OJSC “PhosAgro”

Consolidated Financial Statements for 2014 and Auditors’ Report

Contents

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Auditors' Report

To the Shareholders and Board of Directors

OJSC "PhosAgro"

We have audited the accompanying consolidated financial statements of OJSC "PhosAgro" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

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

Registered 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

Romanenko A.M.

Director, (power of attorney dated 16 March 2015 No. 22/15)

JSC "KPMG"

28 April 2015

Moscow, Russian Federation

	Note	2014 RUB Million	2013 RUB Million
Continuing operations			
Revenues	6	123,124	104,566
Cost of sales	8	(68,821)	(68,139)
Gross profit		**54,303**	**36,427**
Administrative expenses	9	(9,081)	(8,380)
Selling expenses	10	(11,646)	(8,378)
Taxes, other than income tax		(1,983)	(2,149)
Other expenses, net	11	(1,997)	(1,378)
Operating profit		**29,596**	**16,142**
Finance income	12	1,059	1,138
Finance costs	12	(11,610)	(2,272)
Foreign exchange loss, net	28(b)	(33,545)	(2,999)
Share of (loss)/profit of associates	15	(756)	19
Restructuring costs	7	(173)	(1,985)
(Loss)/profit before tax		**(15,429)**	**10,043**
Income tax benefit/(expense)	13	2,034	(1,740)
(Loss)/profit from continuing operations		**(13,395)**	**8,303**
Discontinued operations			
Profit from discontinued operations, net of tax		-	273
(Loss)/profit for the year		**(13,395)**	**8,576**
Attributable to:			
Non-controlling interests ^		246	916
Shareholders of the Parent		(13,641)	7,660
Other comprehensive income			
Revaluation of available-for-sale securities		23	-
Actuarial gains and losses, net of tax		133	(111)
Foreign currency translation difference		5,220	247
Other comprehensive income for the year		**5,376**	**136**
Total comprehensive (loss)/income for the year		**(8,019)**	**8,712**
Attributable to:			
Non-controlling interests ^		248	901
Shareholders of the Parent		(8,267)	7,811
Basic and diluted (loss)/earnings per share (in RUB)	23	(105)	60

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

The consolidated financial statements were approved on 28 April 2015:

Chief executive officer
Guryev A. A.

Chief financial officer
Sharabaiko A.F.

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 39.

	Note	31 December 2014 RUB million	31 December 2013 RUB million
Assets			
Property, plant and equipment	14	86,086	75,928
Intangible assets		572	623
Investments in associates	15	12,975	8,485
Deferred tax assets	16	4,249	1,806
Other non-current assets	17	8,935	4,383
Non-current assets		**112,817**	**91,225**
Other current investments	18	1,656	1,673
Derivative financial assets		-	79
Inventories	19	12,527	12,293
Current income tax receivable		2,975	668
Trade and other receivables	20	18,993	11,376
Cash and cash equivalents	21	30,687	8,938
Current assets		**66,838**	**35,027**
Total assets		**179,655**	**126,252**
Equity	22		
Share capital		372	372
Share premium		7,494	7,494
Retained earnings		22,708	48,556
Other reserves		5,258	(116)
Equity attributable to shareholders of the Parent		35,832	56,306
Equity attributable to non-controlling interests		149	3,020
Total equity		**35,981**	**59,326**
Liabilities			
Loans and borrowings	24	93,002	39,550
Defined benefit obligations	25	453	971
Deferred tax liabilities	16	2,118	3,304
Non-current liabilities		**95,573**	**43,825**
Trade and other payables	27	15,321	9,377
Current income tax payable		620	518
Loans and borrowings	24	30,822	13,206
Derivative financial liabilities		1,338	-
Current liabilities		**48,101**	**23,101**
Total equity and liabilities		**179,655**	**126,252**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 39.

	Note	2014 RUB million	2013 RUB million
Cash flows from operating activities			
(Loss)/profit before tax from continuing operations		(15,429)	10,043
Adjustments for:			
Depreciation and amortisation	8, 9, 10	8,013	7,792
Loss on disposal of fixed assets	11	280	91
Finance income	12	(1,059)	(1,138)
Finance costs	12	11,610	2,272
Share of loss/(profit) of associates	15	756	(19)
Foreign exchange loss, net		35,010	3,252
Operating profit before changes in working capital and provisions		39,181	22,293
(Increase)/decrease in inventories		(100)	122
(Increase)/decrease in trade and other receivables		(7,191)	1,515
Increase/(decrease) in trade and other payables		2,161	(823)
Cash flows from operations before income taxes and interest paid		34,051	23,107
Income tax paid		(3,847)	(3,276)
Finance costs paid		(2,695)	(1,906)
Cash flows from operating activities		**27,509**	**17,925**
Cash flows from investing activities			
Loans (issued)/repaid, net		(907)	785
Acquisition of intangible assets		(160)	(198)
Acquisition of property, plant and equipment		(20,549)	(17,795)
Proceeds from disposal of property, plant and equipment		335	613
Proceeds from disposal of investments		254	107
Finance income received		817	788
Cash of Phosint Trading Ltd and Phosagro Asia Pte Ltd acquired		-	1,143
Cash paid for CJSC "Nordic Rus Holding"		-	(1,680)
Proceeds from disposal of CJSC "Pikalevskaya soda" and part of manufacturing facilities within CJSC "Metachem"		-	633
Cash flows used in investing activities		**(20,210)**	**(15,604)**
Cash flows from financing activities			
Proceeds from borrowings		71,412	47,559
Repayment of borrowings		(43,145)	(36,979)
Acquisition of non-controlling interests	22	(7,078)	(11,674)
Proceeds from contribution to charter capital of subsidiaries by non-controlling interests		132	-
Tax on intra-group dividends		(247)	-
Dividends paid to shareholders of the Parent	22	(5,737)	(7,511)
Payment of finance lease liabilities		(1,015)	(1,465)
(Loss)/income from settlement of derivatives		(5,921)	123
Proceeds from issuance of additional shares		-	6,407
Dividends paid to non-controlling interests		-	(2)
Cash flows from/(used in) financing activities		**8,401**	**(3,542)**
Net increase/(decrease) in cash and cash equivalents		**15,700**	**(1,221)**
Cash and cash equivalents at 1 January		8,938	9,664
Effect of exchange rates fluctuations		6,049	495
Cash and cash equivalents at 31 December	21	**30,687**	**8,938**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 39.

