Independent auditor's report on the consolidated financial statements of Public Joint-Stock Company KuibyshevAzot and its subsidiaries for 2017

April 2018

Independent auditor's report
on the consolidated financial statements of
Public Joint-Stock Company KuibyshevAzot
and its subsidiaries

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Совершенствуя бизнес,
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Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditor's report

To the shareholders of
Public Joint-Stock Company KuibyshevAzot

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company KuibyshevAzot (PJSC KuibyshevAzot) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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 Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How the matter was addressed in the audit
Revenue recognition	
Revenue is the Group's key performance measure, which gives rise to a risk that revenue may be misstated in order to achieve performance targets. In this regard, revenue recognition was one of the key audit matters. Information regarding revenue is disclosed in Note 20 to the consolidated financial statements.	We analysed the Group's accounting policies for revenue recognition, including the criteria for revenue recognition. We analysed the contract terms in respect of transfer of significant risks and rewards of ownership to customers. On a sample basis, we compared the date of transfer of risks and rewards with the date of revenue recognition. We performed analytical procedures in respect of revenue that included, among others, the analysis of monthly or quarterly sales to detect unusual fluctuations (by type of goods and services, by geographical areas) and reconciliation with comparative information for prior periods and the anticipated results of the Group.
Covenants on loans and borrowings	
In accordance with terms of agreements for loans and borrowings the Group should maintain and comply with certain financial and non-financial covenants. Analysing compliance with covenants was one of the matters of most significance in our audit because covenants breach may have a significant impact on the going concern assumption used in the preparation of the consolidated financial statements and on the classification of liabilities in the consolidated statement of financial position. Information regarding breach of covenants on loans and borrowings is disclosed in Note 15 to the consolidated financial statements.	We inspected the terms of agreements for loans and borrowings including covenant ratios and event of default definitions. We assessed management's calculations of the covenant ratios. We checked mathematical accuracy of covenant calculations and reconciled data used in the calculations with data in the consolidated financial statements and relevant accounting data. We compared the classification of loans and borrowings as current or non-current liabilities with the results of analysis of compliance with covenants on relevant loans and borrowings.

Other information included in the 2017 Annual Report of PJSC KuibyshevAzot

Other information consists of the information included in the 2017 Annual Report of PJSC KuibyshevAzot, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The 2017 Annual Report of PJSC KuibyshevAzot is expected be provided to us after the date of our auditor's report.

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

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

Responsibilities of management and the Audit Committee of PJSC KuibyshevAzot for the consolidated financial statements

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

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

The Audit Committee of PJSC KuibyshevAzot is responsible for overseeing the Group's financial reporting process.

Auditor's 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 auditor's 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 skepticism 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 auditor's 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 auditor's 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 the Audit Committee of PJSC KuibyshevAzot regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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Report on supplementary information

Our audit was conducted for the purpose of expressing an opinion on the consolidated financial statements of Public Joint Stock Company KuibyshevAzot and its subsidiaries taken as a whole. The information on the translation of the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows into US dollars accompanying the consolidated financial statements, which has been disclosed as supplementary financial information on pages 8 to 11, is presented for purposes of additional analysis and is not within the scope of IFRS. Such supplementary financial information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, has been properly prepared, in all material respects, in accordance with the basis described in Note 2.3 to the consolidated financial statements.

The partner in charge of the audit resulting in this independent auditor's report is A.A. Shlenkin.

A.A. Shlenkin
Partner
Ernst & Young LLC

25 April 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

Consolidated statement of financial position

as at 31 December 2017

(In millions of Russian Roubles unless otherwise stated)

	Note	As at 31 December 2017	As at 31 December 2016	Supplementary information USD million (Note 2.3) As at 31 December 2017	Supplementary information USD million (Note 2.3) As at 31 December 2016
Assets					
Current					
Cash and cash equivalents	8	1,381	1,264	24	21
Accounts receivable and prepayments	9	5,866	5,329	102	88
Inventories	10	7,820	7,575	136	125
Income tax receivable		61	59	1	1
Financial assets	14	1,199	984	21	16
Total current assets		**16,327**	**15,211**	**284**	**251**
Non-current assets					
Property, plant and equipment	11	28,620	26,801	497	442
Intangible assets	12	4,496	55	78	1
Prepayments for property, plant and equipment and intangible assets		339	1,943	6	32
Investments in associates and joint ventures	13	5,338	4,996	92	82
Financial assets	14	3,073	4,013	53	66
Total non-current assets		**41,866**	**37,808**	**726**	**623**
Total assets		**58,193**	**53,019**	**1,010**	**874**
Liabilities					
Current liabilities					
Trade payables		3,919	1,650	68	27
Income tax liability		17	18	-	-
Other than income taxes payable	17	241	149	4	2
Short-term loans and borrowings	15	10,411	5,568	181	92
Advances received and other current liabilities	16	2,548	2,280	44	38
Total current liabilities		**17,136**	**9,665**	**297**	**159**
Non-current liabilities					
Long-term loans and borrowings	15	12,773	18,311	222	303
Deferred tax liabilities	28	1,181	1,041	21	17
Retirement benefit obligations	18	424	378	7	6
Other non-current liabilities		1,108	-	19	-
Total non-current liabilities		**15,486**	**19,730**	**269**	**326**
Total liabilities		**32,622**	**29,395**	**566**	**485**
Equity					
Equity and reserves attributable to equity holders of the Company					
Share capital	19	634	634	11	10
Additional share capital		919	919	16	15
Treasury shares	19	(2,225)	(2,225)	(38)	(37)
Foreign currency translation reserve		477	470	8	8
Retained earnings		25,594	23,582	444	389
		25,399	**23,380**	**441**	**385**
Non-controlling interests		172	244	3	4
Total capital		**25,571**	**23,624**	**444**	**389**
Total liabilities and equity		**58,193**	**53,019**	**1,010**	**874**

Approved for issue and signed on behalf of Board of Directors on 25 April 2018

A.V. Gerasimenko
General Director

V.N. Kudashev
Chief Accountant

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

KuibyshevAzot Group

Consolidated statement of comprehensive income

for the year ended 31 December 2017

(In millions of Russian Roubles unless otherwise stated)

		Year ended 31 December		Supplementary information USD million (Note 2.3) Year ended 31 December	
	Note	2017	2016	2017	2016
Sales	20	47,766	42,500	819	634
Cost of sales	21	(37,043)	(31,672)	(635)	(472)
Gross profit		**10,723**	**10,828**	**184**	**162**
Distribution costs	22	(5,066)	(4,220)	(87)	(63)
General and administrative expenses	23	(2,455)	(2,399)	(42)	(36)
Other operating income	24	1,233	904	21	13
Other operating expenses	25	(854)	(738)	(14)	(11)
Operating profit		**3,581**	**4,375**	**62**	**65**
Finance income	26	1,069	1,033	18	15
Finance costs	27	(1,535)	(924)	(26)	(14)
Share of profit of associates and joint ventures	13	121	2,175	2	32
Profit before tax		**3,236**	**6,659**	**56**	**98**
Income tax expense	28	(702)	(1,073)	(12)	(16)
Profit for the year		**2,534**	**5,586**	**44**	**82**
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods					
Foreign currency translation reserve		7	(349)	-	(5)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**7**	**(349)**	**-**	**(5)**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods					
Re-measurement of income/(losses) on defined benefit plan		5	(23)	-	-
Income tax effect	28	(1)	5	-	-
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**4**	**(18)**	**-**	**-**
Other comprehensive income/(loss) for the year, net of tax		**11**	**(367)**	**-**	**(5)**
Total comprehensive income/(loss) for the year, net of tax		**2,545**	**5,219**	**44**	**77**
Profit attributable to:					
Equity holders of the Company	29	2,573	5,602	45	82
Non-controlling interests		(39)	(16)	(1)	-
		2,534	**5,586**	**44**	**82**
Total comprehensive income attributable to:					
Equity holders of the Company		2,584	5,235	45	77
Non-controlling interests		(39)	(16)	(1)	-
		2,545	**5,219**	**44**	**77**
Earnings per share, basic/diluted (in Russian rubles and USD per share):					
- for profit attributable to the equity holders of the Company	29	**13.67**	**28.87**	**0.23**	**0.43**

