



OJSC “PhosAgro”

**Consolidated Interim Condensed
Financial Statements
for the six months ended
30 June 2014 (unaudited)**

Contents

Auditors’ Report on Review of Consolidated Interim Condensed Financial Information	3
Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income	4
Consolidated Interim Condensed Statement of Financial Position	5
Consolidated Interim Condensed Statement of Cash Flows	6
Consolidated Interim Condensed Statement of Changes in Equity	7
Notes to the Consolidated Interim Condensed Financial Statements	8



ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors

OJSC "PhosAgro"

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OJSC "PhosAgro" (the "Company") and its subsidiaries (the "Group") as at 30 June 2014, 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.

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 2014, 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*.



Romanenko A.M.

Director, (power of attorney dated 1 October 2013 No. 84/13)

ZAO KPMG

20 August 2014

Moscow, Russian Federation

Audited entity: OJSC "PhosAgro"

Registered by the State Registration Chamber with the Russian Ministry of Justice on 10 October 2001. Registration No. P-18009.16.

Entered in the Unified State Register of Legal Entities on 5 September 2002 by the Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700190572, Certificate series 77 No. 005082819.

55/1 building 1, Leninsky prospekt, Moscow, Russian Federation, 119333

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

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

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

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

OJSC "PhosAgro"
Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income
for the six months ended 30 June 2014 (unaudited)

		Six months ended 30 June		Three months ended 30 June	
		2014	2013*	2014	2013*
	Note	RUB Million	RUB Million	RUB Million	RUB Million
Continuing operations					
Revenues	6	56,702	53,715	27,286	24,813
Cost of sales	7	(33,533)	(34,217)	(16,090)	(15,599)
Gross profit		23,169	19,498	11,196	9,214
Administrative expenses	8	(3,955)	(3,839)	(1,982)	(2,006)
Selling expenses	9	(5,423)	(3,908)	(2,693)	(1,802)
Taxes, other than income tax		(996)	(1,082)	(511)	(584)
Other expenses, net	10	(590)	(623)	(409)	(468)
Operating profit		12,205	10,046	5,601	4,354
Finance income	11	514	533	522	329
Finance costs	11	(1,269)	(1,184)	(718)	(619)
Foreign exchange (loss)/gain		(1,090)	(2,759)	2,682	(1,730)
Share of profit of associates	14	71	182	67	-
Restructuring costs		(46)	(442)	(46)	(418)
Profit before tax		10,385	6,376	8,108	1,916
Income tax expense	12	(2,288)	(1,889)	(1,920)	(809)
Profit from continuing operations		8,097	4,487	6,188	1,107
Discontinued operations					
Profit from discontinued operations, net of tax	5	-	283	-	372
Profit for the period		8,097	4,770	6,188	1,479
Attributable to:					
Non-controlling interests ^		264	551	212	90
Shareholders of the Parent		7,833	4,219	5,976	1,389
Other comprehensive income					
Actuarial gains and losses, net of tax		(76)	(68)	(11)	(8)
Foreign currency translation difference		173	142	(467)	48
Other comprehensive income for the period		97	74	(478)	40
Total comprehensive income for the period		8,194	4,844	5,710	1,519
Attributable to:					
Non-controlling interests ^		263	545	213	91
Shareholders of the Parent		7,931	4,299	5,497	1,428
Basic and diluted earnings per share (in RUB)	20	60	33	46	11

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

* comparative information has been re-presented, see note 3

The consolidated interim condensed financial statements were approved on 20 August 2014:

Chief executive officer
Guryev A. A.

Chief accountant
Valenkova E.V.

