



PJSC “PhosAgro”

**Consolidated Interim Condensed
Financial Statements
for the six months ended
30 June 2017 (unaudited)**

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Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors

PJSC "PhosAgro"

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of PJSC "PhosAgro" (the "Company") and its subsidiaries (the "Group") as at 30 June 2017, and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three- and six-month periods then ended, and the related consolidated interim condensed statements of changes in equity and cash flows for the six-month period then ended, and notes to the consolidated interim condensed financial information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

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

Audited entity: PJSC "PhosAgro"

Registration No. in the Unified State Register of Legal Entities
1027700190572
Moscow, Russia

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

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

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



PJSC "PhosAgro"

Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2017, and for the three- and six-month periods then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



I.A. Yagnov

Director

JSC "KPMG"

Moscow, Russia

23 August 2017

PJSC "PhosAgro"
Consolidated Interim Condensed Statements of Profit or Loss and Other Comprehensive Income
for the six months ended 30 June 2017 (unaudited)

| | Note | Six months ended 30 June | | Three months ended 30 June | |
|---|------|-----------------------------|---------------------|-------------------------------|---------------------|
| | | 2017 RUB million | 2016 RUB million | 2017 RUB million | 2016 RUB million |
| Revenues | 4 | 89,121 | 102,049 | 44,723 | 45,976 |
| Cost of sales | 5 | (49,585) | (46,326) | (25,168) | (22,335) |
| Gross profit | | 39,536 | 55,723 | 19,555 | 23,641 |
| Administrative expenses | 6 | (7,211) | (6,600) | (3,416) | (3,697) |
| Selling expenses | 7 | (11,542) | (10,189) | (6,045) | (4,688) |
| Taxes, other than income tax | | (1,230) | (1,072) | (603) | (555) |
| Other expenses, net | 8 | (1,237) | (1,354) | (733) | (882) |
| Operating profit | | 18,316 | 36,508 | 8,758 | 13,819 |
| Finance income | 9 | 261 | 472 | 112 | 308 |
| Finance costs | 9 | (2,224) | (2,556) | (1,206) | (1,199) |
| Foreign exchange gain/(loss) | | 2,013 | 11,279 | (4,612) | 4,412 |
| Share of profit of associates | 12 | 151 | 65 | 26 | 38 |
| Profit before tax | | 18,517 | 45,768 | 3,078 | 17,378 |
| Income tax expense | 10 | (4,785) | (9,654) | (1,609) | (3,895) |
| Profit for the period | | 13,732 | 36,114 | 1,469 | 13,483 |
| Attributable to: | | | | | |
| Non-controlling interests ^ | | (2) | 5 | (5) | (2) |
| Shareholders of the Parent | | 13,734 | 36,109 | 1,474 | 13,485 |
| Other comprehensive income | | | | | |
| Items that will never be reclassified to profit or loss | | | | | |
| Actuarial gains and losses, net of tax | | - | (18) | - | (8) |
| Items that will may be reclassified subsequently to profit or loss | | | | | |
| Foreign currency translation difference | | (429) | (1,760) | 435 | (665) |
| Other comprehensive (loss)/income for the period | | (429) | (1,778) | 435 | (673) |
| Total comprehensive income for the period | | 13,303 | 34,336 | 1,904 | 12,810 |
| Attributable to: | | | | | |
| Non-controlling interests ^ | | (2) | 5 | (5) | (2) |
| Shareholders of the Parent | | 13,305 | 34,331 | 1,909 | 12,812 |
| Basic and diluted earnings per share (in RUB) | 18 | 106 | 279 | 11 | 104 |

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

The consolidated interim condensed financial statements were approved on 23 August 2017:

Chief executive officer
A.A. Guryev

Chief financial officer
A.F. Sharabaiko

PJSC “PhosAgro”
Consolidated Interim Condensed Statement of Financial Position
as at 30 June 2017 (unaudited)