RUB Million	Attributable to shareholders of the Parent							
	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	Total
Balance at 1 January 2013	**360**	**1,099**	**48,294**	**(23)**	**(347)**	**103**	**12,389**	**61,875**
Total comprehensive income for the year								
Profit for the year	-	-	7,660	-	-	-	916	8,576
Actuarial gains and losses, net of tax	-	-	-	-	(96)	-	(15)	(111)
Foreign currency translation difference	-	-	-	-	-	247	-	247
	-	-	7,660	-	(96)	247	901	8,712
Transactions with owners recognised directly in equity								
Acquisition of non-controlling interest in subsidiaries	-	-	(2,820)	-	-	-	(10,268)	(13,088)
Issuance of new ordinary shares	12	6,395	-	-	-	-	-	6,407
Dividends to shareholders of the Parent	-	-	(4,578)	-	-	-	-	(4,578)
Dividends to non-controlling interests	-	-	-	-	-	-	(2)	(2)
	12	6,395	(7,398)	-	-	-	(10,270)	(11,261)
Balance at 31 December 2013	**372**	**7,494**	**48,556**	**(23)**	**(443)**	**350**	**3,020**	**59,326**
Balance at 1 January 2014	**372**	**7,494**	**48,556**	**(23)**	**(443)**	**350**	**3,020**	**59,326**
Total comprehensive income for the year								
Loss for the year	-	-	(13,641)	-	-	-	246	(13,395)
Reclassification of non-controlling interests reflected as liability	-	-	-	-	-	-	(72)	(72)
Actuarial gains and losses, net of tax	-	-	-	-	131	-	2	133
Foreign currency translation difference	-	-	-	-	-	5,220	-	5,220
Revaluation of available for sale investments	-	-	-	23	-	-	-	23
	-	-	(13,641)	23	131	5,220	176	(8,091)
Transactions with owners recognised directly in equity								
Acquisition of non-controlling interest in subsidiaries, note 22	-	-	(3,633)	-	-	-	(3,179)	(6,812)
Dividends to shareholders of the Parent, note 22	-	-	(8,327)	-	-	-	-	(8,327)
Tax on intra-group dividends	-	-	(247)	-	-	-	-	(247)
Additional contribution to charter capital of subsidiaries	-	-	-	-	-	-	132	132
	-	-	(12,207)	-	-	-	(3,047)	(15,254)
Balance at 31 December 2014	**372**	**7,494**	**22,708**	**-**	**(312)**	**5,570**	**149**	**35,981**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 39.

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 and foreign trading subsidiaries. The Company was registered in October 2001. The Company’s location is Leninsky prospekt 55/1 building 1, Moscow, Russian Federation.

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.

The Company's key shareholders are several Cyprus entities holding between 5% and 9.9% of the Company's ordinary shares each. The majority of the shares of the Company are ultimately owned by trust, where the economic beneficiary is Mr. Andrey Guryev and his family members.

(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 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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and in accordance with the Federal Law No. 208 – FZ “On consolidated financial statements”.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments available-for-sale and derivative financial instruments are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as of 1 January 2005.

(c) 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 and EUR. All financial information presented in RUB has been rounded to the nearest million, except per share amounts.

These consolidated financial statements are presented in RUB.

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

- Assets and liabilities as at 31 December 2014 were translated at the closing exchange rate of RUB 56.2584 for USD 1 (31 December 2013: RUB 32.7292 for USD 1);
- Taking into account significant RUB volatility during the fourth quarter of 2014, profit and loss items were separately translated at the average exchange rate for the nine months ended 30 September 2014 and for the three months ended 31 December 2014 of RUB 35.3878 and RUB 47.4243 for USD 1, respectively (2013: RUB 31.8480 for USD 1);

- Equity items, which were recognised at the date of adoption of IFRS, 1 January 2005, were translated at the exchange rate of RUB 27.7487 for USD 1. Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction;
- The resulting foreign exchange difference is recognised in other comprehensive income.

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

- Assets and liabilities as at 31 December 2014 were translated at the closing exchange rate of RUB 68.3427 for EUR 1 (31 December 2013: RUB 44.9699 for EUR 1);
- Taking into account significant RUB volatility during the fourth quarter of 2014, profit and loss items were separately translated at the average exchange rate for the nine months ended 30 September 2014 and for the three months ended 31 December 2014 of RUB 47.9894 and RUB 59.1997 for EUR 1, respectively (2013: RUB 42.3026 for EUR 1);
- Equity items, which were recognised at the date of adoption of IFRS, 1 January 2005, were translated at the exchange rate of RUB 37.8409 for EUR 1. Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction;
- The resulting foreign exchange difference is recognised in other comprehensive income.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical assumptions and estimation uncertainties that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- note 4(b) – determination of fair value of derivative financial instruments;
- note 12 – recognition of bad debt provision on promissory notes: uncertainties associated with the reorganisation of a bank, which is currently undergoing a financial recovery procedure monitored by the Deposit Insurance Agency;
- note 16 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) Acquisitions and disposals of non-controlling interests

Any difference between the consideration paid to acquire a non-controlling interest, and the carrying amount of that non-controlling interest, is recognised in equity.

Any difference between the consideration received from disposal of a portion of a Group's interest in the subsidiary and the carrying amount of that portion, including attributable goodwill, is recognised in equity.

(iv) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Foreign currencies

Transactions in foreign currencies are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to RUB at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUB at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the profit and loss.

(c) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at the date of transition to IFRS was determined by reference to its fair value at that date ("deemed cost") as determined by an independent appraiser.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the profit and loss as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the profit and loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the month following the month of acquisition or, in respect of internally constructed assets, from the month following the month an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives as determined when adopting IFRS (1 January 2005) are as follows:

- Buildings 12 to 17 years;
- Plant and equipment 4 to 15 years;
- Fixtures and fittings 3 to 6 years.

Tangible fixed assets acquired after the date of adoption of IFRS, are depreciated over the following useful lives:

- Buildings 10 to 60 years;
- Plant and equipment 5 to 35 years;
- Fixtures and fittings 2 to 25 years.

(d) Intangible assets and negative goodwill

(i) Goodwill and negative goodwill

Adoption of IFRS

The Parent Company elected not to apply the requirements of IFRS 3 Business combinations to business combinations, which took place prior to the date of adoption of IFRS. As a result, no goodwill was recognised at the date of adoption of IFRS.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit and loss as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit and loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(iii) Other intangible assets

Other intangible assets acquired by the Group are represented by Oracle software, which has finite useful life and is stated at cost less accumulated amortisation and impairment losses.

(iv) Amortisation

Intangible assets, other than goodwill, are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful lives are 3 – 10 years.

(e) Investments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Held-to-maturity investments: If the Group has the positive intent and ability to hold debt instruments to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets: The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i)), and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the profit and loss.

Other: Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

Derivative financial instruments

The Group from time to time buys derivative financial instruments to manage its exposure to foreign currency risk. All derivatives are recognised on the balance sheet at fair value. Derivatives are not designated as hedging instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value with the changes in fair value recognised in profit and loss.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(g) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(i) Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, if any, and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Share capital

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity.

(ii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(k) Loans and borrowings

Loans and borrowings are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between initial value and redemption value being recognised in the profit and loss over the period of the borrowings on an effective interest basis.

(l) Employee benefits

(i) Pension plans

The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets, if any, is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit and loss on a straight line basis over the average period until the benefits become vested. To the extent the benefits vest immediately, the expense is recognised immediately in the profit and loss.

All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

(ii) Long-term service benefits other than pensions

The Group’s net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations. All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

(iii) State pension fund

The Group makes contributions for the benefit of employees to Russia’s State pension fund. The contributions are expensed as incurred.

(m) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Trade and other payables

Trade and other payables are stated at amortised cost.

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Revenues

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Transfer may occur when the product is dispatched from the Group companies’ warehouses (mainly for domestic dispatches) or upon loading the goods onto the relevant carrier or upon the delivery to the destination point defined by the customer.

Where the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission earned by the Group.

Revenue from services rendered is recognised in the profit and loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(q) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group’s right to receive payment is established.

Finance costs comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(r) Overburden removal expenditure

In open pit apatit rock mining operations, it is necessary to remove the overburden and other waste in order to access the economically recoverable resources.