OJSC “PhosAgro”
Consolidated Interim Condensed Statement of Financial Position
as at 30 June 2014 (unaudited)

	Note	30 June 2014 RUB million	31 December 2013 RUB million
Assets			
Property, plant and equipment	13	78,391	75,928
Intangible assets		515	623
Investments in associates	14	8,754	8,485
Deferred tax assets		1,715	1,806
Other non-current assets	15	5,586	4,383
Non-current assets		94,961	91,225
Other current investments	16	1,611	1,585
Derivative financial assets		6	79
Inventories	17	11,501	12,293
Current income tax receivable		884	668
Trade and other receivables	18	12,155	11,464
Cash and cash equivalents		14,869	8,938
Current assets		41,026	35,027
Total assets		135,987	126,252
Equity	19		
Share capital		372	372
Share premium		7,494	7,494
Retained earnings		50,540	48,556
Other reserves		(18)	(116)
Equity attributable to shareholders of the Parent		58,388	56,306
Equity attributable to non-controlling interests		612	3,020
Total equity		59,000	59,326
Liabilities			
Loans and borrowings	21	48,743	39,550
Defined benefit obligations		1,010	971
Deferred tax liabilities		3,675	3,304
Non-current liabilities		53,428	43,825
Trade and other payables	22	10,776	9,377
Current income tax payable		768	518
Loans and borrowings	21	11,747	13,206
Derivative financial liabilities		2	-
Other current liabilities		266	-
Current liabilities		23,559	23,101
Total equity and liabilities		135,987	126,252

OJSC "PhosAgro"
Consolidated Interim Condensed Statement of Cash Flows
for the six months ended 30 June 2014 (unaudited)

		Six months ended 30 June	
		2014	2013
	Note	RUB million	RUB million
Cash flows from operating activities			
Profit before tax from continuing operations		10,385	6,376
<i>Adjustments for:</i>			
Depreciation and amortisation	7, 8, 9	4,014	3,803
Loss on disposal of fixed assets	10	62	41
Finance costs	11	1,269	1,184
Finance income	11	(514)	(533)
Share of profit of associates	14	(71)	(182)
Foreign exchange loss		1,245	3,468
Operating profit before changes in working capital and provisions		16,390	14,157
Decrease/(increase) in inventories		926	(573)
Increase in trade and other receivables		(261)	(97)
(Decrease)/increase in trade and other payables		(937)	3,429
Cash flows from operations before income taxes and interest paid		16,118	16,916
Income tax paid		(1,786)	(1,789)
Finance costs paid		(924)	(734)
Cash flows from operating activities		13,408	14,393
Cash flows from investing activities			
Loans (issued)/repaid, net		(500)	554
Acquisition of intangible assets		(50)	(55)
Acquisition of property, plant and equipment		(7,117)	(7,122)
Proceeds from disposal of property, plant and equipment		224	137
Disposal/(acquisition) of investments, net		223	(55)
Finance income received		390	619
Cash flows used in investing activities		(6,830)	(5,922)
Cash flows from financing activities			
Proceeds from issuance of additional shares		-	6,407
Proceeds from borrowings		21,224	24,395
Repayment of borrowings		(14,324)	(16,901)
Acquisition of non-controlling interests	19	(5,702)	(7,876)
Tax on intra-group dividends		(247)	-
Dividends paid to non-controlling interests		-	(4)
Dividends paid to shareholders of the Parent	19	(461)	(4,439)
Finance leases paid		(656)	(904)
Cash flows (used in)/from financing activities		(166)	678
Net increase in cash and cash equivalents		6,412	9,149
Cash and cash equivalents at 1 January		8,938	9,664
Effect of exchange rates fluctuations		(481)	244
Cash and cash equivalents at 30 June		14,869	19,057