| | Note | 30 June 2017 RUB million | 31 December 2016 RUB million |
|---|------|-----------------------------|---------------------------------|
| Assets | | | |
| Property, plant and equipment | 11 | 160,834 | 154,713 |
| Advances issued for property, plant and equipment | | 4,821 | 4,684 |
| Intangible assets | | 1,657 | 1,165 |
| Investments in associates | 12 | 775 | 816 |
| Deferred tax assets | | 5,440 | 5,110 |
| Other non-current assets | 13 | 2,202 | 2,226 |
| Non-current assets | | 175,729 | 168,714 |
| Other current investments | 14 | 2,859 | 3,282 |
| Inventories | 15 | 22,871 | 19,934 |
| Trade and other receivables | 16 | 28,895 | 30,013 |
| Cash and cash equivalents | | 9,451 | 7,261 |
| Current assets | | 64,076 | 60,490 |
| Total assets | | 239,805 | 229,204 |
| Equity | 17 | | |
| Share capital | | 372 | 372 |
| Share premium | | 7,494 | 7,494 |
| Retained earnings | | 79,730 | 74,932 |
| Other reserves | | 5,057 | 5,486 |
| Equity attributable to shareholders of the Parent | | 92,653 | 88,284 |
| Equity attributable to non-controlling interests | | 130 | 137 |
| Total equity | | 92,783 | 88,421 |
| Liabilities | | | |
| Loans and borrowings | 19 | 77,386 | 96,409 |
| Finance lease liabilities | | 1,375 | 1,830 |
| Defined benefit obligations | | 846 | 767 |
| Deferred tax liabilities | | 6,021 | 4,600 |
| Non-current liabilities | | 85,628 | 103,606 |
| Loans and borrowings | 19 | 39,412 | 12,457 |
| Finance lease liabilities | | 1,242 | 1,680 |
| Trade and other payables | 20 | 20,740 | 23,040 |
| Current liabilities | | 61,394 | 37,177 |
| Total equity and liabilities | | 239,805 | 229,204 |

*Consolidated Interim Condensed Statement of Cash Flows
for the six months ended 30 June 2017 (unaudited)*

| | | Six months ended 30 June | |
|---|---------|--------------------------|-----------------|
| | | 2017 | 2016 |
| | Note | RUB million | RUB million |
| Cash flows from operating activities | | | |
| Profit before tax | | 18,517 | 45,768 |
| <i>Adjustments for:</i> | | | |
| Depreciation and amortisation | 5, 6, 7 | 6,571 | 5,047 |
| Loss on disposal of property, plant and equipment and intangible assets | 8 | 754 | 285 |
| Finance income | 9 | (261) | (472) |
| Finance costs | 9 | 2,224 | 2,556 |
| Share of profit of associates | 12 | (151) | (65) |
| Foreign exchange gain | | (1,784) | (12,607) |
| Operating profit before changes in working capital and provisions | | 25,870 | 40,512 |
| Increase in inventories | | (2,937) | (450) |
| Decrease in trade and other receivables | | 1,891 | 1,835 |
| Decrease in trade and other payables | | (1,415) | (470) |
| Cash flows from operations before income taxes and interest paid | | 23,409 | 41,427 |
| Income tax paid | | (5,061) | (9,088) |
| Finance costs paid | | (2,085) | (2,801) |
| Cash flows from operating activities | | 16,263 | 29,538 |
| Cash flows from investing activities | | | |
| Acquisition of property, plant and equipment and intangible assets | | (14,889) | (18,302) |
| Repayment of loans issued, net | | 107 | 270 |
| Proceeds from disposal of property, plant and equipment | | 77 | 210 |
| Finance income received | | 120 | 222 |
| Disposal of investments, net | | 422 | 202 |
| Cash flows used in investing activities | | (14,163) | (17,398) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 51,546 | 14,505 |
| Repayment of borrowings | | (42,017) | (10,248) |
| Dividends paid to shareholders of the Parent | 17 | (8,936) | (15,540) |
| Dividends paid to non-controlling interests | | (5) | - |
| Finance leases paid | | (730) | (1,078) |
| Proceeds from settlement of derivatives | | - | 26 |
| Other payments | | - | (152) |
| Cash flows used in financing activities | | (142) | (12,487) |
| Net increase/(decrease) in cash and cash equivalents | | 1,958 | (347) |
| Cash and cash equivalents at 1 January | | 7,261 | 29,347 |
| Effect of exchange rates fluctuations | | 232 | (2,776) |
| Cash and cash equivalents at 30 June | | 9,451 | 26,224 |