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

Consolidated statement of changes in equity

for the year ended 31 December 2017

(In millions of Russian rubles unless otherwise stated)

	Equity attributable to equity holders of the Company							
	Share capital	**Additional share capital**	**Treasury shares (Note 19)**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 31 December 2015	**642**	**919**	**(2,225)**	**819**	**19,196**	**19,351**	**295**	**19,646**
Profit for the year	-	-	-	-	5,602	5,602	(16)	5,586
Other comprehensive loss	-	-	-	(349)	(18)	(367)	-	(367)
Total comprehensive income for 2016	**-**	**-**	**-**	**(349)**	**5,584**	**5,235**	**(16)**	**5,219**
Purchased and cancelled ordinary shares (Note 19)	(8)	-	-	-	(253)	(261)	-	(261)
Dividends declared by a subsidiary to non-controlling interests	-	-	-	-	-	-	(35)	(35)
Dividends declared (Note 19)	-	-	-	-	(945)	(945)	-	(945)
Balance at 31 December 2016	**634**	**919**	**(2,225)**	**470**	**23,582**	**23,380**	**244**	**23,624**
Profit for the year	-	-	-	-	2,573	2,573	(39)	2,534
Other comprehensive income	-	-	-	7	4	11	-	11
Total comprehensive income for 2017	**-**	**-**	**-**	**7**	**2,577**	**2,584**	**(39)**	**2,545**
Dividends declared by a subsidiary to non-controlling interests	-	-	-	-	-	-	(33)	(33)
Dividends declared (Note 19)	-	-	-	-	(565)	(565)	-	(565)
Balance at 31 December 2017	**634**	**919**	**(2,225)**	**477**	**25,594**	**25,399**	**172**	**25,571**

	Equity attributable to equity holders of the Company							
Supplementary information USD million (Note 2.3)	**Share capital**	**Additional share capital**	**Treasury shares (Note 19)**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 31 December 2016	**10**	**15**	**(37)**	**8**	**389**	**385**	**4**	**389**
Balance at 31 December 2017	**11**	**16**	**(38)**	**8**	**444**	**441**	**3**	**444**

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

KuibyshevAzot Group

Consolidated statement of cash flows

for the year ended 31 December 2017

(In millions of Russian rubles unless otherwise stated)

		Year ended 31 December		Supplementary information USD million (Note 2.3) Year ended 31 December	
	Note	**2017**	**2016**	**2017**	**2016**
Cash flows from operating activities					
Profit before tax		3,236	6,659	56	98
Adjustments for:					
Depreciation of property, plant and equipment and intangible assets	11, 12	2,690	1,768	45	26
Retirement benefit obligations	18	51	46	1	1
Impairment of accounts receivable	23	(17)	-	-	-
Share of profit of associates and joint ventures		(121)	(2,175)	(2)	(32)
Finance income	26	(255)	(356)	(4)	(5)
Finance costs	27	1,535	924	26	14
Net foreign exchange effect on non-operating balances	26	(767)	(677)	(13)	(10)
Operating cash flows before working capital changes		**6,352**	**6,189**	**109**	**92**
(Decrease) in receivables and prepayments		(520)	(492)	(9)	(7)
(Decrease) in inventories		(245)	(78)	(4)	(1)
(Increase)/decrease in trade and other payables		1,787	(362)	30	(5)
Decrease in other taxes payable		92	5	2	-
Cash flows from operating activities		**7,466**	**5,262**	**128**	**79**
Income tax paid		(567)	(1,035)	(10)	(15)
Interest received		71	155	1	2
Interest paid		(1,950)	(1,252)	(33)	(19)
Net cash generated from operating activities		**5,020**	**3,130**	**86**	**47**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(3,574)	(6,932)	(61)	(103)
Proceeds from sale of property, plant and equipment		41	21	1	-
Purchase of intangible assets		(1,084)	(8)	(19)	-
Disposal of non-current financial assets		114	43	2	1
Purchase of non-current financial assets		(535)	(1,614)	(9)	(24)
Disposal of current financial assets		962	1,712	16	26
Purchase of current financial assets		(6)	(141)	-	(2)
Net cash used in investing activities		**(4,082)**	**(6,919)**	**(70)**	**(102)**
Cash flows from financing activities:					
Proceeds from short-term loans and borrowings		2,152	2,280	37	34
Proceeds from long-term loans and borrowings		5,291	8,909	91	133
Repayment of loans and borrowings		(7,991)	(6,885)	(137)	(103)
Purchase of treasury shares	19	-	(261)	-	(4)
Dividends received from associates	13	135	27	2	-
Dividends paid to non-controlling interests		(33)	(35)	(1)	(1)
Dividends paid to equity holders of the parent	19	(375)	(964)	(6)	(14)
Net cash (used in)/generated from financing activities		**(821)**	**3,071**	**(14)**	**45**
Net increase/(decrease) in cash and cash equivalents		**117**	**(718)**	**2**	**(10)**
Net foreign exchange difference			-	1	4
Cash and cash equivalents at the beginning of the year	8	1,264	1,982	21	27
Cash and cash equivalents at the end of the year	**8**	**1,381**	**1,264**	**24**	**21**

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

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 Russia. Part of the Company's shares is publicly traded on Moscow Exchange MICEX-RTS.

KuibyshevAzot was incorporated as a closed joint stock company in the Russian Federation on 24 December 1992. During privatisation in 1992 management of the Company and its employees received shares in accordance with the Law on Privatisation of State and Municipal organisations #1531-1 dated 3 July 1992. During 2006 the Company changed its legal form from "Closed Joint Stock Company" to "Open Joint Stock Company" based on the decision made on the annual shareholders meeting held on 21 April 2006.

In accordance with requirements of Federal Law N 99-FZ dated 5 May 2014 "On amending Chapter 4 of Part 1 of the Russian Civil Code and on declaring several Russian legislative provisions to be no longer in force" effective since 1 September 2014, the Company amended its articles of association and brought them into compliance with provisions of Chapter 4 in the Russian Civil Code. The Company accordingly changed its legal form from Joint-Stock Company (JSC) to Public Joint-Stock Company (PJSC). The articles of association were amended upon decision of the General Shareholders Meeting on 5 August 2016 and registered in the State Register of Legal Entities on 25 November 2016, State Registration Number 7166313658757.

As at 31 December 2017 a blocking shareholding of 27% of total share capital of the Company (31 December 2016: 27%) 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 (31 December 2016: 21%) is held by subsidiaries of the Group, as disclosed in Note 19. 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.

The registered office of the Company is ul. Novozavodskaya, 6, Togliatti, 445007, Samarskaya oblast, Russian Federation.

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") to ensure compliance with Federal Law of 27 July 2010 No. 208-FZ "Consolidated financial statements". Most of the Group companies maintain their accounting records in Russian Rouble ("RUB") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation (Note 31). These consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. The consolidated financial statements are presented in Russian rubles and all values are rounded to the nearest million except when otherwise indicated.

The consolidated financial statements have been prepared under the historical cost convention, except as stated in the accounting policies below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4 New and amended standards and interpretations).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017.

Subsidiaries are fully consolidated from the date of acquisition (or the date of establishment), being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

(a) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis of consolidation (continued)

(b) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group’s investment in its associates and joint ventures is accounted for using the equity method.

Under the equity method, the investment in the associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group’s share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group’s share of the results of operations of the associate or joint venture. When there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate or joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount in the ‘share of profit of associates and joint ventures’ in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.3 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”).

(In millions of Russian rubles unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.3 Foreign currency transaction (continued)

Supplementary information

In addition to presenting these 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 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 year presented.

The Company has converted the financial information into USD by translating all items in the 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 year closing rate has not been presented separately within other comprehensive income.

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

	RUB per USD
Average for the year ended 31 December 2016	67.0349
31 December 2016	60.6569
Average for the year ended 31 December 2017	58.3529
31 December 2017	57.6002

The translation of RUB denominated assets and liabilities into USD for the purpose of these 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.

Transactions and balances

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBR at the respective reporting dates. 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 CBR are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments.

Group companies

The assets and liabilities of foreign subsidiaries of the Company are translated into RUB at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of comprehensive income.

