
| | Praxair Azot Togliatti | Other associates | Azot Togliatti | JV Granifert | | | |
| At 31 December 2016 | 1,775 | 235 | 2,931 | - | 55 | 4,996 | |
| Addition | - | - | - | 386 | - | 386 | |
| Share of profit/(loss) | 44 | 29 | (239) | (1) | (1) | (168) | |
| Dividends received | (11) | (16) | - | - | - | (27) | |
| At 30 June 2017 | 1,808 | 248 | 2,692 | 385 | 54 | 5,187 | |
| At 31 December 2017 | 1,853 | 243 | 2,802 | 382 | 58 | 5,338 | |
| Share of profit/(loss) | 119 | 54 | (1) | 59 | 5 | 236 | |
| Disposals | - | (26) | - | - | - | (26) | |
| Dividends received | - | (15) | - | - | - | (15) | |
| At 30 June 2018 | 1,972 | 256 | 2,801 | 441 | 63 | 5,533 | |

As at 30 June 2018 an associate had capital commitments for the purchase of property, plant and equipment in the amount of RUB 6 (31 December 2017: no capital commitments for the purchase of property, plant and equipment).

As at 30 June 2018 a joint venture had capital commitments for the purchase of property, plant and equipment from third parties in the amount of RUB 317 (31 December 2017: RUB 181).

11 Financial assets

Current financial assets include:

| | Unaudited | |
|--|-------------------------|-----------------------------|
| | 30 June 2018 | 31 December 2017 |
| Short-term portion of a loan issued to a joint venture (denominated in euro): 4% | 943 | 1,075 |
| Short-term deposits (denominated in US dollars): 2.06% (2017: 1.3%) | 126 | 1 |
| Short-term portion of housing loans allowed to employees: 0%-15% | 42 | 78 |
| Other | 58 | 45 |
| | 1,169 | 1,199 |



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(In millions of Russian rubles unless otherwise stated)

11 Financial assets (continued)

Non-current financial assets include:

| | Unaudited | |
|---|-----------------|---------------------|
| | 30 June 2018 | 31 December 2017 |
| Long-term portion of a loan issued to a joint venture (denominated in euro): 4% | 2,376 | 2,691 |
| Long-term portion of housing loans allowed to employees: 0%-15% | 373 | 332 |
| Loans issued to an associate: 9%-MOSPRIME 3 + 1.8% | 23 | 23 |
| Other | 28 | 27 |
| | 2,800 | 3,073 |

As at 30 June 2018 long-term loans to employees have different maturity dates up to the year 2038 (31 December 2017: up to 2037).

12 Loans and borrowings

Short-term loans and borrowings

| | Interest rate | Currency | Unaudited | |
|--|-------------------|--------------|-----------------|---------------------|
| | | | 30 June 2018 | 31 December 2017 |
| Current portion of long-term loans and borrowings | | | | |
| | LIBOR 6 + 3.75% - | | | |
| | LIBOR 6 + 4.125% | | | |
| International Finance Corporation* | 4.76% | US dollars | 5,364 | 5,653 |
| Sberbank | 9.9% - 10.85% | Rubles | 2,056 | 792 |
| Rosbank | 9% | Rubles | 530 | 462 |
| Sberbank | EURIBOR 6 + 2.2% | Euros | 289 | 366 |
| Raiffeisenbank | EURIBOR 6 + 1.6% | Euros | 43 | 40 |
| Rosbank | EURIBOR 6 + 3% | Euros | 21 | 125 |
| Deutsche Bank AG | LIBOR 12 + 1.75% | Swiss francs | - | 221 |
| VTB bank | EURIBOR 6 + 1.6% | Euros | - | 13 |
| Other | | | - | 23 |
| Total current portion of long-term loans and borrowings | | | 8,303 | 7,695 |
| Short-term loans and borrowings | | | | |
| International Finance Corporation | 11.4% - 12% | Rubles | 669 | 679 |
| Praxair Azot Togliatti | 0% | Rubles | 350 | 300 |
| VTB Factoring | 9.02% | Rubles | 6 | 1,634 |
| Other | | | 35 | 40 |
| Total short-term loans and borrowings | | | 1,060 | 2,653 |
| Interest on loans and borrowings | | | 63 | 63 |
| | | | 9,426 | 10,411 |

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

| | Unaudited | |
|---------------------------|-----------------|---------------------|
| | 30 June 2018 | 31 December 2017 |
| Borrowing denominated in: | | |
| - US dollars | 5,378 | 5,671 |
| - Russian rubles | 3,694 | 3,946 |
| - Euros | 354 | 570 |
| - Swiss francs | - | 224 |
| | 9,426 | 10,411 |