RUB million

| | Attributable to shareholders of the Parent | | | | | | Total |
|---|--|---------------|-------------------|---|--------------------------------------|---|---------------|
| | Share capital | Share premium | Retained earnings | Actuarial gains and losses recognised in equity | Foreign currency translation reserve | Attributable to non-controlling interests | |
| Balance at 1 January 2016 | 372 | 7,494 | 43,460 | (316) | 8,975 | 213 | 60,198 |
| Total comprehensive income for the period | | | | | | | |
| Profit for the period | - | - | 36,109 | - | - | 5 | 36,114 |
| Actuarial gains and losses, net of tax | - | - | - | (18) | - | - | (18) |
| Foreign currency translation difference | - | - | - | - | (1,760) | - | (1,760) |
| | - | - | 36,109 | (18) | (1,760) | 5 | 34,336 |
| Transactions with owners recognised directly in equity | | | | | | | |
| Dividends accrued | - | - | (15,540) | - | - | - | (15,540) |
| Other | - | - | (152) | - | - | - | (152) |
| | - | - | (15,692) | - | - | - | (15,692) |
| Balance at 30 June 2016 | 372 | 7,494 | 63,877 | (334) | 7,215 | 218 | 78,842 |
| Balance at 1 January 2017 | 372 | 7,494 | 74,932 | (384) | 5,870 | 137 | 88,421 |
| Total comprehensive income for the period | | | | | | | |
| Profit/(loss) for the period | - | - | 13,734 | - | - | (2) | 13,732 |
| Foreign currency translation difference | - | - | - | - | (429) | - | (429) |
| | - | - | 13,734 | - | (429) | (2) | 13,303 |
| Transactions with owners recognised directly in equity | | | | | | | |
| Dividends accrued | - | - | (8,936) | - | - | (5) | (8,941) |
| | - | - | (8,936) | - | - | (5) | (8,941) |
| Balance at 30 June 2017 | 372 | 7,494 | 79,730 | (384) | 5,441 | 130 | 92,783 |

1 BACKGROUND

(a) Organisation and operations

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

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

(b) Russian business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial conditions of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated interim condensed financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 BASIS OF PREPARATION

(a) Statement of compliance

The International Financial Reporting Standards (“IFRS”) consolidated interim condensed financial statements (“consolidated interim condensed financial statements”) of the Group have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The Group additionally prepared IFRS consolidated interim condensed financial statements in the Russian language in accordance with the Federal Law No. 208-FZ *On consolidated financial reporting* dated 27 July 2010.

These consolidated interim condensed financial statements do not contain all the information required for presentation in a complete set of IFRS financial statements and therefore should be read in conjunction with PhosAgro’s consolidated annual financial statements for the year ended 31 December 2016.

Except as disclosed in note 2(d), the accounting policies and judgements applied by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2016.

(b) Functional currency

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

(c) Presentation currency

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

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

- Assets and liabilities as at 30 June 2017 were translated at the closing exchange rate of RUB 59.0855 for USD 1 (31 December 2016: RUB 60.6569 for USD 1);
- Profit and loss items were translated at the average exchange rate for the six months ended 30 June 2017 of RUB 57.9862 for USD 1 (six months ended 30 June 2016: RUB 70.2583 for USD 1);
- Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction;
- The resulting foreign exchange difference is recognised in other comprehensive income.

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

- Assets and liabilities as at 30 June 2017 were translated at the closing exchange rate of RUB 67.4993 for EUR 1 (31 December 2016: RUB 63.8111 for EUR 1);
- Profit and loss items were translated at the average exchange rate for the six months ended 30 June 2017 of RUB 62.7187 for EUR 1 (six months ended 30 June 2016: RUB 78.3415 for EUR 1);
- Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction;
- The resulting foreign exchange difference is recognised in other comprehensive income.

(d) Adoption of new and revised standards and interpretations

A number of amendments to standards became effective for the Group from 1 January 2017. The adoption of the amendments did not have a significant effect on these consolidated interim condensed financial statements. In accordance with the amendments to IAS 7 *Statement of Cash Flows*, changes in liabilities arising from financing activities for the reporting period were disclosed in note 19.

A number of new standards, amendments to standards and interpretations are not yet effective at 30 June 2017, and have not been early adopted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements in future periods.