2.4 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments like bank promissory notes with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

2 Basis of preparation and significant accounting policies (continued)

2.5 Accounts receivable

Accounts receivable are carried at amortised cost using the effective interest method. Accounts receivable are shown including a value added tax. An impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the impairment 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. The impairment is recognised in the consolidated statement of comprehensive income within 'general and administrative expenses'.

2.6 Value added tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis by deducting VAT on purchases, which have been occurred at the reporting date, from the VAT payable.

Value added tax payable

VAT is payable upon invoicing and delivery of goods, performing works or rendered services, as well as upon collection of prepayments from customers.

Where a provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Value added tax recoverable

The Group applies accrual method for VAT recognition. VAT on purchases, even not settled at the reporting date, is deducted from the amount of VAT payable.

VAT on construction in progress is recorded as VAT receivable and can be claimed at the end of each quarter.

VAT on purchases related to export sales can be reimbursed at the moment when export is confirmed by tax authorities.

2.7 Inventories

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 overhead (based on normal operating capacity) but excludes borrowing costs and administrative overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2.8 Financial assets

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: loans and receivables, held to maturity and available-for-sale.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held to maturity includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each reporting date. All other financial assets are included in the available-for-sale category.

Available-for-sale financial assets are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the accumulative gain or loss is removed from equity to profit or loss.

2 Basis of preparation and significant accounting policies (continued)

2.8 Financial assets (continued)

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; and recognised in equity for assets classified as available for sale.

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

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

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

2.9 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, as follows:

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

2 Basis of preparation and significant accounting policies (continued)

2.9 Property, plant and equipment (continued)

The assets' useful lives are reviewed, and adjusted if appropriate, at each reporting date. The residual value of property, plant and equipment is annually assessed by management.

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 was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life.

Assets under construction and land owned by the Group are not depreciated.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised 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 asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.

2.10 Finance leases

The Group leases certain equipment. Leases of equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in loans and borrowings. The interest element of the finance cost is charged to the consolidated statement of comprehensive income over the lease period using the effective interest method. The equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

2.11 Intangible assets

All of the Group's intangible assets, other than goodwill, have definite useful lives and primarily include license and capitalised computer software. They are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives.

2.12 Loans and borrowings

Loans and borrowings are recognised initially at their fair value (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest rate 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 using the effective interest method.

Interest costs on borrowings to finance the construction of property, plant and equipment 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. Accrued interest is recorded within the relevant borrowing in the consolidated statement of comprehensive income.

2 Basis of preparation and significant accounting policies (continued)

2.13 Income tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2.14 Share capital and treasury shares

Ordinary and non-cumulative non-redeemable preference shares are classified as equity.

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income tax, is deducted from equity as treasury shares until they are sold or reissued. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are recorded at weighted average cost.

2.15 Dividend distribution

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

2.16 Revenue recognition

Revenue from sales of chemical products is the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after elimination of sales within the Group.

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

2 Basis of preparation and significant accounting policies (continued)

2.17 Employee benefits

Social costs

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

The Group incurs employee costs related to the provision of short-term non-monetary benefits such as health services and recreation facilities. These amounts principally represent an implicit cost of employees and, accordingly, have been charged to other operating expenses in the consolidated statement of comprehensive income.

Pension costs

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

The Group operates an unfunded defined benefit pension plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually using the projected unit credit method. The pension obligation is measured as the present value of the discounted estimated future pension payments. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the reporting date on high quality bonds. The currency and term of these bonds is consistent with the currency and estimated term of the post-employment benefit obligations.

Re-measurements, comprising of actuarial gains and losses are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales' in the consolidated statement of comprehensive income (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- Net interest expense or income.

2.18 Provisions

Provisions are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that a significant outflow of resources will be required to settle the obligations, and a reliable estimate of the amount of the obligation 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.

2.19 Earnings per share

Preference shares are considered to be participating shares, as their dividend may not be less than that given with respect to ordinary shares. Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

3 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. The 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 financial information and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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

Estimated impairment of property, plant and equipment. The Group assesses annually whether any indicators of impairment of the property, plant and equipment exist, in accordance with the accounting policy stated in Note 2.9. If there are indicators of impairment, the Group determines recoverable amounts of cash generating units, based on value-in-use calculations. These calculations require the use of estimates.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.2.

Retirement benefit obligations. Post-employment benefits are generally satisfied by plans which are classified and accounted for as defined benefit plans. The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. More details are provided in Note 18.

4 New and amended standards and interpretations

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the impact of each amendment is described below:

Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). When applying these amendments for the first time, entities are not required to provide comparative information for prior periods. The Group has provided a supplementary information in Note 15 to its annual consolidated financial statements for the year ended 31 December 2017.

Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied amendments retrospectively. However, their application has no significant effect on the Group's financial position and performance.

(In millions of Russian rubles unless otherwise stated)

4 New and amended standards and interpretations (continued)

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 *Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

This interpretation has no significant impact on the consolidated financial statements of the Group.

5 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Standards not yet effective for the financial statements for the year ended 31 December 2017	**Effective for annual periods beginning on or after**
• *Transfers of Investment Property* – Amendments to IAS 40	1 January 2018
• I*FRS 2 Classification and Measurement of Share-based Payment Transactions* – Amendments to IFRS 2	1 January 2018
• Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* - Amendments to IFRS 4	1 January 2018
• Annual Improvements 2014-2016 Cycle	1 January 2018
• IFRS 9 *Financial Instruments*	1 January 2018
• IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
• IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
• IAS 16 *Leases*	1 January 2019
• Amendments to IAS 28 – *Long-term Interests in Associates and Joint Ventures*	1 January 2019
• Amendments to IAS 19 – *Plan Amendment, Curtailment or Settlement*	1 January 2019
• Amendments to IFRS 9 – *Prepayment Features with Negative Compensation*	1 January 2019
• IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
• Annual Improvements 2015-2017 Cycle	1 January 2019
• IFRS 17 *Insurance Contracts*	1 January 2021
• Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	the effective date of these amendments has been deferred indefinitely

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's financial statements.

The Group plans to apply IFRS 9 and IFRS 15 starting from the dates effective. The Group is currently assessing the potential impact of the application of these standards on its consolidation financial statements, but the preliminary results show that the impact will not be significant.

5 Standards issued but not yet effective (continued)

IFRS 9 *Financial Instruments*

Starting from 2018 the Group will adopt IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group will adopt the new standard on the required effective date and due to the exemption in IFRS 9 will not restate a comparative period. As a consequence, any adjustments to the carrying amounts of financial assets or liabilities are to be recognised at 1 January 2018, with the difference recognised in the opening balance of retained earnings.

During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. Overall, the Group expects no significant impact on its statement of financial position and equity. The Group has assessed impact of IFRS 9 on its consolidated financial statements as follows:

(a) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model, in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for-sale financial assets.

Based on the assessment, the Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9.

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. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

Under IFRS 9, the new impairment model requires the recognition of impairment provisions based on the expected credit losses rather than only incurred credit losses under IAS 39. The expected credit losses represent measures of an asset's credit risk. This will require considerable judgement about how changes in economic factors affect expected credit losses, which will be determined on a probability-weighted basis.

The new impairment model applies to the Group's financial assets, including, but not limited to, trade and other receivables, loans receivable, restricted deposits, cash and cash equivalents.

Loss allowances are measured on either of the following bases:

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

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. The analysis is still in progress.

5 Standards issued but not yet effective (continued)

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. The Group plans to adopt the new standard on the required effective date (from 1 January 2018) using the modified retrospective method, i.e. with the cumulative effect of applying this standard recognised at the date of initial recognition. During 2017, the Group performed a preliminary assessment of the impacts of IFRS 15. In preparing to adopt IFRS 15, the Group is considering the following:

(a) Sale of goods and services

For contracts with customers in which the sale of goods produced by the Group is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Group's revenue and profit or loss. The Group expects the revenue to be recognised at the point in time when control of the asset is transferred to the customer, generally on dispatch or shipping of the goods.

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 the estimated returns and allowances, trade discounts and volume rebates. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue, i.e. variable consideration should be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group expects that application of the constraint will not result in significant effects as the Group already applies similar principles.

(b) Advances received from customers

The Group receives only short-term advances from its customers. No interest is accrued on the advances received under the Group's accounting policy. Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts.

