

**PUBLIC JOINT STOCK COMPANY  
“ACRON”**

**Consolidated Condensed Interim  
Financial Information for the nine months  
ended 30 September 2016**



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## **Auditors' Report on Review of Consolidated Condensed Interim Financial Information**

To the Shareholders and Board of Directors  
PJSC "Acron"

### *Introduction*

We have reviewed the accompanying consolidated condensed interim statement of financial position of PJSC "Acron" and its subsidiaries (the "Group") as at 30 September 2016, and the related consolidated condensed interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine - month period then ended, and notes to the consolidated condensed interim financial information (the "consolidated condensed interim financial information"). Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

### *Scope of Review*

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

Audited entity: PJSC "Acron".  
Registration No. in the Unified State Register of Legal Entities  
1025300786610.  
Veliky Novgorod, Russia.

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

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

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

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the consolidated condensed interim financial information as at 30 September 2016 and for the nine - month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

### *Emphasis of matter*

Without qualifying our report, we draw attention to Note 2.3 to the consolidated condensed interim financial information which describes that management have withdrawn previously issued consolidated condensed interim financial information of the Group, on which we had issued unmodified review report dated 29 December 2016. The previously issued consolidated condensed interim financial information has been re-issued to amend the consolidated condensed interim financial information as described in Note 2.2.

### *Other Matter*

The consolidated condensed interim statement of profit or loss and other comprehensive income for the three-month period ended 30 September 2016 and the corresponding figures for the three-month period ended 30 September 2015 are not reviewed.

Ilya O. Belyatski,

Director, (power of attorney dated 16 March 2015 No. 34/15)

JSC KPMG

31 March 2017

Moscow, Russia





	Note	30 September 2016	31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	85,356	84,680
Exploration and evaluation licences and expenditure	10	31,927	32,232
Leasehold land		138	825
Goodwill		1,267	1,267
Available-for-sale investments	11	20,019	148
Investment in equity accounted investees	12	-	31,263
Long-term loans receivable		31	47
Deferred tax assets		941	1,396
Other non-current assets		2,174	2,104
<b>Total non-current assets</b>		<b>141,853</b>	<b>153,962</b>
<b>Current assets</b>			
Inventories	8	13,442	17,800
Short-term loans receivable		-	5
Accounts receivable	7	9,326	9,443
Income tax prepayment		364	1,505
Available-for-sale investments	11	-	4,808
Trading investments		142	172
Short-term derivative financial instruments	13	6,191	7,816
Cash and cash equivalents	6	21,372	30,421
Other current assets		847	842
<b>Total current assets</b>		<b>51,684</b>	<b>72,812</b>
<b>TOTAL ASSETS</b>		<b>193,537</b>	<b>226,774</b>
<b>EQUITY</b>			
Share capital	16	3,046	3,046
Treasury shares		(4)	(3)
Retained earnings		64,442	60,523
Revaluation reserve		(5,581)	3,752
Other reserves		(1,650)	(1,209)
Cumulative currency translation difference		6,415	18,877
<b>Share capital and reserves attributable to the Company's owners</b>		<b>66,668</b>	<b>84,986</b>
Non-controlling interest		20,620	24,812
<b>TOTAL EQUITY</b>		<b>87,288</b>	<b>109,798</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowings	15	39,360	68,611
Long-term derivative financial instruments	13	9,198	9,282
Deferred tax liabilities		5,020	5,196
Other long-term liabilities		836	1,080
<b>Total non-current liabilities</b>		<b>54,414</b>	<b>84,169</b>
<b>Current liabilities</b>			
Accounts payable	14	5,902	8,435
Notes payable		37	2,138
Income tax payable		49	-
Other taxes payable		401	1,422
Short-term borrowings	15	41,208	12,995
Advances received		2,249	6,254
Other current liabilities		1,989	1,563
<b>Total current liabilities</b>		<b>51,835</b>	<b>32,807</b>
<b>TOTAL LIABILITIES</b>		<b>106,249</b>	<b>116,976</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>193,537</b>	<b>226,774</b>

Approved for issue and signed on behalf of the Board of Directors on 31 March 2017.

V.Y. Kuritskiy  
 President



A.V. Mironov  
 Finance Director

**Public Joint Stock Company “Acron”**  
**Consolidated Condensed Interim Statement of Profit or Loss and Other Comprehensive**  
**Income for the nine months ended 30 September 2016**



(in millions of Russian Roubles, except for per share amounts)