3 SEGMENT INFORMATION

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

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

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

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

Business segment information as at 30 June 2017 and for the six months then ended is as follows:

RUB million

| | Phosphate-based products | Nitrogen-based products | Other operations | Total |
|--|--------------------------|-------------------------|------------------|----------------|
| <i>Segment revenue and profitability</i> | | | | |
| Segment external revenues, thereof: | 77,395 | 11,476 | 250 | 89,121 |
| Export | 51,391 | 7,132 | - | 58,523 |
| Domestic | 26,004 | 4,344 | 250 | 30,598 |
| Cost of goods sold | (42,349) | (7,010) | (226) | (49,585) |
| Gross segment profit | <u>35,046</u> | <u>4,466</u> | <u>24</u> | <u>39,536</u> |
| <i>Certain items of profit and loss</i> | | | | |
| Amortisation and depreciation | (5,107) | (1,271) | (193) | (6,571) |
| Total non-current segment assets | <u>95,178</u> | <u>63,534</u> | <u>3,779</u> | <u>162,491</u> |
| Additions to non-current assets | <u>9,580</u> | <u>3,588</u> | <u>299</u> | <u>13,467</u> |

Business segment information of the Group as at 31 December 2016 and for the six months ended 30 June 2016 is as follows:

RUB million

| | Phosphate-based products | Nitrogen-based products | Other operations | Total |
|--|--------------------------|-------------------------|------------------|----------------|
| <i>Segment revenue and profitability</i> | | | | |
| Segment external revenues, thereof: | 90,529 | 11,207 | 313 | 102,049 |
| Export | 61,852 | 8,010 | - | 69,862 |
| Domestic | 28,677 | 3,197 | 313 | 32,187 |
| Cost of goods sold | (40,414) | (5,631) | (281) | (46,326) |
| Gross segment profit | <u>50,115</u> | <u>5,576</u> | <u>32</u> | <u>55,723</u> |
| <i>Certain items of profit and loss</i> | | | | |
| Amortisation and depreciation | (3,833) | (1,040) | (174) | (5,047) |
| Total non-current segment assets | <u>91,880</u> | <u>60,240</u> | <u>3,758</u> | <u>155,878</u> |
| Additions to non-current assets | <u>10,427</u> | <u>9,164</u> | <u>133</u> | <u>19,724</u> |

The analysis of export revenue by regions is as follows:

| | Six months ended 30 June | |
|-------------------------|--------------------------|---------------------|
| | 2017 RUB million | 2016 RUB million |
| North and South America | 21,119 | 18,705 |
| Europe | 18,750 | 26,215 |
| CIS | 8,240 | 6,518 |
| Asia | 6,730 | 7,475 |
| Africa | 2,528 | 4,249 |
| India | 1,153 | 6,700 |
| Australia | 3 | - |
| | <u>58,523</u> | <u>69,862</u> |

4 REVENUES

| | Six months ended 30 June | | Three months ended 30 June | |
|----------------------------------|--------------------------|----------------|----------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| | RUB million | RUB million | RUB million | RUB million |
| Sales of chemical fertilisers | 71,088 | 78,941 | 36,307 | 35,568 |
| Sales of apatite concentrate | 10,795 | 14,146 | 5,045 | 6,288 |
| Sales of sodium tripolyphosphate | 1,408 | 3,046 | 805 | 1,507 |
| Sales of nepheline concentrate | 362 | 414 | 198 | 228 |
| Sales of ammonium | 56 | 40 | 42 | 19 |
| Other sales | 5,412 | 5,462 | 2,326 | 2,366 |
| | 89,121 | 102,049 | 44,723 | 45,976 |

5 COST OF SALES

| | Six months ended 30 June | | Three months ended 30 June | |
|--|--------------------------|-----------------|----------------------------|-----------------|
| | 2017 | 2016 | 2017 | 2016 |
| | RUB million | RUB million | RUB million | RUB million |
| Materials and services | (14,771) | (12,614) | (7,970) | (6,552) |
| Depreciation | (5,873) | (4,434) | (3,072) | (2,169) |
| Salaries and social contributions | (5,458) | (5,764) | (2,715) | (3,082) |
| Ammonia | (4,419) | (3,456) | (2,157) | (1,415) |
| Natural gas | (4,083) | (4,104) | (1,993) | (1,996) |
| Potash | (3,928) | (3,664) | (2,360) | (1,848) |
| Sulphur and sulphuric acid | (2,808) | (3,847) | (1,577) | (1,457) |
| Chemical fertilisers and other products for resale | (2,679) | (2,800) | (996) | (1,201) |
| Electricity | (2,659) | (2,159) | (1,332) | (1,057) |
| Fuel | (1,541) | (1,134) | (746) | (508) |
| Ammonium sulphate | (1,075) | (1,329) | (275) | (515) |
| Heating energy | (405) | (386) | (160) | (121) |
| Other items | (2) | (9) | (1) | (7) |
| Change in work-in-progress and finished goods | 116 | (626) | 186 | (407) |
| | (49,585) | (46,326) | (25,168) | (22,335) |