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12 Loans and borrowings (continued)

Long-term loans and borrowings

| | Interest rate | Maturity date | Currency | Unaudited | |
|--|----------------|---------------|------------|---------------|------------------|
| | | | | 30 June 2018 | 31 December 2017 |
| Sberbank | 8.79%-10.85% | 2020-2026 | Rubles | 6,062 | 7,051 |
| Gazprombank | 8.2%-9% | 2020-2022 | Rubles | 4,661 | 3,380 |
| Rosbank | 5% - 5.25% | 2023 | US dollars | 1,636 | 899 |
| Raiffeisenbank | 8.89% | 2019 | Rubles | 640 | 576 |
| Russian Foundation for Technological Development | 5% | 2019-2021 | Rubles | 274 | 300 |
| Sberbank | EURIBOR +1.35% | 2020 | Euros | 273 | 98 |
| Gazprombank | 3% | 2024-2028 | Euros | 257 | - |
| VTB bank | 11.2% | 2021 | Rubles | 144 | 143 |
| | EURIBOR 6 | | | | |
| Rosbank | +1.55%-2.4% | 2020 | Euros | 141 | 113 |
| Rosbank | 9.5% - 10.8% | 2019-2022 | Rubles | - | 191 |
| | EURIBOR 6 + | | | | |
| Raiffeisenbank | 1.6% | 2019 | Euros | - | 20 |
| Other | | | | - | 2 |
| | | | | 14,088 | 12,773 |

*As at 30 June 2018 the Group is not in compliance with covenants set by loan agreements with a bank, which include liquidity ratio, prospective debt service coverage ratio. As at 30 June 2018 the Group had RUB 5,364 (31 December 2017: RUB 5,653) of loans with breached financial covenants including RUB 3,775 (31 December 2017: RUB 4,194) of long-term debt which was classified as current liabilities as at that date.

In April 2018 the Group obtained waivers as at 31 December 2017 stating that the banks will not claim for accelerated repayment of RUB 5,653 loans due to covenant violations, including long-term debt of RUB 4,194.

As at the date of the interim condensed financial statements approval credit institutions have not requested accelerated payments of the loans.

The maturity of long-term borrowings is as follows:

| | Unaudited | |
|------------------------------------|---------------|------------------|
| | 30 June 2018 | 31 December 2017 |
| Current | 4,528 | 3,501 |
| 1 to 2 years | 2,754 | 3,884 |
| 2 to 3 years | 3,660 | 2,508 |
| 3 to 5 years | 7,835 | 6,878 |
| Over 5 years | 3,614 | 3,697 |
| | 22,391 | 20,468 |
| Less: Current portion | (4,528) | (3,501) |
| Less loans with breached covenants | (3,775) | (4,194) |
| | 14,088 | 12,773 |

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

| | Unaudited | |
|---------------------------|---------------|------------------|
| | 30 June 2018 | 31 December 2017 |
| Borrowing denominated in: | | |
| - Russian rubles | 11,781 | 11,643 |
| - US dollars | 1,636 | 899 |
| - Euros | 671 | 231 |
| | 14,088 | 12,773 |



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12 Loans and borrowings (continued)

Total amount of guarantee issued by the Group for long and short-term borrowings is RUB 8,201 (31 December 2017: RUB 8,355), including pledged equipment and real estate in the amount of RUB 8,201 (31 December 2017: RUB 8,355) (Note 8).

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

Changes in liabilities arising from financing activities are as follows:

| | 31 December 2017 | Changes in cash flows | Changes in currency rates | Other | Unaudited 30 June 2018 |
|---------------------------------|-----------------------------|----------------------------------|--------------------------------------|--------------|---------------------------------------|
| Short-term loans and borrowings | 10,411 | (2,520) | 485 | 1,050 | 9,426 |
| Long-term loans and borrowings | 12,773 | 2,298 | 73 | (1,056) | 14,088 |
| Total | 23,184 | (222) | 558 | (6) | 23,514 |

The 'Other' column includes the effect of reclassification of non-current portion of loans and borrowings to current due to the passage of time and the effect of accrued but not yet paid interest on loans and borrowings. The Group classifies interest paid as cash flows from operating activities.

13 Other current liabilities

| | Unaudited | |
|-------------------|-------------------------|-----------------------------|
| | 30 June 2018 | 31 December 2017 |
| Salaries payable | 547 | 518 |
| Dividends payable | 12 | 200 |
| Other | 24 | 180 |
| | 583 | 898 |

Other current liabilities are non-interest bearing and have an average term of two months.