Stripping costs incurred during the pre-production phase of the open pit mine are capitalised as the cost of the development of the mining property and amortised over the life of the mine.

According to the Group’s approach to stripping, an ore accessible after the overburden removal process is extracted within three months. Therefore, the stripping ratio (volume of overburden removed over the volume of resources extracted) is relatively constant over the periods and stripping costs incurred during the production phase of the open pit mine are recognised in the profit or loss as incurred.

(s) Other expenses

(i) Operating leases

Payments made under operating leases are recognised in the profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss as an integral part of the total lease payments made.

(ii) Social expenditure

To the extent that the Group’s contributions to social programs benefit the community at large and are not restricted to the Group’s employees, they are recognised in the profit and loss as incurred.

(t) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

If the number of ordinary shares outstanding increases/(decreases) as a result of a share split/(reverse share split), the calculation of the EPS for all periods presented is adjusted retrospectively.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(u) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, related head office expenses and Group’s associates.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(v) 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 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 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 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 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 financial statements.

(w) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and have not been applied in these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations.

- IFRS 9 *Financial Instruments* is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement.* Amended IFRS 7 *Financial Instruments: Disclosure* requires additional disclosure on transition from IAS 39 to IFRS 9. The standard provides amended guidance on the recognition and measurement of financial assets and liabilities. Effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.
- IFRS 15 *Revenue from contracts with customers* outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. Effective for annual periods beginning on or after 1 January 2017 with earlier application permitted.
- Amended IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets* clarifies the use of a revenue-based depreciation or amortisation method. Effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- Amended IFRS 10 *Consolidated financial statements* and IAS 28 *Investments in associates and joint ventures* address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. Effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.

The Group is currently assessing the impact of these new and amended standards on the consolidated financial statements and plans to adopt these pronouncements when they become effective.

4 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the methods described in 4(a) to 4(d). When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investments in equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

For non-quoted investments the fair value, if reliably measurable, is determined using valuation models.

(b) Derivative financial instruments

As at 31 December 2014, the Group's derivative financial liabilities are represented by forward and targeted accrual redemption note (TARN) contracts to sell USD at a predetermined USD/RUB exchange rates.

Fair value of the derivative financial instruments is estimated in accordance with Level 2 of the fair value hierarchy based on Monte Carlo simulation analysis at each reporting date.

A Monte Carlo simulation is a method for iteratively evaluating a deterministic model based on one or more random (stochastic) variables as inputs. The following inputs are used in determining the fair value of the Group's derivative financial instruments using Monte Carlo simulation:

- USD/RUB spot rate;
- USD/RUB forward curve;
- USD/RUB volatility surface.

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 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" column. None of these operations meet any of the quantitative thresholds for determining reportable segments.

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

Segment information of the Group as at 31 December 2014 and for the year then ended is as follows:

RUB million	Phosphate-based products	Nitrogen-based products	Other operations	Inter-segment elimination	Total
Segment revenue and profitability					
Segment external revenues, thereof:	105,832	16,626	666	-	123,124
Export	73,152	13,690	-	-	86,842
Domestic	32,680	2,936	666	-	36,282
Inter-segment transfers	-	8	-	(8)	-
Cost of goods sold	(59,285)	(10,180)	(599)	8	(70,056)
Gross segment profit	46,547	6,454	67	-	53,068
Certain items of profit and loss					
Amortisation and depreciation	(5,990)	(1,657)	(218)	-	(7,865)
Total non-current segment assets	57,445	16,667	2,871	-	76,983
Additions to non-current assets	12,063	4,664	1,065	-	17,792

Segment information of the Group as at 31 December 2013 and for the year then ended is as follows:

RUB million	Phosphate-based products	Nitrogen-based products	Other operations	Inter-segment elimination	Total
Segment revenue and profitability					
Segment external revenues, thereof:	91,065	12,810	691	-	104,566
Export	60,703	10,153	-	-	70,856
Domestic	30,362	2,657	691	-	33,710
Inter-segment transfers	-	99	-	(99)	-
Cost of goods sold	(59,588)	(10,036)	(615)	99	(70,140)
Gross segment profit	31,477	2,873	76	-	34,426
Certain items of profit and loss					
Amortisation and depreciation	(5,683)	(1,797)	(144)	-	(7,624)
Total non-current segment assets	51,930	14,309	2,232	-	68,471
Additions to non-current assets	13,849	2,192	396	-	16,437

The analysis of export revenue by regions is as follows:

	2014 RUB million	2013 RUB million
North and South America	39,477	20,821
Europe	25,491	24,174
Africa	8,799	7,974
CIS	6,882	7,409
Asia	3,521	9,055
India	2,672	1,423
	86,842	**70,856**

	2014 RUB million	2013 RUB million
Total segment revenues	123,124	104,566
Consolidated revenues	**123,124**	**104,566**

Reconciliation with internal management reports:

	2014 RUB million	2013 RUB million
Total segment gross profit	53,068	34,426
Difference in depreciation and amortisation	15	50
Difference in timing of expenses recognition	(55)	427
Reallocation of administrative expenses	2	3
Reallocation of selling expenses	(65)	(82)
Reallocation of other income	114	(8)
Reallocation of capitalised expenses	213	320
Elimination of unrealised profit	(422)	(94)
Recognition of finance lease	1,422	1,447
Other adjustments	11	(62)
Consolidated gross profit	**54,303**	**36,427**

	31 December 2014 RUB million	31 December 2013 RUB million
Total segment property, plant and equipment, and intangible assets	76,983	68,471
Difference in the carrying value of the tangible assets	9,675	8,080
Consolidated property, plant and equipment, and intangible assets	**86,658**	**76,551**

6 REVENUES

	2014 RUB million	2013 RUB million
Sales of chemical fertilisers	98,164	78,939
Sales of apatite concentrate	14,393	16,887
Sales of sodium tripolyphosphate	4,713	3,605
Sales of ammonium	760	102
Sales of nepheline concentrate	660	704
Other sales	4,434	4,329
	123,124	**104,566**

7 PERSONNEL COSTS

	2014 RUB Million	2013 RUB Million
Cost of sales	(9,754)	(12,022)
Administrative expenses	(5,248)	(4,889)
Selling expenses	(359)	(351)
Restructuring costs	(173)	(1,985)
	(15,534)	**(19,247)**

Personnel costs include salaries and wages, termination benefits, social contributions and current pension service costs.

Restructuring costs

During the 2012 the Group started implementing a plan on staff optimization in key subsidiaries. The plan envisaged reduction in the number of employees by either outsourcing relevant functions to third party suppliers or due to internal efficiency measures. The costs relating to such program, mainly comprising the termination benefits and related social contributions amounted to RUB 1,985 million for the year ended 31 December 2013. The provision of RUB 472 million relating to the completion of this program has been recognised in the accruals within trade and other payables as of 31 December 2013. The program was finalised in 2014. The costs to complete the restructuring program incurred in 2014 amounted to RUB 173 million.