6 ADMINISTRATIVE EXPENSES

| | Six months ended 30 June | | Three months ended 30 June | |
|-----------------------------------|--------------------------|----------------|----------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| | RUB million | RUB million | RUB million | RUB million |
| Salaries and social contributions | (4,445) | (4,041) | (1,964) | (2,376) |
| Professional services | (811) | (717) | (399) | (371) |
| Depreciation and amortisation | (387) | (351) | (201) | (188) |
| Other | (1,568) | (1,491) | (852) | (762) |
| | (7,211) | (6,600) | (3,416) | (3,697) |

7 SELLING EXPENSES

| | Six months ended 30 June | | Three months ended 30 June | |
|--|--------------------------|-----------------|----------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| | RUB million | RUB million | RUB million | RUB million |
| Freight, port and stevedoring expenses | (5,318) | (4,994) | (2,822) | (2,250) |
| Russian Railways infrastructure tariff and operators' fees | (4,818) | (3,949) | (2,438) | (1,856) |
| Materials and services | (890) | (835) | (485) | (393) |
| Depreciation | (311) | (262) | (181) | (130) |
| Salaries and social contributions | (205) | (149) | (119) | (59) |
| | (11,542) | (10,189) | (6,045) | (4,688) |

8 OTHER EXPENSES, NET

| | Six months ended 30 June | | Three months ended 30 June | |
|---|--------------------------|----------------|----------------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| | RUB million | RUB million | RUB million | RUB million |
| Social expenditures | (1,018) | (946) | (560) | (611) |
| Loss on disposal of property, plant and equipment and intangible assets | (754) | (285) | (179) | (176) |
| Increase in provision for bad debt | (50) | (65) | (7) | (26) |
| Decrease/(increase) in provision for inventory obsolescence | 32 | (107) | (8) | (122) |
| Other income, net | 553 | 49 | 21 | 53 |
| | (1,237) | (1,354) | (733) | (882) |

9 FINANCE INCOME AND FINANCE COSTS

| | Six months ended 30 June | | Three months ended 30 June | |
|--|--------------------------|----------------|----------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| | RUB million | RUB million | RUB million | RUB million |
| Interest income | 126 | 231 | 62 | 109 |
| Gain from operations with derivative financial instruments | - | 111 | - | 68 |
| Unwind of discount of financial assets | 51 | 51 | 13 | 23 |
| Other finance income | 84 | 79 | 37 | 108 |
| Finance income | 261 | 472 | 112 | 308 |
| Interest expense | (2,058) | (2,425) | (1,095) | (1,128) |
| Bank fees | (105) | (131) | (58) | (71) |
| Discount of financial assets | (53) | - | (53) | - |
| Other finance costs | (8) | - | - | - |
| Finance costs | (2,224) | (2,556) | (1,206) | (1,199) |
| Net finance costs | (1,963) | (2,084) | (1,094) | (891) |

10 INCOME TAX EXPENSE

The Company's applicable corporate income tax rate is 20% (six months ended 30 June 2016: 20%).

| | Six months ended 30 June | | Three months ended 30 June | |
|--|--------------------------|----------------|----------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| | RUB million | RUB million | RUB million | RUB million |
| Current tax expense | (3,694) | (8,811) | (1,290) | (3,484) |
| Origination and reversal of temporary differences, including change in unrecognised assets | (1,091) | (843) | (319) | (411) |
| | (4,785) | (9,654) | (1,609) | (3,895) |

Reconciliation of effective tax rate:

| | Six months ended 30 June | | | |
|---|--------------------------|-------------|----------------|-------------|
| | 2017 | | 2016 | |
| | RUB million | % | RUB million | % |
| Profit before tax | 18,517 | 100 | 45,768 | 100 |
| Income tax at applicable tax rate | (3,703) | (20) | (9,154) | (20) |
| Effect of tax rates in foreign jurisdictions | 22 | - | 44 | - |
| Under provided in respect of prior years | (3) | - | (15) | - |
| Unrecognised tax liability on profit from associates | 25 | - | 13 | - |
| Non-deductible items | (413) | (2) | (538) | (1) |
| Change in unrecognised deferred tax assets | 16 | - | (4) | - |
| Reduction in tax rate | 94 | 1 | - | - |
| Recognition of previously unrecognised deferred tax liabilities | (823) | (4) | - | - |
| | (4,785) | (26) | (9,654) | (21) |