However, the Group decided to use the practical expedient provided in IFRS 15, which allows not to adjust the promised amount of consideration for the effects of a significant financing component in the contracts where the Group expects, at contract inception, that the period between the Group's 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. Therefore, for short-term advances, the Group will not account for a financing component even if it is significant.

(c) Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS.

As required by IFRS 15, the Group will disaggregate 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.

(d) Other adjustments

The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, the effect of these changes is not expected to be material for the Group.

(In millions of Russian rubles unless otherwise stated)

6 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 consolidated financial statements.

Transactions between the business segments are mainly done on normal 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	
Year ended 31 December	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Sales	28,532	26,354	15,341	12,893	3,893	3,253	47,766	42,500
Segment operating profit for the period	906	1,199	3,139	3,336	137	366	4,182	4,901
IFRS adjustments:								
Difference in depreciation of property, plant and equipment							(530)	(318)
Provision for retirement benefit obligations							(51)	(46)
Other							(20)	(162)
IFRS operating profit for the period							**3,581**	**4,375**

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 31 December	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Segment assets	27,497	27,122	5,763	5,320	24,868	20,478	58,128	52,920
IFRS adjustments:								
Difference in depreciation of property, plant and equipment							428	452
Impairment of the Group's assets							(245)	(228)
Other							(118)	(125)
IFRS total assets							**58,193**	**53,019**

(In millions of Russian rubles unless otherwise stated)

6 Operating segment information (continued)

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ elimination		Total	
As at 31 December	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Segment liabilities	3,487	800	1,984	1,146	27,111	27,032	32,582	28,978
IFRS adjustments:								
Retirement benefit obligations							424	378
Deferred tax							(347)	39
Other							(37)	-
IFRS total liabilities							**32,622**	**29,395**

Unallocated amounts relate mainly to borrowings of RUB 23,184 (2016: RUB 23,879) and liabilities of non-core subsidiaries.

Geographic information

Sales are allocated based on the region in which the customer is located:

	2017	2016
Russia	21,049	20,264
Asia	13,710	12,418
Europe	6,483	5,796
Other	6,524	4,022
	47,766	**42,500**

Assets of the Group are mainly located in the Russian Federation.

7 Balances and transactions with related parties

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 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.

Related parties may enter into transactions that are not conducted between unrelated parties. The prices and terms of such transactions may differ from the prices and terms of transactions between unrelated parties.

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

The income and expenses items with related parties for the years 2017 and 2016 were as follows:

Sales of goods and services

	2017	2016
Sales of finished goods and other sales	4,103	1,788
Sale of electric power	722	69
Rental services	42	37
Interest income on loans issued to related parties	132	216
Total	**4,999**	**2,110**

Purchase of goods and services

	2017	2016
Purchase of goods	7,314	310
Total	**7,314**	**310**

(In millions of Russian rubles unless otherwise stated)

7 Balances and transactions with related parties (continued)

At 31 December 2017 and 2016, the outstanding balances with related parties were as follows:

	2017	2016
Receivables from related parties	517	406
Payables to related parties	1,360	201
Borrowings issued	3,789	4,449
Promissory notes	-	4
Lease payable	1	1
Borrowings from related parties	300	106

As at 31 December 2017 borrowings issued to related parties mainly relate to a euro-denominated borrowing in the amount of RUB 3,766 issued to Linde Azot Togliatti at the interest rate of 4% (2016: RUB 4,424, interest rate of 4%).

As at 31 December 2017 borrowings from related parties include an interest-free borrowing amounting to RUB 300 obtained from Praxair Azot Togliatti, and as at 31 December 2016 – an interest-free borrowing amounting to RUB 106 obtained from Benzol.

As at 31 December 2017 finance lease payable to Prominvest amounts to RUB 1 and has a fixed rate of 13% (2016: RUB 1 at a fixed rate of 13%). Prominvest is considered as a related party as it is owned by a member of key management personnel.

Key management compensation

The remuneration of 20 key management personnel amounted to RUB 90 and RUB 85 in 2017 and 2016, 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 17 (2016: RUB 16). Dividends paid to key management personnel amounted to RUB 59 (2016: RUB 146).

8 Cash and cash equivalents

	2017	2016
Short-term promissory notes, deposits	563	596
RUB-denominated cash on hand and balances with banks	441	481
Foreign currency denominated balances with banks	377	187
	1,381	**1,264**

Cash deposits of RUB 563 (31 December 2016: RUB 596) bear interest of 4.79%-7.3% (2016: 7.1%-10.25%).

Balances with bank are not interest-bearing.

Foreign currency denominated balances with banks consist of the following:

Currency	2017	2016
US dollars	209	45
Euros	98	39
Yuans	52	91
Serbian Dinars	18	12

(In millions of Russian rubles unless otherwise stated)

9 Receivables and prepayments

	2017	2016
Trade receivables	2,319	2,109
Less: impairment	(68)	(51)
	2,251	**2,058**
Other receivables	652	769
	652	**769**
Prepayments	996	906
	996	**906**
VAT recoverable	1,967	1,596
	5,866	**5,329**

Foreign currency denominated balances of net trade receivables consist of the following:

Currency	**2017**	**2016**
US dollars	541	460
Euros	481	270
Yuans	369	412
Serbian Dinars	40	13
	1,431	**1,155**

Trade receivables are non-interest bearing and are generally on 60-90 days terms.

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

	2017	2016
Opening balance	51	52
Charge for the year	17	-
Utilised	-	(1)
Closing balance	**68**	**51**

There is no concentration of credit risk with respect to trade and other receivables, as the Group has a large number of customers, internationally dispersed. The aging analysis of trade and other receivables is as follows:

	Below 30 days	31-180 days	Above 181 days	Total
2017	2,137	727	39	**2,903**
2016	1,996	684	147	**2,827**

10 Inventories

	2017	2016
Raw materials	2,893	3,274
Work in progress	1,511	1,364
Finished goods	3,416	2,937
	7,820	**7,575**

During 2017 RUB 6 (2016: RUB 110) was recognised in the cost of sales as an expense for slow-moving inventories and write-down to net realisable value.

(In millions of Russian rubles unless otherwise stated)

11 Property, plant and equipment

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
Balance at 1 January 2016	7,769	26,574	849	9,314	44,506
Additions	-	-	-	6,521	6,521
Disposals	(378)	(869)	-	-	(1,247)
Transfers from construction in progress	2,088	6,866	125	(9,079)	-
Foreign exchange differences	(55)	(64)	(66)	-	(185)
Balance at 31 December 2016	**9,424**	**32,507**	**908**	**6,756**	**49,595**
Additions	-	-	-	4,036	4,036
Disposals	(7)	(283)	(1)	-	(291)
Transfers from construction in progress	1,126	3,736	113	(4,975)	-
Foreign exchange differences	13	28	4	-	45
Balance at 31 December 2017	**10,556**	**35,988**	**1,024**	**5,817**	**53,385**
Accumulated depreciation					
Balance at 1 January 2016	(3,795)	(17,787)	(376)	-	(21,958)
Depreciation charge for 2016	(314)	(1,309)	(145)	-	(1,768)
Disposals	158	679	-	-	837
Foreign exchange differences	26	62	7	-	95
Balance at 31 December 2016	**(3,925)**	**(18,355)**	**(514)**	**-**	**(22,794)**
Depreciation charge for 2017	(345)	(1,717)	(160)	-	(2,222)
Disposals	7	257	1	-	265
Foreign exchange differences	(1)	(8)	(5)	-	(14)
Balance at 31 December 2017	**(4,264)**	**(19,823)**	**(678)**	**-**	**(24,765)**
Net book value					
Balance at 31 December 2016	**5,499**	**14,152**	**394**	**6,756**	**26,801**
Balance at 31 December 2017	**6,292**	**16,165**	**346**	**5,817**	**28,620**

At 31 December 2017 property, plant and equipment carried at RUB 8,355 (31 December 2016: RUB 5,815) have been pledged to third parties as collateral for bank borrowings and other loans (Note 15).

At 31 December 2017 the cost of the land on which the Group's principle production facilities are located, amounted to RUB 197 (31 December 2016: RUB 190).