RUB Million

	Attributable to shareholders of the Parent							Total
	Share capital	Share premium	Retained earnings	Available-for-sale investments revaluation reserve	Actuarial gains and losses recognised in equity	Foreign currency translation reserve	Attributable to non-controlling interests	
Balance at 1 January 2013	360	1,099	48,294	(23)	(347)	103	12,389	61,875
Total comprehensive income for the period								
Profit for the period	-	-	4,219	-	-	-	551	4,770
Actuarial gains and losses, net of tax	-	-	-	-	(62)	-	(6)	(68)
Foreign currency translation difference	-	-	-	-	-	142	-	142
	-	-	4,219	-	(62)	142	545	4,844
Transactions with owners recognised directly in equity								
Acquisition of non-controlling interest in subsidiaries	-	-	(2,281)	-	-	-	(6,607)	(8,888)
Issuance of new ordinary shares	12	6,395	-	-	-	-	-	6,407
Dividends to shareholders of the Parent	-	-	(2,577)	-	-	-	-	(2,577)
Dividends to non-controlling interests	-	-	-	-	-	-	(2)	(2)
	12	6,395	(4,858)	-	-	-	(6,609)	(5,060)
Balance at 30 June 2013	372	7,494	47,655	(23)	(409)	245	6,325	61,659
Balance at 1 January 2014	372	7,494	48,556	(23)	(443)	350	3,020	59,326
Total comprehensive income for the period								
Profit for the period	-	-	7,833	-	-	-	264	8,097
Reclassification of non-controlling interests reflected as liability	-	-	-	-	-	-	(72)	(72)
Actuarial gains and losses, net of tax	-	-	-	-	(75)	-	(1)	(76)
Foreign currency translation difference	-	-	-	-	-	173	-	173
	-	-	7,833	-	(75)	173	191	8,122
Transactions with owners recognised directly in equity								
Acquisition of non-controlling interest in subsidiaries, note 19	-	-	(3,103)	-	-	-	(2,599)	(5,702)
Dividends to shareholders of the Parent, note 19	-	-	(2,499)	-	-	-	-	(2,499)
Tax on intra-group dividends	-	-	(247)	-	-	-	-	(247)
	-	-	(5,849)	-	-	-	(2,599)	(8,448)
Balance at 30 June 2014	372	7,494	50,540	(23)	(518)	523	612	59,000

1 BACKGROUND

(a) Organisation and operations

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

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*.

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 2013.

Except as disclosed in note 2(c), 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 2013.

(b) Functional and presentation currencies

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. All financial information presented in RUB has been rounded to the nearest million, except per share amounts.

These consolidated interim condensed financial statements are presented in RUB.

(c) Adoption of new and revised standards and interpretations

The following new standards and amendments became effective for the Group from 1 January 2014:

- Amended IAS 32 *Financial Instruments: Presentation* provides clarifications on the application of the offsetting rules of financial instruments. Amended IAS 32 did not have a significant effect on the Group’s consolidated interim condensed financial statements.
- Amended IAS 36 *Impairment of assets* has been issued to reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments to be applied retrospectively. Amended IAS 36 did not have a significant effect on the Group’s consolidated interim condensed financial statements.

- Amended IFRS 10 *Consolidated Financial Statements* provides investment entities an exemption from the consolidation of particular subsidiaries and instead requires that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*. Amended IFRS 10 did not have a significant effect on the Group's consolidated interim condensed financial statements.
- Amended IFRS 12 *Disclosure of Interests in Other Entities* requires additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries. Amended IFRS 12 did not have a significant effect on the Group's consolidated interim condensed financial statements.
- IFRIC 21 *Levies* provides guidance on determining the obligation event that gives rise to a liability in connection with a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. IFRIC 21 did not have a significant effect on the Group's consolidated interim condensed financial statements.

The adoption of the amendments to existing standards did not have significant impact on these consolidated interim condensed financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective at 30 June 2014, and have not been early adopted.

The Group does not expect the amendments to have significant impact on the consolidated interim condensed financial statements.

3 PRIOR YEAR ADJUSTMENTS AND RECLASSIFICATIONS

During the current period the Group made a decision to make certain reclassifications of expenses for the six months ended 30 June 2013 on materials and services, depreciation, amortisation, salaries and social contributions between cost of sales, administrative expenses, and restructuring costs in order to align them with the current period's presentation:

Six months ended 30 June 2013			
	As previously presented	Reclassifications	As adjusted
	RUB Million	RUB Million	RUB Million
Cost of sales	(34,672)	455	(34,217)
Administrative expenses	(3,657)	(182)	(3,839)
Selling expenses	(4,077)	169	(3,908)
Restructuring costs	(46)	(396)	(442)