	Note	Nine months ended		Three months ended	
		30 September 2016	30 September 2015	30 September 2016	30 September 2015
Revenue	4	66,785	68,715	19,920	23,843
Cost of sales		(31,783)	(28,829)	(10,079)	(9,934)
<b>Gross profit</b>		<b>35,002</b>	<b>39,886</b>	<b>9,841</b>	<b>13,909</b>
Transportation expenses		(9,444)	(7,779)	(3,368)	(2,493)
Selling, general and administrative expenses		(5,756)	(4,850)	(2,428)	(1,510)
Other operating (expense)/income, net	18	(3,026)	1,092	(382)	2,172
<b>Operating profit</b>		<b>16,776</b>	<b>28,349</b>	<b>3,663</b>	<b>12,078</b>
Finance income/(costs), net	17	5,584	(6,510)	862	(7,988)
Interest expense		(3,017)	(2,826)	(879)	(1,244)
Gain/(loss) on disposal of investment	11	5,406	(82)	15	38
(Loss)/gain on derivatives, net		(1,541)	(2,183)	(1,233)	84
Share of profit of equity accounted investees		1,544	1,720	-	308
Derecognition of equity accounted investee and recycling of related cumulative currency translation difference	12	3,268	-	-	-
<b>Profit before taxation</b>		<b>28,020</b>	<b>18,468</b>	<b>2,428</b>	<b>3,276</b>
Income tax expense	20	(4,974)	(3,419)	(675)	(812)
<b>Profit from continuing operations</b>		<b>23,046</b>	<b>15,049</b>	<b>1,753</b>	<b>2,464</b>
<b>Loss from discontinued operation</b>	21	<b>(1,623)</b>	<b>(727)</b>	<b>(51)</b>	<b>(205)</b>
<b>Profit for the period</b>		<b>21,423</b>	<b>14,322</b>	<b>1,702</b>	<b>2,259</b>
<i>Other comprehensive (loss)/income on items that will not be reclassified to profit or loss:</i>					
Share of other comprehensive loss of equity-accounted investees		(150)	(13)	-	(172)
<i>Other comprehensive (loss)/income on items that are or may be reclassified subsequently to profit or loss:</i>					
Available-for-sale investments:					
- (Losses)/gains arising during the period		(5,581)	1,745	(1,703)	1,119
- Reclassification of revaluation gain on disposal to profit or loss		(4,690)	-	-	-
- Income tax recorded directly in other comprehensive income		938	(349)	-	(224)
Currency translation differences		(4,119)	2,698	(255)	5,861
Reclassification of translation to profit or loss	12, 21	(8,280)	-	(1,396)	-
<b>Other comprehensive (loss)/profit for the period</b>		<b>(21,882)</b>	<b>4,081</b>	<b>(3,354)</b>	<b>6,584</b>
<b>Total comprehensive (loss)/income for the period</b>		<b>(459)</b>	<b>18,403</b>	<b>(1,652)</b>	<b>8,843</b>
<b>Profit is attributable to:</b>					
Owners of the Company		22,121	12,984	1,682	1,143
Non-controlling interest		(698)	1,338	20	1,116
<b>Profit for the period</b>		<b>21,423</b>	<b>14,322</b>	<b>1,702</b>	<b>2,259</b>
<b>Total comprehensive income is attributable to:</b>					
Owners of the Company		326	17,071	(1,835)	7,589
Non-controlling interest		(785)	1,332	183	1,254
<b>Total comprehensive (loss)/income for the period</b>		<b>(459)</b>	<b>18,403</b>	<b>(1,652)</b>	<b>8,843</b>
<b>Earnings per share</b>					
Basic (expressed in RUB)	19	554.83	324.24	41.96	29.03
Diluted (expressed in RUB)	19	554.83	324.24	41.96	29.03

The accompanying notes are an integral part of this consolidated condensed interim financial information.

**Public Joint Stock Company “Acron”**  
**Consolidated Condensed Interim Statement of Cash Flows for the nine months**  
**ended 30 September 2016**  
*(in millions of Russian Roubles)*



	Note	Nine months ended	
		30 September 2016	30 September 2015
<b>Cash flows from operating activities</b>			
Profit for the period		21,423	14,322
<i>Adjustments for:</i>			
Income tax expense		4,974	3,419
Income tax expense on discontinued operation		372	(65)
Depreciation and amortisation		3,144	3,121
Depreciation and amortisation on discontinued operation		356	256
(Reversal of)/provision for impairment of accounts receivable		(13)	210
Loss on disposal of property, plant and equipment		243	231
Loss on disposal of property, plant and equipment on discontinued operation		53	-
Share of profit of equity-accounted investees	12	(1,544)	(1,720)
Interest expense		3,017	2,826
Interest expense on discontinued operation		144	242
Interest income		(243)	(708)
Loss on derivatives, net		1,541	2,183
Dividend income		(293)	-
(Gain)/loss on disposal of investment		(5,406)	82
Gain on disposal of discontinued operation	21	(122)	-
Derecognition of equity accounted investee	12	(3,268)	-
Foreign exchange effect on non-operating balances		(4,831)	5,630
<b>Operating cash flows before working capital changes</b>		<b>19,547</b>	<b>30,029</b>
Decrease/(increase) in gross trade receivables		774	(871)
Decrease/(increase) in advances to suppliers		(219)	72
Decrease/(increase) in other receivables		(1,109)	(627)
Decrease/(increase) in inventories		3,531	(2,870)
(Decrease)/increase in trade payables		(111)	327
(Decrease)/increase in other payables		(1,400)	1,203
Decrease in advances from customers		(3,393)	(118)
Increase in other current assets		(5)	(487)
Increase in other current liabilities		584	945
<b>Cash generated from operations</b>		<b>18,199</b>	<b>27,603</b>
Income taxes paid		(3,646)	(1,155)
Interest paid		(3,998)	(3,335)
<b>Net cash generated from operating activities</b>		<b>10,555</b>	<b>23,113</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(9,900)	(10,171)
Interest received		272	650
Proceeds from loans repaid		-	51
Purchase of available-for-sale investments		(694)	-
Proceeds from sale of available-for-sale investments		6,575	-
Purchase of trading investments		-	(40)
Proceeds from sale of trading investments		3	51
Proceeds from sale of equity-accounted investees		26	-
Net change in other non-current assets and liabilities		(314)	113
Net cash outflow from disposal of discontinued operation	21	(1,061)	-
<b>Net cash used in investing activities</b>		<b>(5,093)</b>	<b>(9,346)</b>
<b>Cash flows from financing activities</b>			
Acquisition of non-controlling interest		(8,952)	(324)
Acquisition of treasury shares		(442)	(760)
Dividend paid to shareholders		(13,345)	(5,613)
Dividend paid to non-controlling interest		(72)	-
Disposal of subsidiary		-	(21)
Proceeds from borrowings	15	19,423	44,025
Repayment of borrowings	15	(7,826)	(42,254)
<b>Net cash used in financing activities</b>		<b>(11,214)</b>	<b>(4,947)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(5,752)</b>	<b>8,820</b>
Effect of exchange rate changes on cash and cash equivalents		(3,297)	4,380
<b>Cash and cash equivalents at the beginning of the period</b>	6	<b>30,421</b>	<b>24,773</b>
<b>Cash and cash equivalents at the end of the period</b>	6	<b>21,372</b>	<b>37,973</b>

The accompanying notes are an integral part of this consolidated condensed interim financial information.