14 Other than income taxes payable

| | Unaudited | |
|---|-------------------------|-----------------------------|
| | 30 June 2018 | 31 December 2017 |
| Property tax | 80 | 51 |
| Payments to the Pension Fund and other social taxes | 78 | 96 |
| Personal income tax | 33 | 37 |
| Other taxes | 92 | 57 |
| | 283 | 241 |

The Group had no tax liabilities past due at 30 June 2018 and 31 December 2017.



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15 Share capital

| Unaudited | Number of issued shares (thousands) | | Number of treasury shares (thousand) | Total number of outstanding shares (thousand) | Share capital (RUB million) | Treasury shares |
|-------------------|-------------------------------------|----------|--------------------------------------|---|-----------------------------|-----------------|
| | Preference | Ordinary | | | | |
| At 1 January 2017 | 3,697 | 234,148 | (49,614) | 188,231 | 634 | (2,225) |
| At 30 June 2017 | 3,697 | 234,148 | (49,614) | 188,231 | 634 | (2,225) |
| At 1 January 2018 | 3,697 | 234,148 | (49,614) | 188,231 | 634 | (2,225) |
| At 30 June 2018 | 3,697 | 234,148 | (49,614) | 188,231 | 634 | (2,225) |

The total number of authorised ordinary shares is 549,148 thousand shares (31 December 2017: 549,148 thousand) and preference shares is 138,897 thousand shares (31 December 2017: 138,897 thousand) with a nominal value of 1 ruble per share of both types.

Shares that were purchased before 30 June 2018 from shareholders and that were not cancelled are held as 'treasury shares'. At 30 June 2018 Togliattichinvest, Kuibyshevazot-invest and Activinvest held 48,132 thousand ordinary and 1,482 thousand preference shares of the Company (31 December 2017: 48,132 thousand ordinary and 1,482 thousand preference shares).

Preference shares are non-redeemable, non-cumulative and give the holders the right to participate in the general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. The non-cumulative preference shares give holders the right to receive dividends per share of not less than 1% of their nominal value and, in case of liquidation of the Company, they give holders the right to receive liquidation value in the amount of their nominal value. If the Company fails to pay dividends, the preferred shareholders have the right to vote in the general shareholders' meeting, which ceases when dividends on preference shares are paid in full.

The Company cannot declare and pay dividends on ordinary shares if dividends on preference shares are not declared in full.

Dividends declared and paid during the period on ordinary and preference shares were as follows:

| | Unaudited | |
|---|--------------|--------------|
| | 2018 | 2017 |
| Dividends payable at 1 January | 200 | 10 |
| Dividends declared during the period | 376 | 188 |
| Dividends paid during the period | (564) | (190) |
| Dividends payable at 30 June | 12 | 8 |
| Dividends per share declared during the period, rubles | 2 | 1 |

During the six months ended 30 June 2018 the Company declared final dividends for 2017 of 2 rubles per share for both ordinary and preference shares (six months ended 30 June 2017: final dividends for 2016 of 1 ruble).



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16 Sales

Set out below is the disaggregation of the Group's revenue from contracts with customers:

| Segments | For the six months ended 30 June 2018 (Unaudited) | | | |
|--|---|----------------------------------|--------------|---------------|
| | Caprolactam and derivatives | Ammonia and nitrogen fertilisers | Other | Total |
| Type of goods or service | | | | |
| Caprolactam and derivatives | 17,328 | - | - | 17,328 |
| Ammonia and nitrogen fertilisers | - | 10,528 | - | 10,528 |
| Other | - | - | 2,958 | 2,958 |
| Total revenue from contracts with customers | 17,328 | 10,528 | 2,958 | 30,814 |
| Geographical markets | | | | |
| Russia | 4,739 | 6,572 | 2,800 | 14,111 |
| Asia | 8,370 | 325 | 45 | 8,740 |
| Europe | 2,963 | 2,024 | 10 | 4,997 |
| Other | 1,256 | 1,607 | 103 | 2,966 |
| Total revenue from contracts with customers | 17,328 | 10,528 | 2,958 | 30,814 |
| Timing of revenue recognition | | | | |
| Goods transferred at a point in time | 17,328 | 10,528 | 2,341 | 30,197 |
| Services transferred at a point in time | - | - | 617 | 617 |
| Total revenue from contracts with customers | 17,328 | 10,528 | 2,958 | 30,814 |
| For the six months ended 30 June 2017 (Unaudited) | | | | |
| Segments | Caprolactam and derivatives | Ammonia and nitrogen fertilisers | Other | Total |
| Type of goods or service | | | | |
| Caprolactam and derivatives | 14,015 | - | - | 14,015 |
| Ammonia and nitrogen fertilisers | - | 7,642 | - | 7,642 |
| Other | - | - | 2,256 | 2,256 |
| Total revenue from contracts with customers | 14,015 | 7,642 | 2,256 | 23,913 |
| Geographical markets | | | | |
| Russia | 3,585 | 5,168 | 2,075 | 10,828 |
| Asia | 6,627 | 10 | - | 6,637 |
| Europe | 2,585 | 578 | 4 | 3,167 |
| Other | 1,218 | 1,886 | 177 | 3,281 |
| Total revenue from contracts with customers | 14,015 | 7,642 | 2,256 | 23,913 |
| Timing of revenue recognition | | | | |
| Goods transferred at a point in time | 14,015 | 7,642 | 1,757 | 23,414 |
| Services transferred at a point in time | - | - | 499 | 499 |
| Total revenue from contracts with customers | 14,015 | 7,642 | 2,256 | 23,913 |

For the six months ended 30 June 2018 the Group recognised reversal of impairment losses on receivables arising from contracts with customers, included under General and administrative expenses in the interim condensed consolidated statement of comprehensive income, amounting to RUB 3 (six months ended 30 June 2017: impairment losses amounting to RUB 17).



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17 Cost of sales

| | Unaudited | |
|--|--------------------------|---------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| Raw materials | 16,597 | 12,589 |
| Heat energy and electricity | 2,066 | 1,914 |
| Labour costs | 1,737 | 1,661 |
| Depreciation and amortisation | 1,376 | 1,231 |
| Other | 483 | 434 |
| Changes in finished goods and work in progress | 280 | (77) |
| | 22,539 | 17,752 |

18 Distribution costs

| | Unaudited | |
|-------------------------------|--------------------------|--------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| Transportation costs | 2,468 | 1,444 |
| Labour costs | 219 | 231 |
| Materials | 112 | 96 |
| Depreciation and amortisation | 57 | 38 |
| Other | 240 | 223 |
| | 3,096 | 2,032 |

19 General and administrative expenses

| | Unaudited | |
|-----------------------------------|--------------------------|--------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| Labour costs | 656 | 669 |
| Third party services | 195 | 169 |
| Taxes other than income tax | 188 | 124 |
| Consultancy services | 56 | 35 |
| Fines and penalties | 33 | 6 |
| Depreciation and amortisation | 28 | 30 |
| Insurance | 24 | 48 |
| Materials | 22 | 28 |
| Impairment of accounts receivable | (3) | 17 |
| Other | 77 | 71 |
| | 1,276 | 1,197 |

20 Other operating income

| | Unaudited | |
|--|--------------------------|------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| Compensation received from the federal budget | 641 | 392 |
| Foreign exchange gains on operating activities | 96 | 28 |
| Other | 57 | 79 |
| | 794 | 499 |



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21 Other operating expenses

| | Unaudited | |
|---|--------------------------|------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| Social expenses | 174 | 183 |
| Loss on disposal of property, plant and equipment | 55 | 11 |
| Expenses for elimination of damage caused by fire | 10 | 31 |
| Other | 85 | 89 |
| | 324 | 314 |

22 Finance income

| | Unaudited | |
|--|--------------------------|------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| Interest income | 126 | 123 |
| Foreign exchange gains on financing activities | - | 428 |
| Other | 7 | 1 |
| | 133 | 552 |

23 Finance costs

| | Unaudited | |
|---|--------------------------|------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| Interest expense | 926 | 907 |
| Less capitalised borrowing costs | (169) | (170) |
| Foreign exchange loss on financing activities | 546 | - |
| Other | 19 | - |
| | 1,322 | 737 |

24 Income tax

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed consolidated statement of comprehensive income are:

| | Unaudited | |
|---|--------------------------|------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| Current income tax expense | 755 | 623 |
| Deferred tax benefit relating to profit or loss | (37) | (5) |
| Income tax expense recognized in profit or loss | 718 | 618 |
| Deferred tax (income)/expenses relating to items recognized in other comprehensive income (OCI) | 12 | 4 |
| Income tax expense/(benefit) recognised in OCI | 12 | 4 |
| Income tax expense for the period | 730 | 622 |



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25 Contingencies and commitments

25.1 Contractual commitments and guarantees

As at 30 June 2018 and 31 December 2017 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RUB 317 and RUB 145 respectively, designated for construction of new and modernisation of existing production facilities.