Three months ended 30 June 2013			
	As previously presented	Reclassifications	As adjusted
	RUB Million	RUB Million	RUB Million
Cost of sales	(16,023)	424	(15,599)
Administrative expenses	(1,913)	(93)	(2,006)
Selling expenses	(1,889)	87	(1,802)
Restructuring costs	(46)	(372)	(418)

4 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 tripoly phosphate 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" line. 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 2014 and for the six-month period then ended is as follows:

<i>RUB million</i>	Phosphate-based products	Nitrogen-based products	Other operations	Inter-segment elimination	Total
<i>Segment revenue and profitability</i>					
Segment external revenues, thereof:	48,267	8,093	342	-	56,702
Export	33,170	6,067	-	-	39,237
Domestic	15,097	2,026	342	-	17,465
Inter-segment transfers	-	8	-	(8)	-
Cost of goods sold	(29,138)	(5,004)	(308)	8	(34,442)
Gross segment profit	19,129	3,097	34	-	22,260
<i>Certain items of profit and loss</i>					
Amortisation and depreciation	(2,955)	(838)	(103)	-	(3,896)
Total non-current segment assets	53,382	14,510	2,241	-	70,133
Additions to non-current assets	5,173	1,165	266	-	6,604

Business segment information of the Group as at 31 December 2013 and for the six-month period ended 30 June 2013 is as follows:

<i>RUB million</i>	Phosphate-based products	Nitrogen-based products	Other operations	Inter-segment elimination	Total
<i>Segment revenue and profitability</i>					
Segment external revenues, thereof:	46,120	7,155	440	-	53,715
Export	31,477	5,237	-	-	36,714
Domestic	14,643	1,918	440	-	17,001
Inter-segment transfers	-	92	-	(92)	-
Cost of goods sold	(29,896)	(5,000)	(375)	92	(35,179)
Gross segment profit	16,224	2,247	65	-	18,536
<i>Certain items of profit and loss</i>					
Amortisation and depreciation	(2,762)	(889)	(96)	-	(3,747)
Total non-current segment assets	51,930	14,309	2,232	-	68,471
Additions to non-current assets	6,189	612	237	-	7,038

The analysis of export revenue by regions is as follows:

	Six months ended 30 June	
	2014	2013
	RUB million	RUB million
North and South America	19,715	11,396
Europe	11,549	10,583
CIS	2,952	3,496
Africa	2,419	4,077
Asia	1,928	6,666
India	483	495
Australia	191	1
	39,237	36,714

	Six months ended 30 June	
	2014	2013
	RUB million	RUB million
Total segment revenues	56,702	53,715
Consolidated revenues	56,702	53,715

Reconciliation with internal management reports:

	Six months ended 30 June	
	2014	2013
	RUB million	RUB million
Total segment gross profit	22,260	18,536
Difference in depreciation and amortisation	15	46
Difference in timing of expenses recognition	19	206
Reallocation of administrative expenses	9	(65)
Reallocation of selling expenses	(31)	303
Reallocation of other income	200	115
Reallocation of capitalised expenses	63	50
Elimination of unrealised profit	53	(280)
Recognition of finance lease	600	719
Other adjustments	(19)	(132)
Consolidated gross profit	23,169	19,498

	30 June 2014	31 December 2013
	RUB million	RUB million
Total non-current segment assets	70,133	68,471
Difference in the carrying value of the tangible assets	8,773	8,080
Consolidated non-current assets	78,906	76,551

5 DISPOSAL GROUP HELD FOR SALE

During 2013 the Group sold 100% stake in CJSC “Pikalevskaya soda” for the total consideration of RUB 376 million and part of manufacturing facilities within LLC “Metachem” for the total consideration of RUB 257 million.

Results of discontinued operations for the six months ended 30 June 2013 were as follows.

	RUB million
Revenues	1,770
Expenses	(1,440)
Results from operating activities	330
Income tax expense	(47)
Profit for the period	283

Cash flows from discontinued operations for the six months ended 30 June 2013 were as follows.