Borrowing costs capitalised amounted to RUB 459 (2016: RUB 391). A capitalisation rate of 9% (2016: 6%) was used, representing the borrowing costs of the loans used to finance the investment projects.

As at 31 December 2017 and 2016, the gross book value of fully depreciated property, plant and equipment was RUB 13,894 and RUB 13,450, respectively.

Equipment includes the following amounts where the Group is a lessee under a finance lease:

	2017	2016
Cost of capitalized finance leases	119	119
Accumulated depreciation	(119)	(118)
Net book value	**-**	**1**

(In millions of Russian rubles unless otherwise stated)

12 Intangible assets

	Right to use licenses	Development costs	Other intangible assets	Total
Cost				
As at 31 December 2015	61	7	6	74
Additions	33	1	4	38
Disposals	-	-	-	-
As at 31 December 2016	**94**	**8**	**10**	**112**
Accumulated amortisation and impairment				
As at 31 December 2015	(22)	-	(2)	(24)
Amortisation charges	(31)	-	(2)	(33)
Disposals	-	-	-	-
Impairment	-	-	-	-
As at 31 December 2016	**(53)**	**-**	**(4)**	**(57)**
Cost				
As at 31 December 2016	94	8	10	112
Additions	4,907	6	-	4,913
Disposals	-	(3)	-	(3)
As at 31 December 2017	**5,001**	**11**	**10**	**5,022**
Accumulated amortisation and impairment				
As at 31 December 2016	(53)	-	(4)	(57)
Amortisation charges	(465)	(1)	(3)	(469)
Disposals	-	-	-	-
Impairment	-	-	-	-
As at 31 December 2017	**(518)**	**(1)**	**(7)**	**(526)**
Net book value				
As at 31 December 2016	**41**	**8**	**6**	**55**
As at 31 December 2017	**4,483**	**10**	**3**	**4,496**

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). The EPC uses modern patented technology from FIBRANT B.V. (the Netherlands), which allows increasing the capacity of caprolactam production from 190 to 210 thousand tons and up to 260 thousand tons per year in the long term. As at 31 December 2017 net book value of the license was RUB 4,463 and the remaining useful life was 109 months.

Other intangible assets comprise capitalised software with net book value of RUB 3. Development costs are mainly represented by research to improve production processes, development of new methods for processing production waste and research on testing of finished goods characteristics. As at 31 December 2017 their net book value amounted to RUB 10.

(In millions of Russian rubles unless otherwise stated)

13 Investments in associates and joint ventures

	2017						2016				
	Praxair Azot Togliatti	**Other associates**	**JV Linde Azot Togliatti**	**JV Granifert**	**Other joint ventures**	**Total**	**Praxair Azot Togliatti**	**Other associates**	**JV Linde Azot Togliatti**	**Other joint ventures**	**Total**
At 1 January	**1,775**	**235**	**2,931**	**-**	**55**	**4,996**	**-**	**212**	**183**	**1**	**396**
Additions	1	83	-	386	-	470	955	-	1,440	57	2,452
Gain on acquisition	-	-	-	-	-	-	837	-	-	-	837
Share of profit/(loss)	185	66	(129)	(4)	3	121	(17)	50	1,308	(3)	1,338
Disposals	-	(114)	-	-	-	(114)	-	-	-	-	-
Dividends received	(108)	(27)	-	-	-	(135)	-	(27)	-	-	(27)
As at 31 December	**1,853**	**243**	**2,802**	**382**	**58**	**5,338**	**1,775**	**235**	**2,931**	**55**	**4,996**

Praxair Azot Togliatti was established for production of industrial gases for the Group's own purposes, which started in 2016. Praxair Azot Togliatti is located in Togliatti, the Samarskaya oblast of the Russian Federation.

Summarised financial information of Praxair Azot Togliatti, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2017	**2016**
Assets:		
Non-current assets	3,145	3,416
Current assets, including cash and cash equivalents of RUB 5 (2016: RUB 56)	797	412
Liabilities:		
Non-current liabilities, including deferred tax liabilities RUB 11 (2016: RUB 1)	(11)	(1)
Current liabilities	(225)	(277)
Net assets	**3,706**	**3,550**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	**1,853**	**1,775**
Summarised statement of profit or loss		
Sales	1,781	115
Cost of sales	(1,332)	(76)
Other expenses	2	(66)
Income tax expense	(81)	(7)
Profit/(loss) after tax	**370**	**(34)**
Total comprehensive income/(loss)	**370**	**(34)**
Share of the Group in profit/(loss) from the associate	**185**	**(17)**

As at 31 December 2017 the associate has no capital commitments for the purchase of property, plant and equipment and no contingent liabilities (as at 31 December 2016 the associate has capital commitments for the purchase of property, plant and equipment in the amount of RUB 52 and has no contingent liabilities).

Praxair Azot Togliatti cannot distribute its profits unless it obtains consent from the both shareholders.

(In millions of Russian rubles unless otherwise stated)

13 Investments in associates and joint ventures (continued)

In April 2013 the Company and Linde Group established a joint venture Linde Azot Togliatti. Linde Azot Togliatti is located in Togliatti, the Samarskaya oblast of the Russian Federation and was established for the production of ammonia and hydrogen for the Group's own use in production process. Linde Group and the Company have joint control of Linde Azot Togliatti. The Group's interest in Linde Azot Togliatti is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of Linde Azot Togliatti, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2017	2016
Assets:		
Non-current assets	17,359	17,882
Current assets, including cash and cash equivalents of RUB 2 (2016: RUB 4)	1,353	1,703
Liabilities:		
Non-current liabilities, including deferred tax liabilities of RUB 213 (2016: RUB 204) and euro-denominated long-term borrowings of RUB 9,492 (2016: RUB 11,488)	(9,705)	(11,692)
Current liabilities, including euro-denominated short-term borrowings of RUB 3,018 (2016: RUB 1,894)	(3,404)	(2,031)
Net assets	**5,603**	**5,862**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	**2,802**	**2,931**
Summarised statement of profit or loss		
Sales	4,378	-
Cost of sales including amortisation of RUB 1,291	(3,075)	(11)
Other expenses	(1,284)	(9)
Finance (costs)/income	(347)	3,257
Income tax benefit/(expense)	70	(621)
Profit/(loss) after tax	**(258)**	**2,616**
Total comprehensive income/(loss)	**(258)**	**2,616**
Share of profit/(loss) from the joint venture	**(129)**	**1,308**

As at 31 December 2017 the joint venture has no contingent liabilities and has capital commitments for the purchase of property, plant and equipment from third parties of RUB 63 (as at 31 December 2016 the joint venture has no contingent liabilities and has no capital commitments).

Linde Azot Togliatti cannot distribute its profits unless it obtains consent from the both shareholders of the joint venture.

In July 2015 the Company and Trammo AG established a joint venture JV Granifert. JV Granifert is located in Togliatti, the Samarskaya oblast of the Russian Federation. Limited Liability Company JV Granifert was established to implement the investment project - the construction of granulated ammonium sulphate plant with a capacity of 140,000 tons per year. Trammo AG and the Company exercise joint control over JV Granifert. The Group's interest in JV Granifert is accounted for using the equity method in the consolidated financial statements.

(In millions of Russian rubles unless otherwise stated)

13 Investments in associates and joint ventures (continued)

Summarised financial information of JV Granifert, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2017	**2016**
Assets:		
Non-current assets	851	18
Current assets, including cash and cash equivalents of RUB 33 (2016: RUB 7)	54	83
Liabilities:		
Current liabilities	(141)	(103)
Net assets	**764**	**(2)**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	**382**	**(1)**
Summarised statement of profit or loss		
Sales	-	-
Cost of sales	(8)	(6)
Finance income/(costs)	1	-
Income tax expense	(1)	1
Loss after tax	**(8)**	**(5)**
Total comprehensive loss	**(8)**	**(5)**
Share of the Group in loss from the joint venture	**(4)**	**(2)**

As at 31 December 2017 the associate has capital commitments for the purchase of property, plant and equipment in the amount of RUB 118 and has no contingent liabilities.