25.2 Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

In addition to the Russian Federation, the Group operates in a number of foreign jurisdictions. The Group includes companies established outside the Russian Federation that are subject to taxation at rates and in accordance with the laws of jurisdictions in which the companies of the Group are recognized as tax residents. Tax liabilities of foreign companies of the Group are determined on the basis that foreign companies of the Group are not tax residents of the Russian Federation, nor do they have a permanent representative office in the Russian Federation and are therefore not subject to income tax under Russian law, except for income tax deductions at the source (i.e. dividends, interest, capital gains, etc.).

In 2017, mechanisms were further implemented to counter the tax evasion using low tax jurisdictions and aggressive tax planning structures. In particular, these changes included the definition of beneficial ownership, tax residence of legal entities at the place of actual activity, as well as the approach to taxation of controlled foreign companies in the Russian Federation.

In addition, the law established a tax benefit concept for all taxes collected on the territory of the Russian Federation, with a focus on existence of a business objective in business transactions, as well as on confirmation that obligations under concluded contracts have been performed by parties to the contract, or by a person to whom these obligations were transferred under a contract or law. This change significantly modifies the concept of recognizing the fact that taxpayers receive unjustified tax benefits, which may have a significant impact on the former court practice. At the same time, a practical mechanism for applying this rule has not yet been fully adjusted, and court practice on the changes introduced has not been formed yet.

These changes and recent trends in applying and interpreting certain provisions of Russian tax law indicate that the tax authorities may take a tougher stance in interpreting legislation and reviewing tax returns. It is therefore possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant taxes, penalties and fines may be accrued. It is not possible to determine the amounts of constructive claims or evaluate the probability of a negative outcome. Fiscal periods remain open to review for a period of three calendar years immediately preceding the year of review. Under certain circumstances, the tax authorities may review earlier tax periods.

Management believes that at 30 June 2018 its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

The Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all controlled transactions if the transaction price differs from the market level of prices. The list of controlled transactions includes transactions performed with related parties and certain types of cross-border transactions.

For domestic transactions the new transfer pricing rules apply only if the amount of all transaction with related party exceeds RUB 1 billion in 2018. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. Special transfer pricing rules apply to transactions with securities and derivatives.



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25 Contingencies and commitments (continued)

25.2 Taxation (continued)

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the controlled transactions and assess additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the controlled transactions by submitting proper reporting to the Russian tax authorities, supported by appropriate transfer pricing documentation.

25.3 Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalised. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation or regulation cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believe that there are no significant unrecorded liabilities for environmental damage.

25.4 Lawsuits

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group.

25.5 Contingencies

Contingencies that were determined by management at the reporting date as those that may be subject to different interpretations of legislation and regulations, and were not accrued in the consolidated financial statements, can range from RUB 0 to 472 for the Group. In respect of these contingencies there is also uncertainty over the term of their execution, as they depend on the occurrence (non-occurrence) of one or more future uncertain events not controlled by the Group.

25.6 Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The ruble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. The Group's management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

26 Financial instruments and fair value hierarchy

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. 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.



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26 Financial instruments and fair value hierarchy (continued)

At 30 June 2018 and 31 December 2017, the fair value of financial instruments, which is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity, approximates their carrying value.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the interim condensed consolidated financial statements:

| | Carrying amount | | Assets and liabilities for which fair values are disclosed (Level 2) | |
|---------------------------------|-----------------------------|---------------------|--|---------------------|
| | 30 June 2018 (unaudited) | 31 December 2017 | 30 June 2018 (unaudited) | 31 December 2017 |
| FINANCIAL ASSETS: | | | | |
| Cash and cash equivalents | 1,636 | 1,381 | 1,636 | 1,381 |
| Financial assets - current | 1,169 | 1,199 | 1,169 | 1,199 |
| Financial assets – non-current | 2,800 | 3,073 | 2,800 | 3,073 |
| Trade receivables | 2,443 | 2,251 | 2,443 | 2,251 |
| FINANCIAL LIABILITIES: | | | | |
| Short-term loans and borrowings | 9,426 | 10,411 | 9,426 | 10,411 |
| Long-term loans and borrowings | 14,088 | 12,773 | 14,088 | 12,773 |
| Trade payables | 3,991 | 3,919 | 3,991 | 3,919 |

During the six months ended 30 June 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.