8 COST OF SALES

	2014 RUB million	2013 RUB million
Materials and services	(24,532)	(21,084)
Salaries and social contributions	(9,754)	(12,022)
Natural gas	(7,505)	(6,300)
Depreciation	(7,332)	(7,147)
Sulphur and sulphuric acid	(4,522)	(3,428)
Potash	(3,915)	(4,114)
Electricity	(3,650)	(3,478)
Ammonia	(3,423)	(4,671)
Fuel	(2,791)	(4,161)
Heating energy	(1,161)	(579)
Ammonium sulphate	(839)	(1,157)
Other items	(14)	(53)
Change in stock of WIP and finished goods	617	55
	(68,821)	**(68,139)**

9 ADMINISTRATIVE EXPENSES

	2014 RUB million	2013 RUB million
Salaries and social contributions	(5,248)	(4,889)
Professional services	(1,107)	(693)
Depreciation and amortisation	(567)	(559)
Other	(2,159)	(2,239)
	(9,081)	**(8,380)**

10 SELLING EXPENSES

	2014 RUB million	2013 RUB million
Freight, port and stevedoring expenses	(5,252)	(2,577)
Russian Railways infrastructure tariff and operators’ fees	(4,579)	(4,334)
Materials and services	(1,342)	(1,030)
Salaries and social contributions	(359)	(351)
Depreciation	(114)	(86)
	(11,646)	**(8,378)**

11 OTHER EXPENSES, NET

	2014 RUB million	2013 RUB million
Social expenditures	(1,259)	(1,365)
Increase in provision for bad debt	(339)	(65)
Loss on disposal of fixed assets	(280)	(91)
(Increase)/decrease in provision for inventory obsolescence	(48)	115
Other (expenses)/income, net	(71)	28
	(1,997)	**(1,378)**

12 FINANCE INCOME AND FINANCE COSTS

	2014 RUB million	2013 RUB million
Interest income	1,000	883
Dividend income	3	24
Gain from operations with derivative financial instruments	-	172
Other finance income	56	59
Finance income	1,059	1,138
Interest expense	(2,577)	(2,026)
Loss from operations with derivative financial instruments	(7,338)	-
Bad debt provision on promissory notes	(1,424)	-
Other finance costs	(271)	(246)
Finance costs	(11,610)	(2,272)
Net finance costs	**(10,551)**	**(1,134)**

As at 31 December 2014, the Group held promissory notes issued by an entity affiliated to a bank, which is currently undergoing a financial recovery procedure monitored by the Deposit Insurance Agency. Given the uncertainties associated with this procedure, the Group recognised a provision of 50% of the book value of the promissory notes including the amount of interest receivable in the amount of RUB 1,424 million.

13 INCOME TAX BENEFIT/(EXPENSE)

The Company's applicable corporate income tax rate is 20% (2013: 20%).

	2014 RUB million	2013 RUB million
Current tax expense	(1,628)	(3,204)
Origination and reversal of temporary differences, including change in unrecognised assets	3,662	1,464
	2,034	**(1,740)**

Reconciliation of effective tax rate:

	2014 RUB million	2014 %	2013 RUB million	2013 %
(Loss)/profit before tax from continuing operations	(15,429)	100	10,043	100
Income tax at applicable tax rate	3,086	(20)	(2,009)	(20)
(Under)/over provided in respect of prior years	(183)	1	30	-
Unrecognised tax (asset)/liability on (loss)/profit from associates	(151)	1	4	-
Correction of tax loss carry-forward	(330)	2	-	-
Non-deductible items	(412)	3	(543)	(5)
Change in unrecognised deferred tax assets	6	-	778	8
Effect of tax rates in foreign jurisdictions	18	-	-	-
	2,034	**(13)**	**(1,740)**	**(17)**

14 PROPERTY, PLANT AND EQUIPMENT

RUB Million	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2013	20,510	53,646	4,012	18,545	96,713
Additions	75	1,753	689	15,145	17,662
Transfers	3,198	5,620	3	(8,821)	-
Disposals	(277)	(1,223)	(120)	(30)	(1,650)
At 1 January 2014	23,506	59,796	4,584	24,839	112,725
Additions	33	1,157	967	16,418	18,575
Transfers	2,381	7,475	-	(9,856)	-
Disposals	(257)	(1,367)	(178)	(189)	(1,991)
At 31 December 2014	25,663	67,061	5,373	31,212	129,309
Accumulated depreciation					
At 1 January 2013	(4,508)	(23,378)	(2,434)	-	(30,320)
Depreciation charge	(1,043)	(5,843)	(672)	-	(7,558)
Disposals	62	913	106	-	1,081
At 1 January 2014	(5,489)	(28,308)	(3,000)	-	(36,797)
Depreciation charge	(1,163)	(5,899)	(740)	-	(7,802)
Disposals	88	1,163	125	-	1,376
At 31 December 2014	(6,564)	(33,044)	(3,615)	-	(43,223)
Net book value at 1 January 2013	16,002	30,268	1,578	18,545	66,393
Net book value at 1 January 2014	18,017	31,488	1,584	24,839	75,928
Net book value at 31 December 2014	19,099	34,017	1,758	31,212	86,086

(a) Impairment testing

At the reporting date the Group performed an impairment testing under IAS 36. Cash flow forecasts for different factories representing separate cash-generating units were prepared for the forecast period of 5 years and a terminal value was derived after the forecast period. The following assumptions were applied in the impairment testing:

- After-tax discount rate 17.6% (2013: 12.6%);
- Terminal growth rate 4.1% (2013: 3%).

Based on the analysis, no impairment loss was recognised. A 1% increase in the discount rate would not have resulted in an impairment loss in any of the cash generating units tested.

(b) Security

Properties with a carrying amount of RUB 315 million (31 December 2013: RUB 599 million) are pledged to secure loans and borrowings, see note 24.

(c) Leasing

Plant and equipment with the carrying value of RUB 5,737 million (31 December 2013: RUB 4,984 million) is leased under various finance lease agreements, see note 26(a).

15 INVESTMENTS IN ASSOCIATES

Phosint Limited

Despite that the Group's shareholding in Phosint Group is 49%, the Group is entitled to a distribution of all accumulated earnings and reserves relating to this entity prior to the date of loss of control (October 2010) as determined by the executive management by reference to the IFRS financial statements of this entity. Once the total dividend distributed will reach the amount of retained earnings of Phosint Group at the date of loss of control, any subsequent dividend will be made proportionate to the shareholding in these companies.

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

	2014 RUB million	2013 RUB million
Balance at 1 January	8,485	9,620
Share in (loss)/profit for the year	(756)	19
Share in revaluation gain on available-for-sale securities	21	-
Share in CJSC "Nordic Rus Holding" at the date of acquisition of control	-	(1,406)
Foreign currency translation difference	5,225	252
Balance at 31 December	**12,975**	**8,485**

Carrying values of the Group's investments in associates are as follows:

	31 December 2014 RUB Million	31 December 2013 RUB Million
Phosint Group	12,324	7,843
LLC PHOSAGRO-UKRAINE	111	111
OJSC Khibinskaya Teplovaya Kompaniya	400	400
OJSC Giproruda	93	91
OJSC Soligalichskiy izvestkovyi kombinat	47	40
	12,975	**8,485**

Summary financial information for associates is as follows:

2014	Total assets RUB Million	Total liabilities RUB Million	Net assets RUB Million	Revenue RUB Million	(Loss)/profit for the year RUB Million
Phosint Group	13,077	(453)	12,624	55	(759)
LLC PHOSAGRO-UKRAINE	400	(198)	202	2,142	48
OJSC Khibinskaya Teplovaya OJSC Kompaniya	2,767	(1,940)	827	560	(37)
OJSC Giproruda	451	(77)	374	249	59
OJSC Soligalichskiy izvestkovyi kombinat	225	(42)	183	546	29
	16,920	**(2,710)**	**14,210**	**3,552**	**(660)**

2013	Total assets RUB Million	Total liabilities RUB Million	Net assets RUB Million	Revenue RUB Million	(Loss)/profit for the year RUB Million
Phosint Group	10,291	(2,478)	7,813	7,054	(151)
LLC PHOSAGRO-UKRAINE	774	(607)	167	805	44
OJSC Khibinskaya Teplovaya Kompaniya	3,166	(2,302)	864	106	(35)
OJSC Giproruda	465	(100)	365	298	54
OJSC Soligalichskiy izvestkovyi kombinat	204	(50)	154	507	11
	14,900	**(5,537)**	**9,363**	**8,770**	**(77)**

As at 31 December 2013 and 2014 Phosint Group held primarily USD-denominated equity and debt instruments recognised at fair value, loans issued and cash. Accordingly, the fair value of the net assets of these entities approximated the book value. In particular, the investments of Phosint Group include USD-denominated current and deposit accounts (with maturity from three to eleven months from the reporting date) at JSC "Promsvyazbank" in the amount of RUB 815 million and RUB 6,188 million, respectively, as at 31 December 2014 (31 December 2013: deposits amounted to RUB 3,535 million).

The investments of Phosint Group also include promissory notes and loan participation notes with the total gross amount of RUB 1,838 million (31 December 2013: RUB 1,069 million), issued by entities affiliated to a bank, which is currently undergoing a financial recovery procedure monitored by the Deposit Insurance Agency. Given the uncertainties associated with this procedure, the Group recognised a provision of 50% of the book value of these promissory notes and loan participation notes in the amount of RUB 919 million.

The breakdown of the net assets of Phosint Group is as follows:

	31 December 2014 RUB million	31 December 2013 RUB million
Property, plant and equipment	812	1,455
Investments in debt securities	921	1,072
Available for sale securities, at fair value	2,284	28
Current deposits denominated in USD	6,188	3,535
Trade and other receivables	784	245
Cash in bank	1,564	3,762
Other assets	524	194
Total assets	**13,077**	**10,291**
Loans and borrowings	(378)	(2,434)
Other liabilities	(75)	(44)
Total liabilities	**(453)**	**(2,478)**
Net assets	**12,624**	**7,813**

16 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

RUB Million	Assets 2014	Liabilities 2014	Net 2014	Assets 2013	Liabilities 2013	Net 2013
Property, plant and equipment	38	(5,291)	(5,253)	11	(4,642)	(4,631)
Other long-term assets	151	(236)	(85)	46	(3)	43
Current assets	855	(328)	527	329	(471)	(142)
Liabilities	1,640	(22)	1,618	1,121	(30)	1,091
Tax loss carry-forwards	5,349	-	5,349	2,172	-	2,172
Unrecognised deferred tax assets	(25)	-	(25)	(31)	-	(31)
Tax assets / (liabilities)	8,008	(5,877)	2,131	3,648	(5,146)	(1,498)
Set off of tax	(3,759)	3,759	-	(1,842)	1,842	-
Net tax assets / (liabilities)	4,249	(2,118)	2,131	1,806	(3,304)	(1,498)

The recognised deferred tax assets on tax loss carry-forwards will expire in accordance with the below schedule:

	31 December 2014 RUB million	31 December 2013 RUB million
5 years	167	-
6 years	-	167
7 years	71	-
8 years	208	401
9 years	720	208
10 years	4,183	1,396
	5,349	**2,172**

The aggregate amount of temporary differences associated with investment in subsidiaries at the reporting date is RUB 8,618 million (31 December 2013: RUB 41,763 million). The deferred tax assets for these temporary differences have not been recognised because the Parent can control the timing of reversal of the temporary difference and it is probable that temporary differences will not reverse in the foreseeable future.

(b) Movement in temporary differences during the year

RUB million	31 December 2014	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2014
Property, plant and equipment	(5,253)	(622)	-	(4,631)
Other long-term assets	(85)	(128)	-	43
Current assets	527	669	-	(142)
Liabilities	1,618	560	(33)	1,091
Tax loss carry-forwards	5,349	3,177	-	2,172
Unrecognised deferred tax assets	(25)	6	-	(31)
Net tax assets / (liabilities)	**2,131**	**3,662**	**(33)**	**(1,498)**

RUB million	31 December 2013	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2013
Property, plant and equipment	(4,631)	(650)	-	(3,981)
Other long-term assets	43	17	-	26
Current assets	(142)	(98)	-	(44)
Liabilities	1,091	26	11	1,054
Tax loss carry-forwards	2,172	1,391	-	781
Unrecognised deferred tax assets	(31)	778	-	(809)
Net tax assets / (liabilities)	**(1,498)**	**1,464**	**11**	**(2,973)**

17 OTHER NON-CURRENT ASSETS

	31 December 2014 RUB million	31 December 2013 RUB million
Advances issued for property, plant and equipment, at cost	6,927	2,864
Financial assets available-for-sale, at cost	610	627
Loans issued to related parties, at amortised cost	466	48
Loans issued to third parties, at amortised cost	287	8
Loans issued to employees, at amortised cost	260	384
Financial assets available-for-sale, at fair value	44	81
Finance lease receivable	21	74
Other long-term receivables	320	297
	8,935	**4,383**

18 OTHER CURRENT INVESTMENTS

	31 December 2014 RUB million	31 December 2013 RUB million
Investments in debt securities, at amortised cost	2,531	1,473
Interest receivable	383	88
Loans issued to third parties, at amortised cost	96	22
Loans issued to employees, at amortised cost	63	73
Loans issued to related parties, at amortised cost	7	17
Provision for doubtful accounts	(1,424)	-
	1,656	**1,673**

During the current period the Group made a decision to re-classify the amount of interest receivable, previously included in trade and other receivables, to other current investments. As a result other current investments increased by RUB 88 million from RUB 1,585 million to RUB 1,673 million as at 31 December 2013.

19 INVENTORIES

	31 December 2014 RUB million	31 December 2013 RUB million
Raw materials and spare parts	5,137	5,472
Finished goods:		
Chemical fertilisers	5,543	4,029
Apatite concentrate	76	239
Work-in-progress		
Apatite concentrate	562	608
Apatite-nepheline ore	991	1,260
Chemical fertilisers and other products	379	794
Other goods for resale	30	34
Provision for obsolescence	(191)	(143)
	12,527	**12,293**

20 TRADE AND OTHER RECEIVABLES

	31 December 2014 RUB million	31 December 2013 RUB million
Taxes receivable	7,514	5,063
Trade accounts receivable	6,994	4,160
Advances issued	4,721	2,087
Other receivables	318	215
Deferred expenses	54	110
Receivables from employees	42	14
Finance lease receivable	11	49
Provision for doubtful accounts	(661)	(322)
	18,993	**11,376**

See note 28(c) for the analysis of overdue trade accounts receivable.

