URALKALI GROUP

Consolidated financial statements
for the year ended 31 December 2016

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Notes to the Consolidated Financial Statements

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Public Joint Stock Company "Uralkali"

Opinion

We have audited the consolidated financial statements of Public Joint Stock Company "Uralkali" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss, other comprehensive income, statement of changes in equity and statement of cash flows for 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for 2016 in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Assessment of compliance with covenants Refer to Note 2 Basis of preparation and significant accounting policies, Going Concern Statement and Note 17 Borrowings. The Group is highly leveraged with net debt of US$ 5,517,260 thousand as at 31 December 2016 and has to comply with certain financial and non-financial covenants. Management prepares financial forecasts to assess the Group's ability to comply with covenants in the future. These financial forecasts are particularly sensitive to changes in exchange rates and potash prices forecasts.	We challenged the key assumptions in management's financial forecast by: • Assessing covenant compliance forecasts, including stress tests scenarios and related mitigation plans; • Testing the appropriateness of management's assumptions including exchange rates and potash prices, inflation rate, and discount rate; • Performing our own sensitivity analysis to test the adequacy of the available headroom, particularly related to covenant compliance.
Goodwill Impairment Refer to Note 5 Critical accounting estimates and judgements in applying accounting policies and Note 9 Goodwill. Goodwill impairment is one of the key audit matters due to the significance of goodwill to the Group's consolidated statement of financial position, and due to inherent uncertainty involved in forecasting and discounting future cash flows which are the basis for the assessment of the recoverable amount of goodwill.	We challenged management's significant assumptions used in the impairment testing for goodwill, and specifically the cash flow projections, by: • comparing the long term potash prices in the projections with external forecasts; • benchmarking the discount rate to other mining companies; • assessing the historical accuracy of management's budgets and forecasts, and seeking appropriate evidence for anticipated improvements in major assumptions such as production volumes or cost reductions. We corroborated previous forecasts with actual data. We also ran a range of sensitivity tests to confirm that no impairment was required if less optimistic assumptions were applied for forecasted potash price, discount and exchange rates. We evaluated the adequacy and accuracy of disclosures in the consolidated financial statements relating to the goodwill impairment.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Chaban Dmitriy
Engagement partner

Deloitte & Touche

13 March 2017

Закрытое акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

Audited entity: Public Joint Stock Company "Uralkali"

Certificate of state registration №. 1128 issued on 14 October 1992 by the Berezniki Administration, Perm region

Certificate of registration in the Unified State Register of Legal Entities № 1025901702188 issued on 11 September 2002

Location: 63 Pyatiletki ul., Berezniki, 618426, the Perm region

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration №. 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484

(in thousands of US dollars, unless otherwise stated)

URALKALI®

	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	8	2,244,153	1,682,974
Prepayments for acquisition of property, plant and equipment and intangible assets		186,831	134,408
Goodwill	9	972,536	809,397
Intangible assets	10	2,869,387	2,424,983
Deferred income tax asset	27	47,408	56,721
Income tax prepayments	11	26,222	82,218
Loan issued	6	188,762	-
Prepaid transaction costs on bank facilities		81,410	2,633
Other non-current assets		3,600	3,217
Investment in associate		23,942	20,110
Total non-current assets		**6,644,251**	**5,216,661**
Current assets:			
Inventories	12	162,036	130,231
Trade and other receivables	13	261,554	399,830
Advances to suppliers		27,502	25,307
Income tax prepayments	11	32,868	84,760
Other financial assets[1]		68,267	67,599
Restricted cash	14	-	200,000
Cash and cash equivalents	14	1,485,521	1,111,878
Total current assets		**2,037,748**	**2,019,605**
TOTAL ASSETS		**8,681,999**	**7,236,266**
EQUITY			
Share capital	15	35,762	35,762
Treasury shares	15	(26,909)	(23,953)
Share premium		509,484	1,012,662
Currency translation reserve		(3,739,971)	(3,706,496)
Retained earnings		3,486,183	2,057,321
Equity attributable to the company's equity holders		**264,549**	**(624,704)**
Non-controlling interests		11,533	11,670
TOTAL EQUITY		**276,082**	**(613,034)**
LIABILITIES			
Non-current liabilities:			
Borrowings	17	4,590,673	3,579,194
Bonds	18	582,357	580,883
Post-employment and other long-term benefit obligations		34,424	28,343
Deferred income tax liability	27	579,237	377,132
Provisions	16	164,683	109,882
Derivative financial liabilities	19	123,753	358,123
Total non-current liabilities		**6,075,127**	**5,033,557**
Current liabilities:			
Borrowings	17	1,827,201	2,325,470
Bonds	18	2,550	3,785
Trade and other payables	20	223,259	203,859
Advances received		49,604	23,166
Provisions	16	43,127	11,176
Derivative financial liabilities	19	153,372	227,480
Current income tax payable		7,580	1,259
Other taxes payable		24,097	19,548
Total current liabilities		**2,330,790**	**2,815,743**
TOTAL LIABILITIES		**8,405,917**	**7,849,300**
TOTAL LIABILITIES AND EQUITY		**8,681,999**	**7,236,266**

Approved for issue and signed on behalf of the Board of Directors on 13 March 2017.