**Public Joint Stock Company “Acron”**  
**Consolidated Condensed Interim Statement of Changes in Equity for the nine months ended 30 September 2016**  
*(in millions of Russian Roubles)*



	Capital and reserves attributable to the Company's owners							Total equity
	Share capital	Treasury shares	Retained earnings	Revaluation reserve	Other currency reserves	Cumulative translation difference	Non-controlling interest	
<b>Balance at 1 January 2015</b>	<b>3,046</b>	<b>(1)</b>	<b>51,816</b>	<b>2,686</b>	<b>(446)</b>	<b>13,411</b>	<b>23,261</b>	<b>93,773</b>
<b>Total comprehensive income</b>								
Profit for the period	-	-	12,984	-	-	-	1,338	14,322
<i>Other comprehensive income</i>								
Fair value gain on available-for-sale investments	-	-	-	1,745	-	-	-	1,745
Currency translation differences	-	-	-	-	-	2,691	(6)	2,685
Income tax recorded in other comprehensive income	-	-	-	(349)	-	-	-	(349)
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,396</b>	<b>-</b>	<b>2,691</b>	<b>(6)</b>	<b>4,081</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>12,984</b>	<b>1,396</b>	<b>-</b>	<b>2,691</b>	<b>1,332</b>	<b>18,403</b>
Acquisition of non-controlling interest	-	-	24	-	-	-	(348)	(324)
Dividend declared	-	-	(5,565)	-	-	-	(48)	(5,613)
Disposal of subsidiary	-	-	(21)	-	-	-	-	(21)
Acquisition of treasury shares	-	(2)	-	-	(758)	-	-	(760)
<b>Balance at 30 September 2015</b>	<b>3,046</b>	<b>(3)</b>	<b>59,238</b>	<b>4,082</b>	<b>(1,204)</b>	<b>16,102</b>	<b>24,197</b>	<b>105,458</b>
<b>Balance at 1 January 2016</b>	<b>3,046</b>	<b>(3)</b>	<b>60,523</b>	<b>3,752</b>	<b>(1,209)</b>	<b>18,877</b>	<b>24,812</b>	<b>109,798</b>
<b>Total comprehensive income</b>								
Profit for the period	-	-	22,121	-	-	-	(698)	21,423
<i>Other comprehensive income</i>								
Fair value loss on available-for-sale investments	-	-	-	(5,581)	-	-	-	(5,581)
Share of other comprehensive loss of equity-accounted investees	-	-	-	-	-	(150)	-	(150)
Disposal of fair value revaluation gain on available-for-sale investments	-	-	-	(4,690)	-	-	-	(4,690)
Currency translation differences	-	-	-	-	-	(4,032)	(87)	(4,119)
Income tax recorded in other comprehensive income	-	-	-	938	-	-	-	938
Reclassification to profit or loss currency translation differences (Notes 12 and 21)	-	-	-	-	-	(8,280)	-	(8,280)
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9,333)</b>	<b>-</b>	<b>(12,462)</b>	<b>(87)</b>	<b>(21,882)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>22,121</b>	<b>(9,333)</b>	<b>-</b>	<b>(12,462)</b>	<b>(785)</b>	<b>(459)</b>
Acquisition of non-controlling interest	-	-	(4,857)	-	-	-	(4,068)	(8,925)
Dividend declared	-	-	(13,345)	-	-	-	(72)	(13,417)
Acquisition of treasury shares	-	(1)	-	-	(441)	-	-	(442)
Disposal of subsidiary	-	-	-	-	-	-	733	733
<b>Balance at 30 September 2016</b>	<b>3,046</b>	<b>(4)</b>	<b>64,442</b>	<b>(5,581)</b>	<b>(1,650)</b>	<b>6,415</b>	<b>20,620</b>	<b>87,288</b>

The accompanying notes are an integral part of this consolidated condensed interim financial information.





## **1 Acron Group and its Operations**

This consolidated condensed interim financial information has been prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" for the nine months ended 30 September 2016 for Public Joint Stock Company "Acron" (the "Company" or "Acron") and its subsidiaries (together referred to as the "Group" or "Acron Group"). The Company's shares are traded on the Moscow and London Stock Exchange.

The Group's principal activities include the manufacture, distribution and sale of chemical fertilisers and related mineral primary and by-products. The Group's manufacturing facilities are primarily based in the Novgorodskaya, Smolenskaya and Murmanskaya regions of Russia.

The Company's registered office is at Veliky Novgorod, 173012, Russian Federation.

As at 30 September 2016, the Group's immediate parent company is Redbrick Investments S.a.r.l. (Luxembourg). In 2016 and 2015 the Group's ultimate parent is Subero Associates Inc. (British Virgin Islands). The Group is ultimately controlled by Mr. Viatcheslav Kantor.

## **2 Basis of Preparation**

### **2.1 Statement of compliance**

This consolidated condensed interim financial information has been prepared in accordance with IAS 34, Interim Financial Reporting. It does not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2015.

### **2.2 Judgements and estimates**

Preparing the consolidated condensed interim financial information requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated condensed interim financial information for the nine months ended 30 September 2016, significant judgments made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015, except that a functional currency of the foreign operation has been prospectively changed to Russian rouble as follows.

On 18 May 2016, the Group reduced its ownership in the company Grupa Azoty S.A to 19.82%. As a result, the Group's significant influence over the investee effectively ceased and the Group discontinued equity accounting (refer Note 12). Management exercised professional judgement and concluded that following this transaction, related foreign operation was no longer active. Given the fact that, in the context of IAS 21, the management had no immediate plans to resume such an active activity, foreign operation was effectively liquidated. The activities of foreign legal entities registered in Luxembourg and Cyprus in fact represent a passive activity in the possession of portfolio investments in the economic environment of the parent company. In this regard, management concluded that the functional currency of these entities should be the Russian Rouble.