21 CASH AND CASH EQUIVALENTS

	31 December 2014 RUB Million	31 December 2013 RUB Million
Cash in bank	13,749	6,585
Call deposits	16,931	2,349
Petty cash	7	4
	30,687	**8,938**

22 EQUITY

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares
Shares on issue at 31 December 2014, RUB 2.5 par value	129,500,000
Shares authorised for additional issue at 31 December 2014, RUB 2.5 par value	994,977,080
Shares on issue at 31 December 2013, RUB 2.5 par value	129,500,000
Shares authorised for additional issue at 31 December 2013, RUB 2.5 par value	994,977,080

The historical amount of the share capital of RUB 311 million has been adjusted for the effect of hyperinflation to comply with IAS 29 “Financial Reporting in Hyperinflationary economies”.

In October 2012, the Board of Directors decided to increase the Company’s share capital by issuing 13.5 million new ordinary shares with a par value of 2.5 RUB each. On 10 April 2013, the Company began completed the issuance of new shares with an offering price of USD 42 per ordinary share. The Company completed the new shares’ issuance in May 2013 with a total of 5,022,920 ordinary shares being subscribed for. The proceeds from the share issuance were USD 210.96 million (RUB 6,635 million). Transaction costs of RUB 228 million were deducted from the share premium. As a result, the Company’s issued share capital comprises 129,500,000 ordinary shares with a par value of 2.5 RUB each.

(b) Dividend policy

The Company expects to distribute cash dividends in the future and expects the amount of such dividends to be between 20 and 40 per cent of the Group's consolidated profit calculated in accordance with IFRS attributable to shareholders of OJSC “PhosAgro”, adjusted by unrealised foreign exchange loss.

Whether the Company will pay dividends and the timing and exact amount of such dividends will be subject to the approval of the recommendation made by the Board of Directors at the General Shareholders' Meeting and will depend on a variety of factors, including the Company's earnings, cash requirements, financial condition and other factors deemed relevant by the Board of Directors in making their recommendation to the General Shareholders' Meeting.

(c) Dividends

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2014, the Company had cumulative retained earnings of RUB 28,236 million (31 December 2013: RUB 14,537 million).

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.

In August 2014, the Board of Directors proposed paying an interim dividend of RUB 25 per ordinary share. The total amount of proposed dividends was RUB 3,238 million. In September 2014, the proposed dividend payout was approved by a meeting of shareholders.

In November 2014, the Board of Directors proposed paying an interim dividend of RUB 20 per ordinary share. The total amount of proposed dividends was RUB 2,590 million. In December 2014, the proposed dividend payout was approved by a meeting of shareholders.

(d) Acquisition of non-controlling stakes in JSC "PhosAgro-Cherepovets"

In February 2014, the Group launched a voluntary tender offer to acquire ordinary shares of JSC "PhosAgro-Cherepovets". The offered price, which was determined in accordance with the Russian law, was 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 a result of the buyout and subsequent acquisition of shares, the holders of 10.39% of all issued shares of JSC "PhosAgro-Cherepovets" (129,764,139 ordinary shares), accepted the Company's offers and the legal title for these ordinary shares was transferred to the Group increasing its shareholding to 97.99%. The financial effect of this transaction was a decrease in non-controlling interests by RUB 2,599 million and a decrease in retained earnings by RUB 3,104 million.

In August 2014, the Group sent a compulsory share purchase notification (squeeze out) to JSC "PhosAgro-Cherepovets" for the buyout of the ordinary shares belonging to subsidiary's 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. By the end of the reporting period, all the issued shares of JSC "PhosAgro-Cherepovets" were acquired by the Group. The financial effect of this transaction was a decrease in non-controlling interests by RUB 518 million and a decrease in retained earnings by RUB 602 million.

(e) 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 fertilisers produced and sold by the Group.

(f) Acquisition of non-controlling stakes in LLC "PhosAgro-SeveroZapad" and LLC "PhosAgro-Tambov"

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.

(g) Other events subsequent to the reporting date

See note 33 for other significant events which took place after 31 December 2014.

23 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated based on the weighted average number of ordinary shares outstanding during the year after adjustment for the share split and issuance of new shares, see note 22(a). Basic and diluted (loss)/earnings per share are the same, as there is no effect of dilution.

	2014 RUB million	2013 RUB million
Weighted average number of ordinary shares in issue	129,500,000	128,027,528
(Loss)/profit for the year attributable to shareholders of the Parent, RUB million	(13,641)	7,660
Basic and diluted (loss)/earnings per share, RUB	(105)	60

24 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the finance leases, see note 26(a). For more information about the Group's exposure to foreign currency risk, interest rate risk and liquidity risk, see note 28.

RUB Million	Contractual interest rate	31 December 2014	31 December 2013
Current loans and borrowings			
Secured bank loans:			
RUB- denominated	1.50%-3.25%	-	76
Unsecured bank loans:			
RUB-denominated	9.15% - 15.00%	9,011	-
USD-denominated	LIBOR(1M)+1.4%-2.9%	13,627	10,546
USD-denominated	LIBOR(3M)+2.9%-3.0%	4,220	-
USD-denominated	1.35% - 2.20%	928	818
Secured letters of credit:			
USD-denominated	EURIBOR(6M)+2.30%	124	-
Unsecured letters of credit:			
EUR-denominated	EURIBOR(12M)+1.15%-1.83%	775	-
Unsecured loans from related parties:			
RUB-denominated	9.00%	46	-
Unsecured loans from associates:			
USD-denominated	2.25%	242	-
EUR-denominated	4.50%	-	361
Unsecured loans from other companies:			
USD-denominated	LIBOR(12M)+1.25%	-	327
Finance lease liabilities:			
USD-denominated	3.8%-13.9% [1]	1,294	769
Interest payable:			
RUB-denominated		8	2
USD-denominated		547	307
		30,822	**13,206**
Non-current loans and borrowings			
Unsecured bank loans:			
RUB-denominated	8.25%-13.30%	3,000	207
USD-denominated	LIBOR(1M)+2.0%-3.0%	48,217	18,469
USD-denominated	LIBOR(3M)+2.9%	-	1,636
USD-denominated	LIBOR(6M)+1.05%	2,612	-
USD-denominated	4.17%	3,919	-
Secured letters of credit:			
USD-denominated	EURIBOR(6M)+2.3%	-	217
EUR-denominated	EURIBOR(6M)+3.25%	208	274
Unsecured letters of credit:			
EUR-denominated	EURIBOR(12M)+1.10%-1.15%	2,441	-
Unsecured loans from other companies			
USD-denominated	LIBOR(12M)+1.25%	571	-
Loan participation notes:			
USD-denominated	4.204% [2]	28,066	16,281
Finance lease liabilities:			
USD-denominated	3.8%-13.9% [1]	3,968	2,466
		93,002	**39,550**
		123,824	**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 23,800 million (31 December 2013: RUB 16,286 million).