	RUB million
Net cash from operating activities	388
Net cash from financing activities	55
Net cash flows for the period	443

6 REVENUES

	Six months ended 30 June		Three months ended 30 June	
	2014	2013	2014	2013
	RUB million	RUB million	RUB million	RUB million
Sales of chemical fertilisers	44,242	40,922	21,278	18,538
Sales of apatite concentrate	7,629	8,606	3,467	4,144
Sales of sodium tripolyphosphate	2,139	1,651	1,179	723
Sales of nepheline concentrate	272	339	164	164
Sales of ammonium	103	50	89	21
Other sales	2,317	2,147	1,109	1,223
	56,702	53,715	27,286	24,813

7 COST OF SALES

	Six months ended 30 June		Three months ended 30 June	
	2014	2013	2014	2013
	RUB million	RUB million	RUB million	RUB million
Materials and services	(10,778)	(9,596)	(5,758)	(5,421)
Salaries and social contributions	(4,976)	(6,108)	(2,342)	(2,806)
Natural gas	(3,694)	(3,005)	(1,731)	(1,427)
Depreciation	(3,629)	(3,518)	(1,850)	(1,787)
Potash	(1,957)	(2,296)	(978)	(1,029)
Electricity	(1,782)	(1,735)	(887)	(832)
Sulphur and sulphuric acid	(1,719)	(1,879)	(983)	(988)
Ammonia	(1,599)	(2,898)	(776)	(1,291)
Fuel	(1,545)	(2,450)	(727)	(1,068)
Heating energy	(804)	(237)	(297)	(84)
Ammonium sulphate	(354)	(706)	(117)	(327)
Other items	(15)	(32)	(5)	(23)
Change in stock of WIP and finished goods	(681)	243	361	1,484
	(33,533)	(34,217)	(16,090)	(15,599)

8 ADMINISTRATIVE EXPENSES

	Six months ended 30 June		Three months ended 30 June	
	2014	2013	2014	2013
	RUB million	RUB million	RUB million	RUB million
Salaries and social contributions	(2,288)	(2,258)	(1,066)	(1,220)
Depreciation and amortisation	(332)	(248)	(152)	(110)
Professional services	(327)	(249)	(171)	(105)
Other	(1,008)	(1,084)	(593)	(571)
	(3,955)	(3,839)	(1,982)	(2,006)

9 SELLING EXPENSES

	Six months ended 30 June		Three months ended 30 June	
	2014	2013	2014	2013
	RUB million	RUB million	RUB million	RUB million
Russian Railways infrastructure tariff and operators' fees	(2,436)	(2,163)	(1,118)	(1,017)
Port and stevedoring expenses	(2,189)	(1,195)	(1,170)	(498)
Materials and services	(563)	(323)	(282)	(169)
Salaries and social contributions	(182)	(190)	(94)	(98)
Depreciation	(53)	(37)	(29)	(20)
	(5,423)	(3,908)	(2,693)	(1,802)

10 OTHER EXPENSES, NET

	Six months ended 30 June		Three months ended 30 June	
	2014	2013	2014	2013
	RUB million	RUB million	RUB million	RUB million
Social expenditures	(542)	(638)	(342)	(453)
Loss on disposal of fixed assets	(62)	(41)	(86)	(46)
Decrease/(increase) in provision for inventory obsolescence	26	(11)	12	(52)
(Increase)/decrease in provision for bad debt	(15)	-	(3)	27
Other income, net	3	67	10	56
	(590)	(623)	(409)	(468)

11 FINANCE INCOME AND FINANCE COSTS

	Six months ended 30 June		Three months ended 30 June	
	2014	2013	2014	2013
	RUB million	RUB million	RUB million	RUB million
Interest income	372	509	214	305
Dividend income	9	24	6	24
Gain from operations with derivative financial instruments	133	-	302	-
Finance income	514	533	522	329
Interest expense	(1,062)	(961)	(551)	(413)
Other finance costs	(207)	(189)	(167)	(189)
Loss from operations with derivative financial instruments	-	(34)	-	(17)
Finance costs	(1,269)	(1,184)	(718)	(619)
Net finance costs	(755)	(651)	(196)	(290)

12 INCOME TAX EXPENSE

The Company's applicable corporate income tax rate is 20% (six months ended 30 June 2013: 20%).