### **2.3 Re-issuance of the consolidated condensed financial information**

The management has withdrawn its previously issued consolidated condensed interim financial information for the nine months ended 30 September 2016 originally released on 29 December 2016, in order to make certain amendments to the consolidated condensed interim financial information for the nine months ended 30 September 2016 for consistency with the annual consolidated financial statements issued on 31 March 2017 (Refer Note 2.2). Accordingly, in these re-issued consolidated condensed interim financial information cumulative currency translation gain of RUB 6,884 related to foreign operation was recycled to profit or loss upon derecognition of the underlying equity accounted investment. As a result, items of the Consolidated Condensed Statement of Financial Position as at 30 September 2016 changed as follows: Retained earnings increased by RUB 6,884, Revaluation reserve decreased by RUB 718 and Cumulative currency translation difference decreased by RUB 6,166. The recycling adjustment had no impact on Total comprehensive income for the nine-month period ended 30 September 2016.

## **3 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 facts that the Group sells its fertilisers globally and fertiliser application and purchases vary by region. The



seasonality does not significantly influence production, and inventory levels are adjusted for movements in demand. Seasonality does not impact the revenue or cost recognition policies of the Group.

#### **4 Segment Information**

The Group prepares its segment analysis in accordance with IFRS 8, Operating Segments. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker(s) (“CODM”) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management Board of the Group.

The development and approval of strategies, market situation analysis, the risk assessment, investment focus, technological process changes, goals and priorities are set and assessed in line with the current segment structure of the Group:

- Acron – representing manufacturing and distribution of chemical fertilisers by PJSC Acron;
- Dorogobuzh – representing manufacturing and distribution of chemical fertilisers by PJSC Dorogobuzh;
- Logistics – representing transportation and logistic services rendered by Estonian ports of the Group and some minor transportation companies in Russia. Constitutes an aggregation of a number of operating segments;
- Trading – representing overseas and domestic distribution companies of the Group;
- Mining NWPC – representing production of apatite-nepheline ore and subsequent processing in apatite concentrate;
- Mining excluding NWPC - comprise mining entities JSC VPC, North Atlantic Potash Inc., and other assets in Canada being at the stage of development, exploration and evaluation;
- Other – representing certain logistic (other than included in logistic segment), service, agriculture and management operations.

Due to disposal in 2016 of subsidiary Hongri Acron (Note 21) and cease of significant influence over equity investee Grupa Azoty S.A. (Note 12) the corresponding segments were excluded from the segment structure of 2015 with related change of corresponding figures.

The Group’s segments are strategic business units that focus on different customers. They are managed separately because each business unit has distinctive business and risk profile.

Segment financial information is presented and reviewed by the CODM based on the IFRS and includes revenues from sales and EBITDA.

The CODM evaluates performance of each segment based on measure of operating profit adjusted by depreciation and amortisation, foreign exchange gain or loss, other non-cash and extraordinary items (EBITDA). Since this term is not a standard IFRS measure Acron Group’s definition of EBITDA may differ from that of other companies.

Information for the reportable segments for the nine months ended 30 September 2016 is set out below:

	<b>Segment sales</b>	<b>Intersegment sales</b>	<b>External sales</b>	<b>EBITDA</b>
Acron	37,231	(32,911)	4,320	11,130
Dorogobuzh	18,437	(10,833)	7,604	5,434
Logistics	2,806	(2,500)	306	595
Trading	54,427	(2,240)	52,187	(106)
Mining NWPC	8,871	(6,841)	2,030	5,460
Mining excluding NWPC	-	-	-	(169)
Other	1,709	(1,371)	338	3
<b>Total</b>	<b>123,481</b>	<b>(56,696)</b>	<b>66,785</b>	<b>22,347</b>

**Public Joint Stock Company "Acron"**  
**Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2016**



(in millions of Russian Roubles, except for per share amounts)

Information for the reportable segments for the nine months ended 30 September 2015 is set out below:

	Segment sales	Intersegment sales	External sales	EBITDA
Acron	36,624	(29,642)	6,982	15,640
Dorogobuzh	19,440	(13,454)	5,986	8,819
Logistics	2,709	(2,236)	473	606
Trading	54,754	(2,057)	52,697	1,155
Mining NWPC	6,943	(4,873)	2,070	3,867
Mining excluding NWPC	-	-	-	(36)
Other	1,803	(1,296)	507	6
<b>Total</b>	<b>122,273</b>	<b>(53,558)</b>	<b>68,715</b>	<b>30,057</b>

Reconciliation of EBITDA to Profit Before Tax:

	Nine months ended	
	30 September 2016	30 September 2015
Profit before tax	28,020	18,468
Loss on derivatives, net	1,541	2,183
Interest expense	3,017	2,826
(Gain)/loss on disposal of investments	(5,406)	82
Derecognition of equity accounted investee	(3,268)	-
Share of profit of equity-accounted investees	(1,544)	(1,720)
Finance (income)/expense, net	(5,584)	6,510
<b>Operating Profit</b>	<b>16,776</b>	<b>28,349</b>
Depreciation and amortisation	3,144	3,121
Foreign currency loss/(income) on operating activities, net	2,184	(1,644)
Loss on disposal of property, plant and equipment	243	231
<b>Total consolidated EBITDA</b>	<b>22,347</b>	<b>30,057</b>

Information about geographical areas:

The geographic information below analyses the Group's revenue. In presenting the following information, segment revenue has been based on the geographic location of customers.