The following amounts represent the Group's share in assets and liabilities, sales and financial results of other associates, which have been consolidated using the equity method:

	2017	**2016**
Assets:		
Non-current assets	171	94
Current assets	343	308
Liabilities:		
Non-current liabilities	(181)	(133)
Current liabilities	(90)	(34)
Net assets	**243**	**235**
Investments in associates	**243**	**235**
Sales	1,436	1,130
Expenses	(1,370)	(1,080)
Profit after tax	66	50
Total comprehensive income	**66**	**50**

The Group holds other joint ventures that are cumulatively immaterial.

(In millions of Russian rubles unless otherwise stated)

14 Financial assets

Short-term financial assets include:

	2017	2016
Short-term portion of a loan issued to a joint venture (denominated in euro): 4%	1,075	735
Short-term deposits (denominated in euro): 1.3% (2016: 7.59%)	1	116
Short-term portion of housing loans allowed to employees: 0%-15%	78	86
Other	45	47
	1,199	**984**

Long-term financial assets include:

	2017	2016
Long-term portion of a loan issued to a joint venture (denominated in euro): 4%	2,691	3,689
Long-term portion of housing loans allowed to employees: 0%-15%	332	284
Loans issued to associates: 9%-MOSPRIME 3 + 1.8%	23	25
Other	27	15
	3,073	**4,013**

Long-term loans to employees have different maturity dates up to the year 2037 (2016: up to 2041).

15 Loans and borrowings

Short-term loans and borrowings

	Interest rate	Currency	2017	2016
Current portion of long-term loans and borrowings				
International Finance Corporation	LIBOR 6 +3.75% - LIBOR 6 +4.125% 4.76%	US dollars	5,653	1,536
Sberbank	9.9%-11.75%	Rubles	792	1,056
Rosbank	9.5% - 10.8%	Rubles	462	-
Sberbank	EURIBOR 6 + 0.7% - 2.2%	Euros	366	588
Deutsche Bank AG	LIBOR 12 +1.75%	Swiss francs	221	222
Rosbank	EURIBOR 6 +1.85%-3%	Euros	125	100
Raiffeisenbank	EURIBOR 6 +1.6%	Euros	40	29
VTB bank	EURIBOR 6 +1.6%	Euros	13	-
Promsvyazbank	14.8%	Rubles	-	500
Other			23	76
Total current portion of long-term loans and borrowings			**7,695**	**4,107**
Short-term loans and borrowings				
VTB Factoring	9.7% - 10.5%	Rubles	1,634	-
International Finance Corporation	12%	Rubles	679	664
Praxair Azot Togliatti	0%	Rubles	300	-
VTB bank (a Hong Kong branch)	3.15%	US dollars	-	244
Promsvyazbank	15.25%	Rubles	-	80
Sberbank	0.7%-0.9% + EURIBOR	Euros	-	77
Bank of China	3.56%	US dollars	-	74
VTB bank	EURIBOR 6 +1.6%	Euros	-	62
Raiffeisenbank	1% + EURIBOR 6 +1.5%-1.6%	Euros	-	29
Other			40	149
Total short-term loans and borrowings			**2,653**	**1,379**
Interest on loans and borrowings			63	82
Current portion of long-term loans and borrowings			**10,411**	**5,568**

(In millions of Russian rubles unless otherwise stated)

15 Loans and borrowings (continued)

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

	2017	2016
Borrowing denominated in:		
- US dollars	5,671	1,870
- Russian rubles	3,946	2,508
- Euros	570	960
- Swiss francs	224	230
	10,411	**5,568**

Long-term loans and borrowings

	Interest rate	Maturity date	Currency	2017	2016
Sberbank	9.29%-11.75%	2019-2026	Rubles	7,051	5,391
Gazprombank	9.5%-11.3%	2020-2022	Rubles	3,380	1,988
Rosbank	5%	2022	US dollars	899	-
Raiffeisenbank	10%	2019	Rubles	576	576
Russian Foundation for Technological Development	5%	2019-2021	Rubles	300	300
Rosbank	9.5% - 10.8%	2019-2022	Rubles	191	-
VTB bank	10.45% - 11.2%	2021	Rubles	143	1,992
Rosbank	EURIBOR 6 +1.5%-3%	2019-2020	Euros	113	583
Sberbank	EURIBOR +1.5%-2.2%	2019	Euros	98	330
Raiffeisenbank	EURIBOR 6 +1.5%-1.6%	2019	Euros	20	56
International Finance Corporation*	LIBOR 6 +3.75% - LIBOR 6 +4.125%	2019-2023	US dollars	-	5,953
Svyaz-Bank	10%	2019	Rubles	-	796
Deutsche Bank AG	0.2%-1.75% + LIBOR 12	2018	Swiss francs	-	222
Sberbank	0.8% + EURIBOR 6 +1.5%	2018	Euros	-	100
VTB bank	EURIBOR 6 +1.6%	2018	Euros	-	12
Other				2	12
				12,773	**18,311**

*As at 31 December 2017 the Group is not in compliance with covenants set by loan agreements with a bank, which include peak debt service coverage ratio and prospective debt service coverage ratio, as well as a ban on establishing new subsidiaries. As at 31 December 2017 the Group had RUB 5,653 of loans with breached covenants including RUB 4,194 of long-term debt which was classified as current liabilities as at that date.

In April 2018 the Group obtained waivers 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.

(In millions of Russian rubles unless otherwise stated)

15 Loans and borrowings (continued)

The maturity of long-term borrowings is as follows:

	2017	2016
Current	3,501	4,107
1 to 2 years	3,884	4,687
2 to 3 years	2,508	7,155
3 to 5 years	6,878	2,881
Over 5 years	3,697	3,588
	20,468	**22,418**
Less: Current portion	(3,501)	(4,107)
Less loans with breached covenants	(4,194)	-
	12,773	**18,311**

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

	2017	2016
Borrowing denominated in:		
- Russian rubles	11,643	11,055
- US dollars	899	5,953
- Euros	231	1,081
- Swiss francs	-	222
	12,773	**18,311**

Total amount of guarantee issued by the Group for long and short-term borrowings is RUB 8,355 (2016: RUB 5,815), including pledged equipment and real estate in the amount of RUB 8,355 (2016: RUB 5,815) (see Note 11).

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 2016	Changes in cash flows	Changes in currency rates	Changes due to covenant compliance	Other	31 December 2017
Short-term loans and borrowings	5,568	(2,798)	(44)	4,194	3,491	10,411
Long-term loans and borrowings	18,311	2,250	(93)	(4,194)	(3,501)	12,773
Total	**23,879**	**(548)**	**(137)**	**-**	**(10)**	**23,184**

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.

16 Advances received and other current liabilities

	2017	2016
Advances received	1,650	1,632
Salaries payable	518	539
Dividends payable	200	10
Other	180	99
	2,548	**2,280**

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

(In millions of Russian rubles unless otherwise stated)

17 Other than income taxes payable

	2017	2016
Payments to the Pension Fund and other social taxes	96	18
Property tax	51	44
Personal income tax	37	35
Other taxes	57	52
	241	**149**

The Group had no tax liabilities past due at 31 December 2017 and 2016.

18 Retirement benefit obligations

The Group provided post retirement benefits in the form of monthly cash payments to their retirees via the non-state pension fund “Titan”. The amount of post retirement benefits in the form of monthly cash payments is dependent on one or more factors, such as age, years of service and compensation. The entitlement to benefits (cash payments) ceases in 5 years after retirement date. To date it has been an unfunded plan, with no assets specifically allocated to cover the plan liabilities. The plan’s retirement age is the official retirement age in Russia (55 for females and 60 for males). The actuarial valuation is performed once in 3 years, the last valuation was performed in December 2016.

Since the pension liability is adjusted to consumer price index, the pension plan is exposed to Russian’s inflation, interest rate risk and changes in the life expectancy for pensioners.

The following tables summarise the components of net benefit expense recognised in the consolidated statement of comprehensive income and amounts recognised in the consolidated statement of financial position for the respective plans.