	Six months ended 30 June		Three months ended 30 June	
	2014	2013	2014	2013
	RUB million	RUB million	RUB million	RUB million
Current tax expense	(1,808)	(1,858)	(519)	(754)
Origination and reversal of temporary differences, including change in unrecognised assets	(480)	(31)	(1,401)	(55)
	(2,288)	(1,889)	(1,920)	(809)

Reconciliation of effective tax rate:

	Six months ended 30 June			
	2014		2013	
	RUB million	%	RUB million	%
Profit before tax from continuing operations	10,385	100	6,376	100
Income tax at applicable tax rate	(2,077)	(20)	(1,275)	(20)
Over provided in respect of prior years	16	-	-	-
Unrecognised tax liability on profit from associates	14	-	36	1
Correction of tax loss carry-forward	(330)	(3)	-	-
Non-deductible items	(64)	(1)	(161)	(3)
Change in unrecognised deferred tax assets	143	2	(489)	(8)
Effect of tax rates in foreign jurisdictions	10	-	-	-
	(2,288)	(22)	(1,889)	(30)

13 PROPERTY, PLANT AND EQUIPMENT

RUB million	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Net book value at 1 January 2013	16,002	30,268	1,578	18,545	66,393
Additions	100	1,363	357	6,188	8,008
Transfers	2,127	3,358	-	(5,485)	-
Disposals	(53)	(95)	(6)	(24)	(178)
Depreciation	(492)	(2,894)	(327)	-	(3,713)
Net book value at 30 June 2013	17,684	32,000	1,602	19,224	70,510
Net book value at 1 January 2014	18,017	31,488	1,584	24,839	75,928
Additions	31	325	453	5,795	6,604
Transfers	1,644	4,789	-	(6,433)	-
Disposals	(167)	(29)	(60)	(30)	(286)
Depreciation	(579)	(2,929)	(347)	-	(3,855)
Net book value at 30 June 2014	18,946	33,644	1,630	24,171	78,391

Security

Properties with a carrying amount of RUB 328 million (31 December 2013: RUB 599 million) are pledged to secure loans and borrowings, see note 21.

14 INVESTMENTS IN ASSOCIATES

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

	2014	2013
	RUB million	RUB million
Balance at 1 January	8,485	9,620
Share in profit for the period	71	182
Foreign currency translation difference	198	142
Balance at 30 June	8,754	9,944

15 OTHER NON-CURRENT ASSETS

	30 June 2014 RUB million	31 December 2013 RUB million
Advances issued for property, plant and equipment, at cost	3,582	2,864
Financial assets available-for-sale, at cost	638	627
Loans issued to third parties, at amortised cost	361	8
Loans issued to employees, at amortised cost	328	384
Loans issued to related parties, at amortised cost	264	48
Financial assets available-for-sale, at fair value	67	81
Finance lease receivable	10	74
Other long-term receivables	336	297
	5,586	4,383

16 OTHER CURRENT INVESTMENTS

	30 June 2014 RUB million	31 December 2013 RUB million
Investments in debt securities, at amortised cost	1,513	1,473
Loans issued to employees, at amortised cost	72	73
Loans issued to related parties, at amortised cost	16	17
Other loans issued, at amortised cost	10	22
	1,611	1,585

17 INVENTORIES

	30 June 2014 RUB million	31 December 2013 RUB million
Raw materials and spare parts	5,335	5,472
<i>Finished goods:</i>		
Chemical fertilisers	4,128	4,029
Apatite concentrate	257	239
<i>Work-in-progress</i>		
Apatite concentrate	779	608
Apatite-nepheline ore	719	1,260
Chemical fertilizers and other products	380	794
Other goods for resale	20	34
Provision for obsolescence	(117)	(143)
	11,501	12,293

18 TRADE AND OTHER RECEIVABLES

	30 June 2014 RUB million	31 December 2013 RUB million
Taxes receivable	5,138	5,063
Trade accounts receivable	4,840	4,175
Advances issued	2,131	2,172
Other receivables	285	250
Interest receivable	150	88
Deferred expenses	70	110
Receivables from employees	34	14
Finance lease receivable	11	49
Provision for doubtful accounts	(504)	(457)
	12,155	11,464

19 EQUITY

Dividends

In April 2014, the Board of Directors proposed paying a dividend of RUB 19.30 per ordinary share. The total amount of proposed dividends was RUB 2,499 million. In June 2014, the proposed dividend payout was approved by a meeting of shareholders.