Dmitry Osipov
Chief Executive Officer

Anton Vishanenko
Chief Financial Officer

[1] Please refer to p. 2.9 of these consolidated financial statements.

(in thousands of US dollars, unless otherwise stated)

	Note	2016	2015
Revenues	21	2,278,249	3,123,302
Cost of sales	22	(549,766)	(568,758)
Gross profit		**1,728,483**	**2,554,544**
Distribution costs	23	(547,676)	(604,264)
General and administrative expenses	24	(154,082)	(156,884)
Taxes other than income tax		(25,414)	(24,826)
Other operating expenses, net	25	(12,741)	(43,329)
Operating profit		**988,570**	**1,725,241**
Finance income/(expenses), net	26	768,126	(1,517,642)
Profit before income tax		**1,756,696**	**207,599**
Income tax expense	27	(329,550)	(23,831)
Net profit for the year		**1,427,146**	**183,768**
Profit/(Loss) attributable to:			
Owners of the Company		1,427,283	181,242
Non-controlling interests		(137)	2,526
Net profit for the year		**1,427,146**	**183,768**
Weighted average number of ordinary shares in issue (million)		1,417	2,199
Earnings per share – basic and diluted (in US cents)		**100.73**	**8.24**

(in thousands of US dollars, unless otherwise stated)

	2016	2015
Net profit for the year	**1,427,146**	**183,768**
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurement of post-employment benefit obligations	1,579	(3,164)
Effect of translation to presentation currency	(33,475)	(97,360)
Total other comprehensive loss for the year	**(31,896)**	**(100,524)**
Total comprehensive income for the year	**1,395,250**	**83,244**
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Company	1,395,387	80,718
Non-controlling interests	(137)	2,526

(in thousands of US dollars, unless otherwise stated)

	Note	2016	2015
Cash flows from operating activities			
Profit before income tax		1,756,696	207,599
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	8, 10	194,151	220,346
Expenses related to mine flooding provision	25	207	10,113
Reversal of impairment of Solikamsk-2 property, plant and equipment and assents under construction	25	(582)	(27,248)
Loss on disposals of property, plant and equipment and intangible assets	25	9,322	22,390
Loss on impairment of prepayments for acquisition of property, plant and equipment and intangible assets	25	(2,207)	2,414
Impairment of financial assets	26	297	-
Provision for obsolete inventories		3,770	-
Impairment of property, plant and equipment and assets under construction	25	3,773	1,558
(Reversal)/accrual of provision for impairment of trade and other receivables and advances given	25	(991)	8,337
Accrual of resettlement provision	25	9,792	-
Change in provisions, net		(563)	(33,782)
Fair value (gain)/loss on derivative financial liabilities, net	26	(184,983)	232,759
Foreign exchange (gain)/loss, net	26	(888,967)	1,038,810
Other finance income and expense, net	26	305,527	246,073
Operating cash flows before working capital changes		**1,205,242**	**1,929,369**
Decrease in trade and other receivables and advances to suppliers		165,064	132,993
Increase in inventories		(4,042)	(29,742)
(Decrease)/increase in trade and other payables and advances received		(4,634)	77,447
Increase in other taxes payable/receivable		16,037	11,664
Cash generated from operations		**1,377,667**	**2,121,731**
Interest paid		(318,848)	(278,042)
Income taxes paid net of refunds received		(46,835)	(62,601)
Net cash generated from operating activities		**1,011,984**	**1,781,088**
Cash flows from investing activities			
Acquisition of intangible assets		(5,732)	(3,461)
Acquisition of property, plant and equipment		(317,399)	(339,169)
Proceeds from sales of property, plant and equipment		590	-
Loan issued		(477,438)	-
Loan repaid		292,536	-
Purchase of other financial assets at fair value through profit or loss		-	(7,792)
Proceeds from sale of other financial assets at fair value through profit or loss		-	8,367
Deferred payment for the share in associate		-	(4,000)
Decrease in deposits		-	370,000
Increase in deposits		-	(70,000)
Dividends and interest received		13,504	36,632
Net cash used in investing activities		**(493,939)**	**(9,423)**
Cash flows from financing activities			
Repayments of borrowings	17	(898,025)	(929,885)
Proceeds from borrowings	17	1,350,389	1,924,709
Arrangement fees and other financial charges paid		(112,269)	(32,678)
Cash proceeds from derivatives	19	14,671	49,621
Cash paid for derivatives	19	(215,620)	(94,337)
Purchase of treasury shares	15	(506,134)	(3,366,878)
Decrease/(increase) in restricted cash		200,000	(200,000)
Finance lease payments		(40)	(476)
Dividends paid to non-controlling interests		-	(246)
Dividends paid to the Company's shareholders		(106)	(259)
Net cash used in financing activities		**(167,134)**	**(2,650,429)**
Effect of changes in foreign exchange rate changes in cash and cash equivalents		22,732	(164,605)
Net increase/(decrease) in cash and cash equivalents		**373,643**	**(1,043,369)**
Cash and cash equivalents at the beginning of the year	**14**	**1,111,878**	**2,155,247**
Cash and cash equivalents at the end of the year	**14**	**1,485,521**	**1,111,878**