	Nine months ended	
	30 September 2016	30 September 2015
<b>Revenue</b>		
Russia	15,636	14,890
European Union	8,191	7,353
Commonwealth of Independent States	7,147	5,238
USA and Canada	6,885	8,709
Latin America	11,875	12,269
PRC	5,336	8,290
Asia (excluding PRC)	7,588	9,984
Other regions	4,127	1,982
<b>Total</b>	<b>66,785</b>	<b>68,715</b>

Revenue from sales of chemical fertilisers accounts for 83% of total revenues (for the nine months ended 30 September 2015: 86%).

There are no individual customers contributing 10% of more to the total revenues.

## 5 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, Related Party Disclosures. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint



(in millions of Russian Roubles, except for per share amounts)

control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 30 September 2016 and 31 December 2015 are detailed below.

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

**i Balances with related parties**

<b>Statement of financial position caption</b>	<b>Note</b>	<b>Relationship</b>	<b>30 September 2016</b>	<b>31 December 2015</b>
Trade receivables, gross	7	Companies under common control	7	8
Trade payables	14	Companies under common control	(5)	(4)

**ii Transactions with related parties**

<b>Statement of comprehensive income caption</b>	<b>Relationship</b>	<b>Nine months ended</b>	
		<b>30 September 2016</b>	<b>30 September 2015</b>
Sales of chemical fertilisers	Companies under common control	11	8
Purchases of raw materials	Companies under common control	(49)	(47)

**6 Cash and Cash Equivalents**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Cash on hand and bank balances denominated in RUB	6,828	2,910
Bank balances denominated in USD	13,021	22,883
Bank balances denominated in EUR	1,101	2,405
Bank balances denominated in CAD	253	66
Bank balances denominated in CHF	10	7
Bank balances denominated in PLN	31	34
Bank balances denominated in CNY	128	2,116
<b>Total cash and cash equivalents</b>	<b>21,372</b>	<b>30,421</b>

Cash and cash equivalents include term deposits of RUB 15,336 (31 December 2015: RUB 18,441).

The fair value of cash, cash equivalents and irrevocable deposits is equal to their carrying amount. All bank balances and term deposits are neither past due nor impaired.

**7 Accounts Receivable**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Trade accounts receivable	1,752	2,851
Notes receivable	371	530
Dividend receivable	8	-
Other accounts receivable	433	772
Less: impairment provision	(44)	(572)
<b>Total financial assets</b>	<b>2,520</b>	<b>3,581</b>
Advances to suppliers	2,210	2,353
Value-added tax recoverable	4,412	3,375
Other taxes receivable	219	177
Less: impairment provision	(35)	(43)
<b>Total accounts receivable</b>	<b>9,326</b>	<b>9,443</b>

The fair value of accounts receivable does not differ significantly from their carrying amount.



(in millions of Russian Roubles, except for per share amounts)

## 8 Inventories

	30 September 2016	31 December 2015
Raw materials and spare parts	8,027	8,713
- Apatite-nepheline ore	786	612
- Apatite concentrate	84	38
Work in progress	383	656
Finished products	5,032	8,431
	<b>13,442</b>	<b>17,800</b>

Raw materials are shown net of obsolescence provision RUB 120 (31 December 2015: RUB 129).

## 9 Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	2016	2015
<b>Carrying amount at 1 January</b>	<b>84,680</b>	<b>72,552</b>
Acquisitions	10,855	10,272
Disposals	(296)	(231)
Disposal of discontinued operation	(5,251)	-
Depreciation charge	(3,092)	(3,444)
Depreciation charge on discontinued operation	(356)	(256)
Currency translation difference	(1,184)	1,037
<b>Carrying amount at 30 September</b>	<b>85,356</b>	<b>79,930</b>

Included in the nine months 2016 additions to assets under constructions is approximately RUB 1,048 of capitalised borrowing costs in accordance with IAS 23, Borrowing costs (for the nine months 2015: RUB 827) at the average borrowing rate of 7.5% (for the nine months 2015: 4.3%).

As at 30 September 2016, there were no pledges over property, plant and equipment. As at 30 September 2015, buildings, machinery and equipment and construction in progress with a net book value of RUB 2,534 had been pledged as security for long-term loans (Note 15).

## 10 Exploration and Evaluation Licences and Expenditure

Exploration and evaluation expenditure comprise of:

	30 September 2016	31 December 2015
Apatite-nepheline deposits (production / development stage)	840	848
Potash deposits (development stage)	26,211	26,211
Permits for exploration (exploration and evaluation stage)	4,179	4,454
License and expenditure on deposit in exploration and evaluation stage	469	469
Asset related to the discharge of license obligations	228	250
	<b>31,927</b>	<b>32,232</b>

## 11 Available-for-Sale Investments

	2016	2015
<b>Carrying amount at 1 January</b>	<b>4,956</b>	<b>3,632</b>
Fair value (loss)/gain recognised directly in OCI	(5,581)	1,745
Reclassification from equity accounted investments	25,783	-
Additions	694	-
Disposals	(5,833)	-
<b>Carrying amount at 30 September</b>	<b>20,019</b>	<b>5,377</b>



(in millions of Russian Roubles, except for per share amounts)

The Group has investments in the following companies:

Name	Activity	Country of registration	30 September 2016	31 December 2015
<b>Current</b>				
PJSC Uralkali	Potash mining	Russia	-	4,808
<b>Total current</b>			<b>-</b>	<b>4,808</b>
<b>Non-current</b>				
Grupa Azoty S.A.	Fertilisers manufacture	Poland	19,878	-
Other			141	148
<b>Total non-current</b>			<b>20,019</b>	<b>148</b>
<b>Total</b>			<b>20,019</b>	<b>4,956</b>

In March 2016, the Group sold its stake in PJSC Uralkali to third parties.

Profit from disposal of investment of RUB 5,406 recognised in profit or loss of 2015 comprises accumulated revaluation reserve of RUB 4,690, the difference between received consideration and current value of disposed available-for-sale investments in amount of RUB 742 and also the loss on disposal of held for trading investments of RUB 26.