Acquisition of non-controlling stakes in OJSC “PhosAgro-Cherepovets”

In February 2014, the Group launched a voluntary tender offer to acquire ordinary shares of OJSC “PhosAgro-Cherepovets”. The offered price, which was determined in accordance with the Russian law, is RUB 44.0 per ordinary share with a nominal value of RUB 1.10. For the purposes of the voluntary buyout the Group obtained a bank guarantee in the amount of RUB 10,800 million for the benefit of non-controlling interests. The offer period expired on 6 May 2014. As at 30 June 2014 holders of 10.39% of all issued shares of OJSC “PhosAgro-Cherepovets” (129,724,669 ordinary shares), accepted the Company’s voluntary tender offer. In May 2014, the legal title for the ordinary shares was transferred to the Group increasing its shareholding to 97.99%. The financial effect of this transaction is a decrease in non-controlling interests by RUB 2,599 million and a decrease in retained earnings by RUB 3,103 million.

In August 2014, the Group sent a compulsory share purchase notification (squeeze out) to OJSC “PhosAgro-Cherepovets” for the buyout of the ordinary shares belonging to OJSC “PhosAgro-Cherepovets” minority shareholders. The purchase price, which was determined in accordance with the Russian law, is RUB 44.0 per ordinary share with a nominal value of RUB 1.10. The Company plans to complete all procedures related to the squeeze out by the end of 2014.

Launching a new subsidiary LLC “Smart Bulk Terminal”

In February 2014, the Group jointly with “Ultramar” launched a new subsidiary LLC “Smart Bulk Terminal” with a share capital of RUB 10 thousand in which it owns 70%. The Company will organize the construction and subsequent operation of the new terminal at the port of Ust-Luga where it will handle fertilizers produced and sold by the Group.

Other events subsequent to the reporting date

See note 27 for other significant events which took place after 30 June 2014.

20 EARNINGS PER SHARE

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the period after adjustment for the share split and issuance of new shares, see note 19. Basic and diluted earnings per share are the same, as there is no effect of dilution.

	Six months ended 30 June 2014	2013	Three months ended 30 June 2014	2013
	RUB million	RUB million	RUB million	RUB million
Weighted average number of ordinary shares in issue	129,500,000	126,530,650	129,500,000	128,561,652
Profit for the period attributable to shareholders of the Parent, RUB million	7,833	4,219	5,976	1,389
Basic and diluted earnings per share, RUB	60	33	46	11

21 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. See note 13 on the assets pledged as a security for bank loans.

<i>RUB Million</i>	<u>Contractual interest rate</u>	<u>30 June 2014</u>	<u>31 December 2013</u>
Current loans and borrowings			
<i>Secured bank loans:</i>			
RUB- denominated	1.50%-3.25%	-	76
<i>Unsecured bank loans:</i>			
RUB-denominated	9.15%	1,157	-
USD-denominated	LIBOR(1M)+1.4%-2.9%	9,155	10,546
USD-denominated	1.35%	-	818
<i>Unsecured loans from related parties:</i>			
RUB-denominated	9.00%	11	-
<i>Unsecured loans from associates:</i>			
EUR-denominated	4.50%	-	361
<i>Unsecured loans from other companies:</i>			
USD-denominated	LIBOR(12M)+1.25%	336	327
<i>Finance lease liabilities:</i>			
USD-denominated	7.1%-13.9% ¹	777	769
<i>Interest payable:</i>			
RUB-denominated		2	2
USD-denominated		309	307
		11,747	13,206
Non-current loans and borrowings			
<i>Unsecured bank loans:</i>			
RUB-denominated	8.25%-10.80%	92	207
USD-denominated	LIBOR(1M)+2.0%-2.52%	27,179	18,469
USD-denominated	LIBOR(3M)+2.9%	1,681	1,636
USD-denominated	LIBOR(6M)+1.05%	147	-
USD-denominated	4.17%	220	-
<i>Secured letters of credit:</i>			
USD-denominated	EURIBOR(6M)+2.3%	149	217
EUR-denominated	EURIBOR(6M)+3.25%	209	274
<i>Loan participation notes:</i>			
USD-denominated	4.204% ²	16,742	16,281
<i>Finance lease liabilities:</i>			
USD-denominated	7.1%-13.9% ¹	2,324	2,466
		48,743	39,550
		60,490	52,756