11 PROPERTY, PLANT AND EQUIPMENT

| <i>RUB million</i> | Land and buildings | Plant and equipment | Fixtures and fittings | Construction in progress | Total |
|----------------------------------|-----------------------|------------------------|--------------------------|-----------------------------|----------------|
| Net book value at 1 January 2016 | 22,898 | 37,052 | 2,502 | 58,500 | 120,952 |
| Additions | - | 377 | 423 | 18,924 | 19,724 |
| Transfers | 3,076 | 3,643 | - | (6,719) | - |
| Disposals | (174) | (172) | (10) | (107) | (463) |
| Depreciation | (811) | (3,706) | (490) | - | (5,007) |
| Net book value at 30 June 2016 | 24,989 | 37,194 | 2,425 | 70,598 | 135,206 |
| Net book value at 1 January 2017 | 35,242 | 39,997 | 3,151 | 76,323 | 154,713 |
| Additions | 751 | 373 | 530 | 11,813 | 13,467 |
| Transfers | 1,951 | 9,093 | - | (11,044) | - |
| Disposals | (42) | (544) | (7) | (230) | (823) |
| Depreciation | (1,430) | (4,494) | (599) | - | (6,523) |
| Net book value at 30 June 2017 | 36,472 | 44,425 | 3,075 | 76,862 | 160,834 |

As at 30 June 2017, the balance of the construction in progress account includes the accumulated costs related to the construction of ammonia plant in the amount of RUB 33,995 million and urea plant in the amount of RUB 14,605 million in Cherepovets, as well as underground mine extension in the amount of RUB 7,621 million, the development of Rasvumchorrskiy mine in the amount of RUB 4,017 million and the construction of apatit-nepheline beneficiation plant in the amount of RUB 4,370 million in Kirovsk.

12 INVESTMENTS IN ASSOCIATES

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

| | 2017 RUB million | 2016 RUB million |
|---|---------------------|---------------------|
| Balance at 1 January | 816 | 810 |
| Share in profit for the period | 151 | 65 |
| Foreign currency translation difference | (82) | (40) |
| Dividends accrued | (110) | - |
| Balance at 30 June | 775 | 835 |

13 OTHER NON-CURRENT ASSETS

| | 30 June 2017 RUB million | 31 December 2016 RUB million |
|--|-----------------------------|---------------------------------|
| Financial assets available-for-sale, at cost | 595 | 595 |
| Loans issued to third parties, at amortised cost | 259 | 266 |
| Loans issued to related parties, at amortised cost | 211 | 330 |
| Financial assets available-for-sale, at fair value | 117 | 138 |
| Loans issued to employees, at amortised cost | 73 | 103 |
| Loans issued to associates, at amortised cost | - | 40 |
| Other long-term assets | 947 | 754 |
| | 2,202 | 2,226 |

14 OTHER CURRENT INVESTMENTS

| | 30 June 2017 RUB million | 31 December 2016 RUB million |
|--|-----------------------------|---------------------------------|
| Investments in debt securities, at amortised cost | 4,535 | 4,656 |
| Loans issued to third parties, at amortised cost | 236 | 162 |
| Loans issued to related parties, at amortised cost | 211 | 218 |
| Loans issued to associates, at amortised cost | 60 | - |
| Loans issued to employees, at amortised cost | 47 | 115 |
| Interest receivable | 40 | 35 |
| Financial assets available-for-sale, at fair value | - | 424 |
| Provision for doubtful accounts | (2,270) | (2,328) |
| | 2,859 | 3,282 |

15 INVENTORIES

| | 30 June 2017 RUB million | 31 December 2016 RUB million |
|--|-----------------------------|---------------------------------|
| Raw materials and spare parts | 11,054 | 7,586 |
| <i>Finished goods:</i> | | |
| Chemical fertilisers | 8,571 | 8,274 |
| Apatite concentrate | 121 | 219 |
| <i>Work-in-progress:</i> | | |
| Chemical fertilisers and other products | 1,731 | 1,296 |
| Apatite-nepheline ore | 907 | 1,329 |
| Chemical fertilisers and other products for resale, purchased from the third parties | 559 | 1,238 |
| Other goods for resale | 77 | 173 |
| Provision for obsolescence | (149) | (181) |
| | 22,871 | 19,934 |