## 12 Investment in Equity Accounted Investees

In the second quarter of 2016 the Group reduced its ownership in the company Grupa Azoty S.A to 19.82%, and ceased application of the equity investee method which resulted in revaluation of investment to quoted prices as at the date of cease of significant influence. Simultaneously, the investment was reclassified to available-for-sale. The loss on change in valuation method amounting to RUB 3,616 was recognised in profit or loss. Also, management concluded that a derecognition of equity accounted investment triggered a prospective change of a functional currency of related foreign operation to Russian rouble as this operation effectively became a natural extension of the Group's Russian activities. As a result, cumulative currency translation difference related to this operation representing gain of RUB 6,884 was recognised in profit or loss.

The following table analyses, in aggregate, the carrying amount and share of profit and OCI of the associate.

	2016	2015
<b>Balance at 1 January</b>	<b>31,263</b>	<b>24,695</b>
Share of:		
– Profit from continuing operations	1,544	1,720
– OCI	(150)	(13)
Currency translation difference comprising in OCI	(3,255)	2,467
Disposal of shares	(3)	-
Derecognition of equity accounted investee	(3,616)	-
Reclassification to available-for-sale investments	(25,783)	-
<b>Balance at 30 September</b>	<b>-</b>	<b>28,869</b>

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

31 March 2016:

Name	Total assets	Total liabilities	Revenue	Profit	% interest held	Country of incorporation
Grupa Azoty S.A.	200,509	67,075	47,698	5,850	20.00%	Poland

30 September 2015:

Name	Total assets	Total liabilities	Revenue	Profit	% interest held	Country of incorporation
Grupa Azoty S.A.	183,920	60,785	119,835	8,599	20.00%	Poland



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### 13 Derivative Financial Assets and Liabilities

In April 2016, PJSC Acron exercised call option and purchased 9.1% share in a subsidiary JSC VPC from Eurasian Development Bank for RUB 8,952, increasing Group ownership to 60.1%. Other put and call options on JSC VPC shares are recognised within the shares issue to non-controlling interests. At 30 September 2016 the liabilities comprise put options giving the non-controlling shareholders the right to sell their 39.9% of JSC VPC shares back to the Group in 2017-2024. At 30 September 2016 the assets comprise call options, which give the Group the right to buy 19.9% of JSC VPC shares from non-controlling shareholders till 2018.

	30 September 2016			
	Assets		Liabilities	
	Non-Current	Current	Non-Current	Current
Put/call options on JSC VPC shares	-	6,191	(9,198)	-
	-	<b>6,191</b>	<b>(9,198)</b>	-

	31 December 2015			
	Assets		Liabilities	
	Non-Current	Current	Non-Current	Current
Put/call options on JSC VPC shares	-	7,816	(9,282)	-
	-	<b>7,816</b>	<b>(9,282)</b>	-

### 14 Accounts Payable

	30 September 2016	31 December 2015
Trade accounts payable	3,938	5,632
Dividend payable	42	15
<b>Total financial payables</b>	<b>3,980</b>	<b>5,647</b>
Payables to employees	1,087	1,112
Accrued liabilities and other creditors	835	1,676
<b>Total accounts payable and accrued expenses</b>	<b>5,902</b>	<b>8,435</b>

### 15 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	30 September 2016	31 December 2015
Bonds issued	13,772	13,752
Credit lines	4,989	6,500
Term loans	61,807	61,354
	<b>80,568</b>	<b>81,606</b>

The Group's borrowings mature as follows:

	30 September 2016	31 December 2015
Borrowings due:		
- within 1 year	41,208	12,995
- between 1 and 5 years	38,956	67,989
- after 5 years	404	622
	<b>80,568</b>	<b>81,606</b>

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

	30 September 2016	31 December 2015
Borrowings denominated in:		
- RUB	28,090	21,852
- EUR	4,528	5,261
- USD	47,950	49,849
- CNY	-	4,644
	<b>80,568</b>	<b>81,606</b>



(in millions of Russian Roubles, except for per share amounts)

At 30 September 2016, unused credit lines available under the long-term loan facilities were RUB 24,316 (31 December 2015: RUB 24,400). Terms and conditions of unused credit lines correspond to the terms and conditions of other borrowings.

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

	<b>30 September 2016</b>	<b>31 December 2015</b>
<b>Short-term borrowings</b>		
<b>RUB</b>		
Bonds with fixed interest rate of 11.6% per annum	10,000	3,752
Loans with fixed interest rate of 11% to 14% per annum	6,118	2,000
Loans with floating interest key rate of the Bank of Russia +1.4% to +1.6% per annum	2,600	1,600
<b>EUR</b>		
Loans with floating interest rate of 6M EURIBOR+0.75% to 6M EURIBOR+2.85% per annum	347	582
Loans with floating interest rate of 3M EURIBOR+1.35% to 3M EURIBOR+1.7% per annum	250	-
Loans with fixed interest rate of 5.27% per annum	223	250
<b>USD</b>		
Loans with fixed interest rate of 3.95% to 5.61% per annum	795	189
Loans with floating interest rate of 3M LIBOR+3.7% per annum to 3M LIBOR+4.35% per annum	12,947	-
Loans with floating interest rate of 1M LIBOR+4.6% per annum	7,169	-
Loans with floating interest rate of LIBOR O/N+2.05% per annum	759	-
<b>CNY</b>		
Loans with fixed interest rate of 5.22% to 7.5% per annum	-	4,622
<b>Total short-term borrowings</b>	<b>41,208</b>	<b>12,995</b>