25 DEFINED BENEFIT OBLIGATIONS

	31 December 2014 RUB Million	31 December 2013 RUB Million
Pension obligations, long-term	362	599
Post-retirement obligations other than pensions	91	372
	453	**971**

Defined benefit pension plans relate to three subsidiaries of the Group: JSC "Apatit", JSC "PhosAgro-Cherepovets" and CJSC "Metachem". The plans stipulate payment of a fixed amount of monthly pension to all retired employees, who have a specified period of service in the entities. The pension increases with the increase of the service period. The pension is paid over the remaining life of the pensioners. In addition, there is a defined benefit plan other than the pension plan in JSC "Apatit". This defined benefit plan stipulates payment of a lump sum to employees who have a specified period of service in JSC "Apatit" upon their retirement. All defined benefit plans are unfunded. The movement in the present value of the defined benefit obligations is as follows:

	RUB Million
Defined benefit obligations at 1 January 2013	1,257
Benefits paid	(404)
Current service costs and interest	112
Past service credit	(116)
Actuarial loss in other comprehensive income	122
Defined benefit obligations at 1 January 2014	**971**
Benefits paid	(198)
Current service costs and interest	100
Past service credit	(254)
Actuarial gain in other comprehensive income [3]	(166)
Defined benefit obligations at 31 December 2014	**453**

The key actuarial assumptions used in measurement of the defined benefit obligations are as follows:

	31 December 2014	31 December 2013
Discount rate	13%	7.9%
Future pension increases	6%	5%

26 LEASES

(a) Finance leases

LLC "PhosAgro-Trans", a Group subsidiary, has entered into several agreements to lease 2,700 railway wagons. Other Group subsidiaries also have entered into lease agreements in 2014 and 2013. At the end of the lease term, the ownership for the leased assets will be transferred to the lessee.

	2014		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	1,724	430	1,294
Between one and five years	4,309	646	3,663
More than five years	317	12	305
	6,350	**1,088**	**5,262**

	2013		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	1,067	298	769
Between one and five years	2,703	509	2,194
More than five years	287	15	272
	4,057	**822**	**3,235**

[3] The related deferred tax expense of RUB 33 million (2013: deferred tax benefit of RUB 11 million) is recognised in other comprehensive income, see note 16(b)

(b) Operating leases

During 2013-2014, LLC "PhosAgro-Trans", a group subsidiary, entered into several operating lease agreements to rent railway wagons. The rent payments for 2014, which are recorded in the cost of sales, amounted to RUB 489 million (2013: RUB 693 million).

The non-cancellable operating lease rentals are payable as follows:

	31 December 2014 RUB Million	31 December 2013 RUB Million
Less than one year	174	503
Between one and five years	214	376
	388	**879**

27 TRADE AND OTHER PAYABLES

	31 December 2014 RUB million	31 December 2013 RUB million
Trade accounts payable	3,902	2,179
Dividends payable	2,590	63
Advances received	2,599	1,793
Taxes payable	2,362	1,614
Payable for property, plant and equipment	1,891	916
Accruals	1,178	1,633
Payables to employees	735	1,092
Other payables	64	87
	15,321	**9,377**

28 FINANCIAL RISK MANAGEMENT

(a) Overview

In the normal course of its operations, the Group has exposure to market, credit and liquidity risks.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily USD and EUR.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group uses from time to time derivative financial instruments in order to manage its exposure to currency risk. The Group implemented a natural hedge approach/policy aiming at reducing its exposure to foreign currency risk by means of borrowing in the same currencies in which sales agreements are denominated.

The Group has the following foreign-currency-denominated financial assets and liabilities:

RUB Million	31 December 2014		31 December 2013	
	USD denominated	EUR denominated	USD denominated	EUR denominated
Current assets				
Receivables	2,162	1	1,411	569
Current investments	1,424	-	1,473	-
Cash and cash equivalents	23,793	1,212	4,332	534
Non-current liabilities				
Loans and borrowings	(87,353)	(2,649)	(39,069)	(274)
Current liabilities				
Payables	(846)	(3,522)	(53)	(90)
Loans and borrowings	(20,982)	(775)	(12,440)	(361)
	(81,802)	**(5,733)**	**(44,346)**	**378**

Management estimate that a 10% strengthening/(weakening) of RUB against USD and EUR, based on the Group’s exposure as at the reporting date would have decreased/(increased) the Group’s loss for the year by RUB 8,754 million, before any tax effect (2013: would have increased/(decreased) the Group’s profit for the year by RUB 4,397 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013.

In 2014, the Group incurred a significant foreign exchange loss, net in the amount of RUB 33,545 million resulting primarily from foreign exchange differences on the Group’s portfolio of loans and borrowings.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group.

Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The interest rate profile of the Group’s interest-bearing financial instruments is as follows:

	31 December 2014 RUB Million	31 December 2013 RUB Million
Fixed rate instruments		
Long-term loans issued at amortised cost	1,013	440
Short-term promissory notes	1,424	1,473
Finance lease receivable	32	123
Short-term deposits	16,931	2,349
Short-term loans issued at amortised cost	231	200
Long-term borrowings	(38,953)	(18,954)
Short-term borrowings	(11,521)	(2,024)
	(30,843)	**(16,393)**
Variable rate instruments		
Long-term borrowings	(54,049)	(20,596)
Short-term borrowings	(18,746)	(10,873)
	(72,795)	**(31,469)**

At 31 December 2014, a 1% increase/(decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group’s profit or loss and equity by RUB 728 million (31 December 2013: RUB 315 million).

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises from the Group's receivables from customers, loans issued to related parties, current and non-current financial assets and cash and cash equivalents.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual specific characteristics of each customer. The general characteristics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum amount of outstanding receivables; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The majority of the Group's customers have been transacting with the Group for several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics. Trade and other receivables relate mainly to the Group's wholesale customers.

The Group does not require collateral in respect of trade and other receivables, except for new customers who are required to work on a prepayment basis or present an acceptable bank guarantee or set up letter of credit with an acceptable bank.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The analysis of overdue trade accounts receivable is as follows:

	31 December 2014 RUB Million	31 December 2013 RUB Million
Not past due	5,966	3,758
Past due 0-180 days	325	138
Past due 180-365 days	103	2
More than one year	600	262
	6,994	**4,160**

Current and non-current financial assets

The Group lends money to related parties, who have good credit standing. Based on the prior experience, management believes that there is no significant credit risk in respect of related party loans.

As at 31 December 2014, the Group's other current investments include promissory notes with the gross amount of RUB 2,848 million, including interest receivable in the amount of RUB 317 million (31 December 2013: RUB 1,473 million), issued by an entity affiliated to a bank, which is currently undergoing a financial recovery procedure monitored by the Deposit Insurance Agency. Given the uncertainties associated with this procedure, the Group recognised a 50% provision of the book value of these promissory notes and interest receivable in the amount of RUB 1,424 million.

Cash and cash equivalents

The Group held cash and cash equivalents of RUB 30,687 million as at 31 December 2014 (2013: RUB 8,938 million). The most significant amounts of cash and cash equivalents were held in the following banks:

- OJSC National Bank "Trust" of RUB 7,458 million (2013: RUB 4,960 million);
- OJSC "Sberbank of Russia" of RUB 7,258 million (2013: RUB 99 million);
- JSC "UniCredit Bank" of RUB 5,801 million (2013: RUB 28 million);
- JSC "Alfa-Bank" of RUB 3,938 million (2013: RUB nil million);
- JSC "Raiffeisenbank" of RUB 2,608 million (2013: RUB 189 million).

Subsequent to the reporting date, the Group transferred cash from OJSC National Bank "Trust" to other banks. No losses have been incurred.

Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

The Group's policy is to provide financial guarantees only to the subsidiaries or related parties.

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains several lines of credit in various Russian and international banks.