Net benefit expense recognised in profit or loss:

	31 December 2017	31 December 2016
Current service cost	38	32
Interest cost on benefit obligation	28	25
Net benefit expenses	**66**	**57**

Changes in the present value of the defined pension benefit obligation are as follows:

	Post-employment pension
Defined benefit obligation at 1 January 2016	**309**
Current service cost	32
Interest cost	25
Contributions by employer	(11)
Actuarial loss recorded in other comprehensive income, including	23
changes in financial assumptions	37
experience adjustment	(14)
Defined benefit obligation at 31 December 2016	**378**
Current service cost	38
Interest cost	28
Contributions by employer	(15)
Actuarial gain recorded in other comprehensive income, including	(5)
changes in financial assumptions	31
experience adjustment	(36)
Defined benefit obligation at 31 December 2017	**424**

(In millions of Russian rubles unless otherwise stated)

18 Retirement benefit obligations (continued)

The principal actuarial assumptions used are as follows:

	31 December 2017	31 December 2016
Discount rate	7.8%	8.5%
Salary increase	12.6%	12.3%
Mortality rate (Russian statistics data for 2016)	80%	80%
Staff turnover up to the age 49 (males) and 44 (females)	5%	5%
Staff turnover from the age 49 (males) and 44 (females) up to the retirement	0%	0%

A quantitative sensitivity analysis for significant assumption as at 31 December 2017 is as shown below:

Assumptions	**Discount rate**		**Future salary increase**	
Sensitivity level	**0.5% increase**	**0.5% decrease**	**0.5% increase**	**0.5% decrease**
Impact on defined benefit obligation	(16)	18	17	(16)

Assumptions	**Life expectancy of male pensioners**		**Life expectancy of female pensioners**	
Sensitivity level	**Increase by 1 year**	**Decrease by 1 year**	**Increase by 1 year**	**Decrease by 1 year**
Impact on defined benefit obligation	8	(11)	1	(2)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result for reasonable changes in key assumptions occurring at the end of the reporting period.

The following payments are expected contributions to the defined benefit plan obligation in future years:

	31 December 2017	31 December 2016
Within the next 12 months (next annual reporting period)	148	141
Between 2 and 5 years	132	124
Between 5 and 10 years	185	172
Beyond 10 years	788	718
Total expected payments	**1,253**	**1,155**

The average duration of the defined benefit plan obligation at the end of the reporting period is 11 years (2016: 11 years).

19 Share capital

	Number of issued shares (thousands)		Number of treasury shares	Total number of outstanding shares	Share capital	Treasury shares
	Preference	Ordinary	(thousands)	(thousands)	(RUB)	
At 1 January 2016	**3,697**	**237,043**	**(49,614)**	**191,126**	**642**	**(2,225)**
Ordinary shares purchased	-	(2,895)	-	(2,895)	(8)	-
Treasury shares purchased	-	-	-	-	-	-
Treasury shares disposed	-	-	-	-	-	-
At 31 December 2016	**3,697**	**234,148**	**(49,614)**	**188,231**	**634**	**(2,225)**
Ordinary shares purchased	-	-	-	-	-	-
Treasury shares purchased	-	-	-	-	-	-
Treasury shares disposed	-	-	-	-	-	-
At 31 December 2017	**3,697**	**234,148**	**(49,614)**	**188,231**	**634**	**(2,225)**

(In millions of Russian rubles unless otherwise stated)

19 Share capital (continued)

The total number of authorised ordinary shares is 549,148 thousand shares (31 December 2016: 549,148 thousand) and of preference shares is 138,897 thousand shares (31 December 2016: 138,897 thousand) with a nominal value of 1 ruble per share of both types.

Shares that were purchased before 31 December 2017 from shareholders and that were not cancelled are held as ‘treasury shares’. At 31 December 2017 Togliattichiminvest, Kuibyshevazot-invest and Activinvest held 48,132 thousand ordinary and 1,482 thousand preference shares of the Company (31 December 2016: 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 year on ordinary and preference shares were as follows:

	2017	2016
Dividends payable at 1 January	**10**	**29**
Dividends declared during the year	565	945
Dividends paid during the year	(375)	(964)
Dividends payable at 31 December	**200**	**10**
Dividends per share declared during the year, rubles	**3**	**4.8**

In 2017 the Company declared 2 ruble of interim dividends for 2017 per share for both ordinary and preference shares and final dividends for 2016 of 1 ruble per share for both ordinary and preference shares (2016: 2 rubles of interim dividends, 2.8 rubles of final dividends for 2015).

20 Sales

	2017	2016
Caprolactam and derivatives	28,532	26,354
Ammonia and nitrogen fertilisers	15,341	12,893
Other	3,893	3,253
	47,766	**42,500**

21 Cost of sales

	2017	2016
Raw materials	26,842	21,200
Heat energy and electricity	3,958	4,055
Labour costs	3,601	3,687
Depreciation and amortisation	2,547	1,653
Other	830	828
Changes in finished goods and work in progress	(735)	249
	37,043	**31,672**

(In millions of Russian rubles unless otherwise stated)

22 Distribution costs

	2017	2016
Transportation	3,853	3,251
Labour costs	481	438
Materials	216	169
Depreciation and amortisation	83	54
Other	433	308
	5,066	**4,220**

23 General and administrative expenses

	2017	2016
Labour costs	1,372	1,328
Third party services	360	382
Taxes other than income tax	256	182
Consultancy services	87	112
Insurance	72	119
Depreciation and amortisation	60	61
Materials	58	70
Impairment of accounts receivable	17	-
Fines and penalties	10	33
Other	163	112
	2,455	**2,399**

24 Other operating income

	2017	2016
Compensation received from the federal budget	1,041	690
Disposal of inventory	116	183
Foreign exchange gains on operating activities	10	-
Other	66	31
	1,233	**904**

25 Other operating expenses

	2017	2016
Social expenses	453	550
Expenses for elimination of damage caused by fire	318	-
Foreign exchange loss on operating activities	-	91
Other	83	97
	854	**738**

(In millions of Russian rubles unless otherwise stated)

26 Finance income

	2017	2016
Foreign exchange gains on financing activities	767	677
Interest expense	255	356
Other	47	-
	1,069	**1,033**

27 Finance costs

	2017	2016
Interest cost	1,939	1,288
Less capitalised borrowing costs	(459)	(391)
Other	55	27
	1,535	**924**

28 Income tax

	2017	2016
Current income tax expense	562	999
Deferred tax benefit related to profit or loss	140	74
Income tax expense recognized in profit or loss	**702**	**1,073**
Deferred tax (income)/expenses related to items recognized in OCI	1	(5)
Income tax expense/(benefit) recognised on OCI	**1**	**(5)**
Income tax expense for the year	**703**	**1,068**

Income before tax for financial reporting purposes is reconciled to tax expense as follows:

	2017	2016
Profit before tax	**3,236**	**6,659**
Theoretical tax charge at statutory rate of 20%	647	1,332
Effect of other income tax rates	12	12
Share of loss of associates and joint ventures	(20)	(426)
Recalculation of current income tax of prior periods	(18)	(19)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Social expenses	64	48
Other non-deductible expenses	18	121
Income tax expense including effect of other comprehensive income/(loss)	**703**	**1,068**

(In millions of Russian rubles unless otherwise stated)

28 Income tax (continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2016: 20%).

	1 January 2016	Origination/ (reversal) of temporary difference	31 December 2016	Origination/ (reversal) of temporary difference	31 December 2017
Tax effects of temporary differences:					
Accounts receivable and prepayments	10	7	17	7	24
Finance lease and other liabilities	109	29	138	-	138
Financial assets	2	(2)	-	27	27
Property, plant and equipment	(870)	(97)	(967)	(172)	(1,139)
Intangible assets	-	-	-	37	37
Inventories	(223)	(13)	(236)	(31)	(267)
Other	5	2	7	(8)	(1)
Net deferred tax liabilities, including:	**(967)**	**(74)**	**(1,041)**	**(140)**	**(1,181)**
Deferred tax assets	126		162		226
Deferred tax liabilities	(1,093)		(1,203)		(1,407)

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

Deferred tax assets will be realised in different periods than deferred tax liabilities will be settled. Management believes that there will be sufficient taxable profits available at the time the temporary differences reverse to utilise the deferred tax assets.

The Group has not recorded a deferred tax liability in respect of taxable temporary differences of RUB 3,629 (2016: RUB 4,065) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

29 Earnings per share

The earnings per share were calculated by dividing profit or loss attributable to all equity holders by the weighted average number of all shares outstanding during the period, excluding shares purchased by the Group and held as treasury shares.