16 TRADE AND OTHER RECEIVABLES

| | 30 June 2017 RUB million | 31 December 2016 RUB million |
|--------------------------------------|-----------------------------|---------------------------------|
| Trade accounts receivable | 11,668 | 12,770 |
| Other taxes receivable | 9,617 | 11,932 |
| Advances issued | 5,153 | 4,693 |
| Income tax receivable | 1,559 | 339 |
| Deferred expenses | 184 | 229 |
| Dividends receivable from associates | 110 | - |
| Receivables from employees | 32 | 36 |
| Other receivables | 1,012 | 513 |
| Provision for doubtful accounts | (440) | (499) |
| | 28,895 | 30,013 |

The movements in provision for doubtful accounts are as follows:

| | 2017 RUB million | 2016 RUB million |
|---|---------------------|---------------------|
| Balance at 1 January | (499) | (527) |
| Foreign currency translation difference | 9 | 48 |
| Written off provision through trade receivables | 100 | - |
| Increase in provision for bad debt | (50) | (65) |
| Balance at 30 June | (440) | (544) |

17 EQUITY**Dividends**

| Proposed by the Board of Directors in | Approved by shareholders in | Amount per share RUB | Amount of dividends RUB million |
|--|--------------------------------|-------------------------|------------------------------------|
| Total dividends approved during the reporting period | | | |
| November 2016 | January 2017 | 39 | 5,051 |
| March 2017 | May 2017 | 30 | 3,885 |
| | | | 8,936 |
| Total dividends approved subsequent to the reporting date | | | |
| May 2017 | July 2017 | 21 | 2,720 |
| August 2017 | October 2017 | 24 | 3,108 |
| | | | 5,828 |

18 EARNINGS PER SHARE

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

| | Six months ended 30 June | | Three months ended 30 June | |
|---|--------------------------|-------------|----------------------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| Weighted average number of ordinary shares in issue | 129,500,000 | 129,500,000 | 129,500,000 | 129,500,000 |
| Profit for the period attributable to shareholders of the Parent, RUB million | 13,734 | 36,109 | 1,474 | 13,485 |
| Basic and diluted earnings per share, RUB | 106 | 279 | 11 | 104 |

19 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings.

| | 30 June 2017 RUB million | 31 December 2016 RUB million |
|---|-----------------------------|---------------------------------|
| Current loans and borrowings: | | |
| Loan participation notes ¹ | 29,532 | - |
| Unsecured bank loans | 8,564 | 10,418 |
| Unsecured letters of credit issued by banks | 425 | 1,278 |
| Unsecured loans from other companies | 5 | 9 |
| Interest payable | 886 | 752 |
| | 39,412 | 12,457 |
| Non-current loans and borrowings: | | |
| Unsecured bank loans | 46,745 | 65,002 |
| Loan participation notes ² | 29,446 | 30,308 |
| Unsecured letters of credit issued by banks | 1,195 | 485 |
| Unsecured loans from other companies | - | 614 |
| | 77,386 | 96,409 |
| | 116,798 | 108,866 |

¹ In February 2013, the Company's SPV issued a USD 500 million 5-year Eurobond with a coupon rate of 4.204%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB 30,360 million (31 December 2016: RUB 31,337 million).

² In May 2017, the Company's SPV issued a USD 500 million 4.5-year Eurobond with a coupon rate of 3.95%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB 29,921 million.

Management believes that except for Eurobonds the fair value of the Group's loans and borrowings approximates their carrying amounts.

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

| | 30 June 2017 RUB million | 31 December 2016 RUB million |
|-----------------|-----------------------------|---------------------------------|
| USD-denominated | 101,764 | 95,193 |
| RUB-denominated | 9,098 | 7,018 |
| EUR-denominated | 5,936 | 6,655 |
| | 116,798 | 108,866 |

The maturity of the loans and borrowings is as follows:

| | 30 June 2017 RUB million | 31 December 2016 RUB million |
|-------------------|-----------------------------|---------------------------------|
| Less than 1 year | 39,412 | 12,457 |
| 1-2 years | 12,209 | 47,336 |
| 2-3 years | 12,489 | 20,339 |
| 3-4 years | 5,161 | 12,654 |
| 4-5 years | 33,638 | 2,305 |
| More than 5 years | 13,889 | 13,775 |
| | 116,798 | 108,866 |

Reconciliation of liabilities arising from financing activities:

| | 31 December 2016 RUB million | Cash inflows RUB million | Cash outflows RUB million | Foreign exchange gain RUB million | Foreign currency translation RUB million | 30 June 2017 RUB million |
|--|------------------------------------|--------------------------------|---------------------------------|--|---|-----------------------------|
| Loans and borrowings (excluding interest payable) | 108,114 | 51,546 | (42,017) | (1,614) | (117) | 115,912 |
| Finance lease liabilities | 3,510 | - | (730) | (163) | - | 2,617 |
| | 111,624 | 51,546 | (42,747) | (1,777) | (117) | 118,529 |