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

	<b>30 September 2016</b>	<b>31 December 2015</b>
<b>Long-term borrowings</b>		
<b>RUB</b>		
Bonds with fixed interest rate of 10.2% per annum	3,772	10,000
Loans with fixed interest rate of 13.7% to 14% per annum	-	4,000
Loans with floating interest key rate of the Bank of Russia +1.5% to +2.5% per annum	5,600	500
<b>EUR</b>		
Loans with floating interest rate of 6M EURIBOR+0.75% to 6M EURIBOR+2.85% per annum	1,687	3,802
Loans with floating interest rate of 3M EURIBOR+1.35% to 3M EURIBOR+1.7% per annum	1,575	-
Loans with fixed interest rate of 5.27% per annum	446	627
<b>USD</b>		
Loans with fixed interest rate of 5.11% to 5.61% per annum	292	464
Loans with floating interest rate of 1M LIBOR+4.6% per annum	25,988	49,196
<b>CNY</b>		
Loans with fixed interest rate of 5.52% to 7.21% per annum	-	22
<b>Total long-term borrowings</b>	<b>39,360</b>	<b>68,611</b>

In May 2011, the Group placed through an offering to the public under an open subscription RUB non-convertible bonds with a face value of RUB 7,500 to be redeemed in May 2021. In the first quarter of 2012 the Group redeemed bonds in the amount of RUB 3,377. The holders of this bonds issue were granted an option to redeem the bonds in May 2016, which resulted in early redemption of bonds for RUB 1,335. During the reporting period the Group further sold the bonds of this issue for RUB 1,354. At 30 September 2016 the Group's subsidiary PJSC Dorogobuzh held bonds in the amount of RUB 351.

In November 2015, the Group placed non-convertible interest-bearing documentary bonds in the amount of RUB 10,000 to be redeemed in November 2018. The bonds were placed at 11.6% with the option of early redemption in May 2017.

All of the above bonds have been admitted to the quotation list B and are traded on Moscow Stock Exchange. The fair value of the outstanding bonds balance at 30 September 2016 was RUB 13,959 with reference to Moscow Stock Exchange quotations as of this date (31 December 2015: RUB 13,781).

Significant loan agreements contain certain covenants including those which require the Group and Group entities to maintain a minimum level of net assets, debt/EBITDA ratio. The loan agreements provide for the borrower's obligation





(in millions of Russian Roubles, except for per share amounts)

to maintain the required level of inflows through the accounts opened with the lending banks. The loan agreements also contains a number of covenants and acceleration clause in case of the borrower's failure to fulfil its obligations under the loan agreements which include restrictions on significant transactions with assets. Also, these covenants permit the respective banks to directly debit the accounts opened by the debtors with the banks to ensure repayment of the loans.

## 16 Capital and Reserves

The total authorised number of ordinary shares is 40,534,000 (31 December 2015: 40,534,000) with a par value of RUB 5 per shares. All authorised shares have been issued and fully paid.

Total number of outstanding shares comprises (par value is expressed in roubles per one share):

	Number of outstanding ordinary shares	Number of treasury shares	Total share capital	Treasury share capital	Outstanding share capital
<b>1 January 2015</b>	<b>40,534,000</b>	<b>(171,000)</b>	<b>3,046</b>	<b>(1)</b>	<b>3,045</b>
Sale of treasury shares	-	-	-	-	-
Acquisition of treasury shares	-	(429,000)	-	(2)	(2)
<b>30 September 2015</b>	<b>40,534,000</b>	<b>(600,000)</b>	<b>3,046</b>	<b>(3)</b>	<b>3,043</b>
<b>1 January 2016</b>	<b>40,534,000</b>	<b>(601,880)</b>	<b>3,046</b>	<b>(3)</b>	<b>3,043</b>
Sale of treasury shares	-	-	-	-	-
Acquisition of treasury shares	-	(124,328)	-	(1)	(1)
<b>30 September 2016</b>	<b>40,534,000</b>	<b>(726,208)</b>	<b>3,046</b>	<b>(4)</b>	<b>3,042</b>

## 17 Finance Income / (Costs), net

	Nine months ended		Three months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Interest income from loans provided and term deposits	243	708	90	230
Commissions expense	(210)	(300)	62	(143)
Dividend income	293	-	43	-
Foreign exchange gain on financial transactions	14,230	31,614	3,633	9,489
Foreign exchange loss on financial transactions	(8,972)	(38,532)	(2,966)	(17,564)
	<b>5,584</b>	<b>(6,510)</b>	<b>862</b>	<b>(7,988)</b>

## 18 Other Operating (Expenses) / Income, net

	Nine months ended		Three months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Charity expenses	(273)	(242)	(72)	(85)
Other operating expenses, net	(569)	(310)	(329)	232
Foreign exchange gain on operating activities	5,020	8,439	1,483	598
Foreign exchange loss on operating activities	(7,204)	(6,795)	(1,464)	1,427
	<b>(3,026)</b>	<b>1,092</b>	<b>(382)</b>	<b>2,172</b>

## 19 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. At 30 September 2016, the shares of the Company have dilutive potential related right to settle in own shares. The dilution effect do not exist at the reporting date, therefore, the dilutive earnings per share equal the basic earnings per share.



(in millions of Russian Roubles, except for per share amounts)

	Nine months ended	
	30 September 2016	30 September 2015
Weighted average number of shares outstanding	40,534,000	40,534,000
Adjusted for weighted average number of treasury shares	(664,044)	(489,750)
<b>Weighted average number of shares outstanding (basic)</b>	<b>39,869,956</b>	<b>40,044,250</b>
Effect of settlement in own equity instruments	-	-
<b>Weighted average number of shares outstanding (diluted)</b>	<b>39,869,956</b>	<b>40,044,250</b>
Profit attributable to the equity holders of the Company	22,121	12,984
<b>Basic earnings per share (in Russian roubles)</b>	<b>554.83</b>	<b>324.24</b>
<b>Diluted earnings per share (in Russian roubles)</b>	<b>554.83</b>	<b>324.24</b>

## 20 Income Taxes

	Nine months ended		Three months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Income tax expense – current	4,521	2,180	681	(336)
Deferred tax charge – origination and reversal of temporary differences	453	1,239	(6)	1,148
<b>Income tax charge</b>	<b>4,974</b>	<b>3,419</b>	<b>675</b>	<b>812</b>

## 21 Results from Disposal of Discontinued Operation

In August 2016, the Group sold a subsidiary owned 50.5% stake in the Chinese subsidiary "Hongri-Acron", which represented operating segment of Hongri Acron. The buyer was an independent investment and industrial company from Hong Kong.