	2017	2016
Weighted average number of ordinary shares outstanding (thousands)	234,148	234,148
Weighted average number of preference shares outstanding (thousands)	3,697	3,697
Adjusted for weighted average number of treasury shares outstanding (thousands)	(49,614)	(43,815)
Weighted average number of ordinary and preference shares outstanding (thousands)	188,231	194,030
Profit attributable to equity holders of the Company	**2,573**	**5,602**
Earnings per share (in rubles):		
-basic/diluted, for profit for the period attributable to ordinary/preference equity holders of the Company	**13.67**	**28.87**

There are no dilution factors therefore basic earnings per share equal diluted earnings per share.

30 Contingencies, commitments and operating risks

30.1 Contractual commitments and guarantees

As at 31 December 2017 and 2016 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RUB 145 and RUB 396 respectively, designated for construction of new and modernisation of existing production facilities.

30.2 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 31 December 2017 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.

30 Contingencies, commitments and operating risks (continued)

30.2 Taxation (continued)

For domestic transactions the new transfer pricing rules apply only if the amount of all transaction with related party exceeds RUB 1 billion in 2017. 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.

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.

30.3 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.

30.4 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.

30.5 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 352 for the Group. There is also uncertainty over the term of execution of these contingencies, as they depend on the occurrence (non-occurrence) of one or more future uncertain events not controlled by the Group.

30.6 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.

(In millions of Russian rubles unless otherwise stated)

31 Principal subsidiaries

The Group's principal subsidiaries consolidated within the Group and the degree of control exercised by the Company are as follows:

			2017		2016	
Name	**Country of incorporation**	**Activity**	**% ownership**	**% voting**	**% ownership**	**% voting**
Port Togliatti	Russian Federation	Transportation of goods	66%	79%	66%	79%
Togliattichiminvest	Russian Federation	Trading of construction materials	100%	100%	100%	100%
Kuibyshevazot-invest	Russian Federation	Investing	100%	100%	100%	100%
EPC Shanghai	China	Engineering plastics production	90%	90%	90%	90%
TC KUAZ Shanghai	China	Trading company	50%	50%	50%	50%
TC KUAZ Hong Kong	Hong Kong	Trading company	100%	100%	100%	100%
Activinvest	Russian Federation	Investing	100%	100%	100%	100%
Azotremstroi	Russian Federation	Capital construction	100%	100%	100%	100%
Kurskchimvolokno	Russian Federation	Production of synthetic fiber	100%	100%	100%	100%
Moskovskiye Volokna	Russian Federation	Rental services	100%	100%	100%	100%
Baltex	Russian Federation	Production of synthetic fabric	100%	100%	100%	100%
Srednevolzhskaya energosbytovaya kompaniya	Russian Federation	Sale of electric power	74%	74%	74%	74%

The Company has control over the Chinese subsidiary TC KUAZ Shanghai because it has the right to appoint a majority in the board of directors.

32 Financial risk management

The Group's principal financial liabilities comprise bank loans, non-convertible bonds, trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, loans issued, cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

(In millions of Russian rubles unless otherwise stated)

32 Financial risk management (continued)

32.1 Credit risk

Financial assets, which potentially subject the Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the impairment already recorded.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial investments including loans issued, the Group’s exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. However, management monitors that cash is placed in financial institutions or invested in financial assets of entities, which are considered to have minimal risk of default.

32.2 Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

32.3 Interest rate risk

The Group’s income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing short-term and long-term loans and borrowings. The Group has no significant interest-bearing assets.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with floating interest rates linked to EURIBOR, LIBOR and CHF LIBOR indices. At 31 December 2017 approximately 71% of the Group's borrowings are at a fixed rate of interest (2016: 35%).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group’s profit before tax (through the impact on floating rate loans and borrowings).

		Increase/decrease in basis points	Effect on profit before tax
2017			
LIBOR	High	0.70%	40
EURIBOR	High	0.25%	2
CHF LIBOR	High	0.03%	-
LIBOR	Low	-0.08%	(4)
EURIBOR	Low	-0.01%	-
CHF LIBOR	Low	-0.03%	-
2016			
LIBOR	High	0.60%	42
EURIBOR	High	0.12%	1
CHF LIBOR	High	0.07%	-
LIBOR	Low	-0.08%	(6)
EURIBOR	Low	-0.08%	(1)
CHF LIBOR	Low	-0.20%	(1)

(In millions of Russian rubles unless otherwise stated)

32 Financial risk management (continued)

32.4 Foreign currency risk

The Group exports production to Asian, American and European countries and therefore, it is exposed to foreign currency risk. Foreign currency denominated assets (Notes 8 and 9) and liabilities (Note 15) give rise to foreign exchange exposure. Approximately 56% of the Group's sales are denominated in currencies other than rubles - the functional currency of the Company, whilst almost 95% of costs are denominated in rubles. Hence, the Group is exposed to the related foreign exchange risk primarily with respect to the US dollar. However, management believes that foreign currency risk is not significant.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar, euro, Swiss franc and Chinese yuan exchange rate, with all other variables held constant, of the Group's profit before tax, due to changes in the fair value of monetary assets and liabilities. There is no impact on the Group's equity.

		Increase/decrease in basis points	Effect on profit before tax
2017			
EURO	High	12.50%	325
USD	High	11.00%	(640)
CHF	High	12.50%	-
CNY	High	11.00%	43
EURO	Low	-12.50%	(325)
USD	Low	-11.00%	640
CHF	Low	-12.50%	-
CNY	Low	-11.00%	(43)
2016			
EURO	High	20.00%	403
USD	High	20.00%	(1,623)
CHF	High	21.00%	(93)
CNY	High	18.00%	84
EURO	Low	-20.00%	(403)
USD	Low	-20.00%	1,623
CHF	Low	-21.00%	93
CNY	Low	-18.00%	(84)

32.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (31 December 2017: RUB 18,033; 31 December 2016: RUB 10,130) and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group's Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 based on contractual undiscounted payments.

Year ended 31 December 2017	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	3,111	3,105	12,610	3,635	22,461
Loans with breached covenants*	-	1,515	4,219	667	6,401
Trade and other payables	4,817	-	-	-	4,817
Finance lease liability	-	-	-	-	-
	7,928	**4,620**	**16,829**	**4,302**	**33,679**

* Credit institutions have a right to request accelerated payment of loans with breached covenants. In that case, these loans may be reclassified into 'Less than 3 months' category.

(In millions of Russian rubles unless otherwise stated)

32 Financial risk management (continued)

32.5 Liquidity risk (continued)

Year ended 31 December 2016	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	2,380	4,824	18,006	4,314	29,524
Trade and other payables	2,298	-	-	-	2,298
Finance lease liability	1	-	-	-	1
	4,679	**4,824**	**18,006**	**4,314**	**31,823**

32.6 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or sell treasury shares held by subsidiaries. No changes were made in the objectives, policies or processes during during the years ended 31 December 2017 and 2016.

32.7 Fair values

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.

At 31 December 2017 and 2016, 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 consolidated financial statements:

	Carrying amount		Assets and liabilities for which fair values are disclosed (Level 2)	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
FINANCIAL ASSETS:				
Cash and cash equivalents	1,381	1,264	1,381	1,264
Financial assets – current	1,199	984	1,199	984
Financial assets – non-current	3,073	4,013	3,073	4,013
Trade receivables	2,251	2,058	2,251	2,058
FINANCIAL LIABILITIES:				
Short-term loans and borrowings	10,411	5,567	10,411	5,567
Long-term loans and borrowings	12,773	18,311	12,773	18,311
Finance lease liability	-	1	-	1
Trade payables	3,919	1,650	3,919	1,650

33 Events after the reporting period

On 23 March 2018 the Company’s Board of Directors approved a decision to increase KuibyshevAzot’s share in the share capital of JV Granifert to 100% through acquisition of a 50% share belonging to the JV partner Trammo AG. This decision was taken at Trammo AG’s suggestion in view of optimization of its business structure and assets.

On 2 March 2018 KuibyshevAzot and Gazprombank signed a loan agreement in the amount of RUB 10 billion for a period of 10 years to finance costs of the Company's investment projects and refinance outstanding loans of third-party credit institutions.