20 TRADE AND OTHER PAYABLES

| | 30 June 2017 RUB million | 31 December 2016 RUB million |
|--|-----------------------------|---------------------------------|
| Advances received | 4,859 | 5,203 |
| Payables for property, plant and equipment and intangible assets | 4,783 | 6,060 |
| Trade accounts payable | 4,087 | 5,574 |
| Other taxes payable | 2,983 | 3,409 |
| Payables to employees | 1,719 | 1,167 |
| Accruals | 1,547 | 1,231 |
| Income tax payable | 90 | 237 |
| Other payables | 672 | 159 |
| | 20,740 | 23,040 |

21 COMMITMENTS

The Group has entered into contracts to purchase plant and equipment for RUB 19,092 million (31 December 2016: RUB 16,609 million).

22 RELATED PARTY TRANSACTIONS**(a) Transactions and balances with associates****(i) Transactions with associates**

| | Six months ended 30 June | |
|---------------------------------|--------------------------|-------------|
| | 2017 | 2016 |
| | RUB million | RUB million |
| Sales of goods and services | 4,701 | 3,020 |
| Dividend income | 110 | - |
| Interest income | 5 | 5 |
| Purchases of goods and services | (204) | (165) |

(ii) Balances with associates

| | 30 June 2017 | 31 December 2016 |
|--|--------------|------------------|
| | RUB million | RUB million |
| Trade and other receivables | 1,093 | 968 |
| Dividends receivable | 110 | - |
| Short-term loans issued, at amortised cost | 60 | - |
| Long-term loans issued, at amortised cost | - | 40 |
| Trade and other payables | (44) | (30) |

(iii) Financial guarantees

The Group issued financial guarantees to banks to secure associates' loans amounting to RUB 1,458 million (31 December 2016: RUB 1,580 million).

(b) Transactions and balances with other related parties**(i) Transactions with other related parties**

| | Six months ended 30 June | |
|---------------------------------|--------------------------|-------------|
| | 2017 | 2016 |
| | RUB million | RUB million |
| Sales of goods and services | 266 | 697 |
| Interest income | 17 | 23 |
| Purchases of goods and services | (922) | (379) |

(ii) Balances with other related parties

| | 30 June 2017 | 31 December 2016 |
|--|--------------|------------------|
| | RUB million | RUB million |
| Short-term loans issued, at amortised cost | 211 | 218 |
| Long-term loans issued, at amortised cost | 211 | 330 |
| Trade and other receivables | 70 | 2 |
| Trade and other payables | (280) | (115) |

(iii) Financial guarantees

The Group issued financial guarantees to banks to secure related parties' loans amounting to RUB 73 million (31 December 2016: RUB 87 million).

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

23 FOREIGN CURRENCY RISK

The Group's net monetary position on balances denominated in foreign currencies other than respective functional currencies is as follows:

| | 30 June 2017 | 31 December 2016 |
|---------------------------------|------------------|------------------|
| | RUB million | RUB million |
| USD-denominated net liabilities | (101,737) | (95,181) |
| EUR-denominated net liabilities | (7,208) | (7,370) |
| RUB-denominated net liabilities | (2,078) | (3,007) |
| | (111,023) | (105,558) |

The foreign exchange gain recognised in profit or loss of RUB 2,013 million (RUB 11,279 million for the comparative period) resulted from the appreciation of the Russian Rouble against major currencies during the reporting and the comparative periods.

In addition, the net assets of the Group's foreign subsidiaries denominated in USD amount to RUB 12,229 million as at the reporting date (31 December 2016: RUB 12,454 million).

24 SEASONALITY

The Group is subject to certain seasonal fluctuations in fertiliser demand due to the timing of fertiliser application and, as a result, fertiliser purchases by farmers. However, the effect of seasonality on the Group's revenue is partially offset by the fact that the Group sells its fertilisers globally and fertiliser application and purchases vary by region. In particular, purchases of fertilisers by farmers in Russia generally peak in the third quarter. This normally results in the Group having somewhat higher revenue in the third quarter as compared to the other quarters. However, fertiliser demand from other regions tends to peak in other periods of the year (for example, fertiliser demand from Europe and North America generally peaks in the first and third quarters, demand in South America generally peaks in the second and third quarters).

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