Financial results of Hongri Acron before the sale are presented in the table below:

	For the nine months ended	
	30 September 2016*	30 September 2015
Revenue	4,549	11,939
Costs	(5,789)	(12,489)
Finance expense, net	(133)	(242)
<b>Loss before taxation</b>	<b>(1,373)</b>	<b>(792)</b>
Income tax charge	(372)	65
<b>Loss after taxation</b>	<b>(1,745)</b>	<b>(727)</b>
Gain on disposal of discontinued operation	122	-
<b>Loss for the period</b>	<b>(1,623)</b>	<b>(727)</b>

\*Operations results are presented for the period from 1 January 2016 till 2 August 2016.

The total loss for the period includes a loss attributable to non-controlling interests of discontinued operation in the amount of RUB 851 (for the nine months ended 30 September 2015: RUB 348 loss).

Statement of cash flows until the disposal is presented in the table below:

	For the nine months ended	
	30 September 2016*	30 September 2015
Net cash (used in)/generated from operating activities	(1,608)	1,410
Net cash generated from/(used in) investing activities	1	(255)
Net cash used in financing activities	(74)	(972)
<b>Net (decrease)/increase in cash and cash equivalents for the period</b>	<b>(1,681)</b>	<b>183</b>

\*Statement of cash flow is presented for the period from 1 January 2016 till 2 August 2016.



Financial result on disposal of stake in a subsidiary is presented in the table below:

Property, plant and equipment	(5,251)
Leasehold land	(597)
Inventories	(795)
Accounts receivable	(948)
Cash and cash equivalents	(1,061)
Deferred tax assets	(334)
Other current assets	(195)
<b>Total assets</b>	<b>(9,181)</b>
Accounts payable	4,798
Borrowings	3,684
Other liabilities	158
<b>Total liabilities</b>	<b>8,640</b>
Elimination of operations between the Group and discontinued operation	<b>(186)</b>
<b>Net identifiable assets</b>	<b>(727)</b>
Accumulated gains previously recognised in other comprehensive income of the Group	1,396
Disposal of non-controlling interest	(733)
Cash received	-
Deferred settlement of pre-existed relationship between the Group and the discontinued operation	186
<b>Gain on disposal of discontinued operation</b>	<b>122</b>
Cash received	-
Disposal of cash and cash equivalents	(1,061)
<b>Total outflow of cash and cash equivalents</b>	<b>(1,061)</b>

Subsequently to the reporting date, the Group fully settled pre-existed relationship with the discontinued operation.

## 22 Contingencies, Commitments and Operating Risks

### i Contractual commitments and guarantees

As at 30 September 2016, the Group had outstanding capital commitments in relation to property, plant and equipment for the amount of RUB 16,297 (31 December 2015: RUB 12,563).

In accordance with the conditions of the exploration licenses the Group has to commence the extraction of certain mineral resources by certain dates as stipulated by license agreements. To the extent necessary, the Group has already allocated the resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments. Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As at 30 September 2016, the Group has no issued guarantees. As at 31 December 2015, the Group has issued financial guarantees to third parties in respect of borrowings by the Group's counterparties in the amount of RUB 3,504. No amount has been accrued in this consolidated condensed interim financial information for the Group's obligation under these guarantees as no outflows are expected from such guarantees.

### ii Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims.

### iii Taxation contingencies in Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.



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

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

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

The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts as transfer pricing tax audits under new rules started recently, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on these consolidated financial statements.

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

The amount of possible tax liabilities related to uncertainties in practical application of legislation could be material, however, management believes that its interpretation of the relevant legislation is generally appropriate, and the Group's tax, currency and customs positions will be sustained. Accordingly, as at 30 September 2016 no provision for potential tax liabilities based on management's interpretations of applicable tax legislation had been recognised (2015: no provision). Management believes that all necessary provisions were recognised in respect of other probable tax risks.

#### **iv Environmental matters**

The environmental regulation in the Russian Federation continues to evolve. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

## **23 Fair Value of Financial Instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market.

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

**Financial instruments carried at fair value.** Trading, Available-for-sale investments and derivatives are carried in the consolidated statement of financial position at their fair value.

This Group discloses the value of financial instruments that are measured in the consolidated statement of financial position at fair value by three levels in accordance with IFRS 13, Fair Value Measurement.

The level in the fair value hierarchy into which the fair values are categorised as one of the three categories:

- Level 1: quoted price in an active market;
- Level 2: valuation technique with inputs observable in markets;
- Level 3: valuation technique with significant non-observable inputs.



All available-for-sales and trading financial instruments of the Group were included in level 1 category in the amount of RUB 20,161 (31 December 2015: RUB 5,128).

All liabilities on bonds issued were included in level 1 category in the amount of RUB 13,959 (31 December 2015: RUB 13,781).

The fair value of the call/put options on shares of JSC VPC was determined based on the Black–Scholes Option Pricing Model with the adjustments and using of unobservable inputs, and included in level 3, and applied consistently with 2015. **Financial assets carried at amortised cost.** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables and loans receivable approximate fair values.

**Liabilities carried at amortised cost.** The fair value of floating rate liabilities is normally their carrying amount. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. At 30 September 2016 the fair value of borrowings was RUB 449 higher than their carrying amounts. At 31 December 2015 the fair value of borrowings was RUB 666 lower than their carrying amounts.

The fair value of payables does not differ significantly from their carrying amounts.