¹ Contractual interest rate on financial lease agreements consists of:

- interest rate and fees to a lessor
- insurance of property
- property tax (for lease agreements concluded since 2013 property tax is excluded from the interest rate)

² 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 16,902 million (31 December 2013: RUB 16,286 million).

22 TRADE AND OTHER PAYABLES

	30 June 2014 RUB million	31 December 2013 RUB million
Trade accounts payable	2,276	2,179
Dividends payable	2,101	63
Advances received	2,014	1,793
Taxes payable	1,630	1,614
Accruals	1,259	1,633
Payable for property, plant and equipment	798	916
Payables to employees	615	1,092
Other payables	83	87
	10,776	9,377

23 COMMITMENTS

The Group has entered into contracts to purchase plant and equipment for RUB 24,896 million (31 December 2013: RUB 23,891 million).

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

	Six months ended 30 June	
	2014 RUB million	2013 RUB million
Sales of goods and services	609	6,345
Interest income	14	18
Purchases of goods and services	(86)	(193)

(ii) Balances with associates

	30 June 2014 RUB million	31 December 2013 RUB million
Advances issued for construction of property, plant and equipment	42	33
Trade and other receivables	76	447
Trade and other payables	(12)	(13)
Short-term loans received	-	(361)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of associates amounting to RUB 2,097 million (31 December 2013: RUB 2,151 million).

(b) Transactions and balances with other related parties

(i) Transactions with other related parties

	Six months ended 30 June	
	2014	2013
	RUB million	RUB million
Sales of goods and services	255	392
Interest income	2	4
Purchases of goods and services	(87)	(282)

(ii) Balances with other related parties

	30 June 2014	31 December 2013
	RUB million	RUB million
Long-term loans issued, at amortised cost	264	48
Short-term loans issued, at amortised cost	16	17
Trade and other receivables	155	12
Trade and other payables	(73)	(47)
Short-term loans received	(11)	-

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of related parties amounting to RUB 209 million (31 December 2013: RUB 326 million).

25 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 and South America generally peaks in the first quarter).

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.

26 CONTINGENCIES

Subsequent to the reporting date the Federal Supervisory Natural Resources Management Service (Rosprirodnadzor) in Murmansk region filed a court claim against a Group subsidiary for additional RUB 741 million of payments for the storage of the production waste in 2013. The Group management believes that all necessary ecological payments are accrued and paid timely and does not agree with the amount of additional claim. The management believes that it is probable that the Group's position will be sustained by the court.

27 EVENTS SUBSEQUENT TO THE REPORTING DATE

See note 19 for significant event which took place after 30 June 2014.

In July 2014, the Group acquired 80.1% in LLC PhosAgro SeveroZapad and 80.1% in LLC PhosAgro-Tambov for RUB 235 million and RUB 14 million respectively. The financial effect of this transaction is a decrease in other current liabilities by RUB 266 million and an increase in retained earnings by RUB 17 million.

In August 2014, the Board of Directors proposed paying an interim dividend of RUB 25 per ordinary share to shareholders included in the register of shareholders as of 29 September 2014. The total amount of proposed dividends was RUB 3,238 million.