The table below illustrates the contractual maturities of financial liabilities, including interest payments:

	31 December 2014							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Unsecured bank loans	85,534	91,329	30,946	27,847	19,699	6,932	1,578	4,327
Unsecured loans from associates	242	243	243	-	-	-	-	-
Unsecured loans from other companies	571	607	11	11	11	574	-	-
Unsecured loans from related parties	46	50	50	-	-	-	-	-
Letters of credit	3,548	3,781	1,083	2,444	254	-	-	-
Interest payable	555	555	555	-	-	-	-	-
Secured finance leases	5,262	6,350	1,725	1,582	1,234	925	569	315
Loan participation notes	28,066	32,200	1,166	1,169	1,166	28,699	-	-
Trade and other payables	9,621	9,621	9,621	-	-	-	-	-
Financial guarantees issued for associates and related parties	2,058	2,058	-	5	1	49	2,003	-
	135,503	**146,794**	**45,400**	**33,058**	**22,365**	**37,179**	**4,150**	**4,642**

	31 December 2013							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Secured bank loans	76	76	76	-	-	-	-	-
Unsecured bank loans	31,676	33,165	11,981	4,574	11,935	3,431	1,244	-
Unsecured loans from associates	361	375	375	-	-	-	-	-
Unsecured loans from other companies	327	329	329	-	-	-	-	-
Letters of credit	491	535	15	229	9	282	-	-
Interest payable	309	309	309	-	-	-	-	-
Secured finance leases	3,235	4,057	1,067	870	783	601	449	287
Loan participation notes	16,281	19,376	673	671	672	671	16,689	-
Trade and other payables	4,878	4,878	4,878	-	-	-	-	-
Financial guarantees issued for associates and related parties	2,477	2,477	83	-	10	3	36	2,345
	60,111	**65,577**	**19,786**	**6,344**	**13,409**	**4,988**	**18,418**	**2,632**

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital invested and the level of dividends to shareholders.

There were no changes in the Board's approach to capital management during the year.

The Company and its subsidiaries are subject to externally imposed capital requirements including the statutory requirements of the country of their domicile and the bank covenants.

(f) Fair values

Unless stated otherwise, management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

29 COMMITMENTS

The Group has entered into contracts to purchase plant and equipment for RUB 28,766 million (31 December 2013: RUB 23,891 million).

30 CONTINGENCIES

(a) Litigation

The Group has a number of small claims and litigations relating to regular business activities and small fiscal claims. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

(b) Taxation contingencies

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.

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 relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Environmental contingencies

The environmental legislation, currently effective in the Russian Federation, is relatively new and characterised by frequent changes, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different authorities.

The Group is involved in chemical production, which is inherently exposed to significant environmental risks. The Group companies record environmental obligations as they become probable and reliably measurable. The Group companies are parties to different litigations with the Russian environmental authorities. The management believes that based on its interpretations of applicable Russian legislation, official pronouncements and court decisions no provision is required for environmental obligations. However, the interpretations of the relevant authorities could differ from management's position and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In August 2014, 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 in the court. In September 2014, the Arbitration Court in Murmansk region rejected the claim of Rosprirodnadzor. In January 2015, the Court of Appeal confirmed the legitimacy of this decision. In March 2015, Rosprirodnadzor filed a cassation claim against the decision of the Arbitration Court in Murmansk region and the resolution of the Court of Appeal.

31 RELATED PARTY TRANSACTIONS

(a) Transactions and balances with associates

(i) Transactions with associates

	2014 RUB million	2013 RUB million
Sales of goods and services	1,589	9,173
Interest income	31	113
Purchases of goods and services	(225)	(1,050)
Acquisition of CJSC "Nordic Rus Holding"	-	(4,676)
Acquisition of Phosint Trading Limited and Phosagro Asia Pte Ltd	-	(146)
Interest expense to associates	-	(11)

(ii) Balances with associates

	31 December 2014 RUB million	31 December 2013 RUB million
Advances issued for construction of property, plant and equipment	-	33
Trade and other receivables	156	455
Trade and other payables	(19)	(13)
Short-term loans received	(242)	(361)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of associates amounting to RUB 1,880 million (31 December 2013: RUB 2,151 million).

(b) Transactions and balances with other related parties

(i) Transactions with other related parties

	2014 RUB million	2013 RUB million
Sales of goods and services	340	406
Interest income	4	2
Purchases of goods and services	(83)	(72)

(ii) Balances with other related parties

	31 December 2014 RUB million	31 December 2013 RUB million
Long-term loans issued, at amortised cost	466	48
Short-term loans issued, at amortised cost	7	17
Trade and other receivables	81	4
Trade and other payables	(21)	(47)
Short-term loans received	(46)	-
Dividends payable to shareholders of the Parent	(2,590)	

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of related parties amounting to RUB 178 million (31 December 2013: RUB 326 million).

(c) Key management remuneration

The remuneration of the Board of Directors and 13 members of key management personnel amounted to RUB 394 million (2013: RUB 270 million).

32 SIGNIFICANT SUBSIDIARIES

Subsidiary	Country of incorporation	31 December 2014 Effective ownership (rounded)	31 December 2013 Effective ownership (rounded)
Apatit, JSC (including Balakovo branch)	Russia	100%	100%
PhosAgro-Cherepovets, JSC [4]	Russia	100%	88%
Metachem, CJSC	Russia	100%	100%
NIUIF, OJSC	Russia	94%	94%
PhosAgro AG, CJSC	Russia	100%	100%
Agro-Cherepovets, CJSC	Russia	100%	100%
PhosAgro-Trans, LLC	Russia	100%	100%
PhosAgro-Region, LLC	Russia	100%	100%
PhosAgro-Belgorod, LLC	Russia	100%	100%
PhosAgro-Don, LLC	Russia	100%	100%
PhosAgro-Kuban, LLC	Russia	100%	100%
PhosAgro-Kursk, LLC	Russia	100%	100%
PhosAgro-Lipetsk, LLC	Russia	100%	75%
PhosAgro-Oryol, LLC	Russia	100%	100%
PhosAgro-Stavropol, LLC	Russia	100%	100%
PhosAgro-Volga, LLC	Russia	100%	100%
PhosAgro-SeveroZapad, LLC [5]	Russia	100%	-
PhosAgro-Tambov, LLC [5]	Russia	100%	-
Trading house PhosAgro, LLC	Russia	100%	100%
Phosint Trading Limited	Cyprus	100%	100%
Phosagro Asia Pte Ltd	Singapore	100%	100%
Nordic Rus Holding, CJSC	Russia	100%	100%

33 EVENTS SUBSEQUENT TO THE REPORTING DATE

In January 2015, dividends payable as at 31 December 2014 in the amount of RUB 2,590 million were paid to shareholders.

In March 2015, shareholders of JSC "PhosAgro-Cherepovets" approved the merger of CJSC "Agro-Cherepovets", CJSC "PhosAgro AG" and CJSC "Nordic Rus Holding" into JSC "PhosAgro-Cherepovets".

In April 2015, the Board of Directors proposed paying a dividend of RUB 15 per ordinary share. The total amount of proposed dividends was RUB 1,943 million.

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[4] See note 22(d) on acquisition of non-controlling stakes in JSC "PhosAgro-Cherepovets"
[5] See note 22(f) on acquisition of non-controlling stakes in LLC "PhosAgro-SeveroZapad" and LLC "PhosAgro-Tambov"