(in thousands of US dollars, unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital	**Treasury shares**	**Share premium**	**Retained earnings**	**Currency translation reserve**	**Total attributable to owners of the Company**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2015	**35,762**	**(5,759)**	**4,361,346**	**1,879,243**	**(3,609,136)**	**2,661,456**	**9,383**	**2,670,839**
Profit for the period	-	-	-	181,242		181,242	2,526	183,768
Other comprehensive loss	-	-	-	(3,164)	(97,360)	(100,524)	-	(100,524)
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**178,078**	**(97,360)**	**80,718**	**2,526**	**83,244**
Transactions with owners								
Dividends declared	-	-	-	-	-	-	(239)	(239)
Purchase of treasury shares (Note 15)	-	(18,194)	(3,348,684)		-	(3,366,878)	-	(3,366,878)
Total transactions with owners	**-**	**(18,194)**	**(3,348,684)**	**-**	**-**	**(3,366,878)**	**(239)**	**(3,367,117)**
Balance at 31 December 2015	**35,762**	**(23,953)**	**1,012,662**	**2,057,321**	**(3,706,496)**	**(624,704)**	**11,670**	**(613,034)**
Profit/(loss) for the period	-	-	-	1,427,283	-	1,427,283	(137)	1,427,146
Other comprehensive income/(loss)	-	-	-	1,579	(33,475)	(31,896)	-	(31,896)
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**1,428,862**	**(33,475)**	**1,395,387**	**(137)**	**1,395,250**
Transactions with owners								
Purchase of treasury shares (Note 15)	-	(2,956)	(503,178)	-	-	(506,134)	-	(506,134)
Total transactions with owners	**-**	**(2,956)**	**(503,178)**	**-**	**-**	**(506,134)**	**-**	**(506,134)**
Balance at 31 December 2016	**35,762**	**(26,909)**	**509,484**	**3,486,183**	**(3,739,971)**	**264,549**	**11,533**	**276,082**

The accompanying notes on pages 11 to 47 are an integral part of these consolidated financial statements.

1 The Uralkali Group and its operations

Public Joint Stock Company Uralkali (the "Company") and its subsidiaries (together the "Group") produce mineral fertilizers, which are extracted and processed in the vicinity of the cities of Berezniki and Solikamsk, Russia. They are distributed both on foreign and domestic markets. The Group manufactures various types of products, the most significant being a wide range of potassium salts. The Group is a major Russia-based potash manufacturer. For the year ended 31 December 2016 approximately 79% of total volume of the potash fertilizers was exported (for the year ended 31 December 2015: 82%).

The Company holds operating licences, issued by the Perm regional authorities for the extraction of potassium, magnesium and sodium salts from the Durimanskiy, Bigelsko-Troitsky, Solikamskiy (north and south parts), Novo-Solikamskiy and Romanovskoye plots of the Verkhnekamskoye field. The licences were prolonged on 1 April 2013 till 2018-2021 at nominal cost. In 2016 licences previously valid till 2018 were prolonged till 2043 - 2055 (north part of Solikamskiy plot, Bigelsko-Troitsky and Novo-Solikamskiy plots). The Company also owns a licence for the Ust'-Yaivinskiy plot of the Verkhnekamskoye field, which expires in 2024, and for the Polovodovskiy plot of the Verkhnekamskoye field, which expires in 2028.

As at 31 December 2016 and 31 December 2015 the Group had no ultimate controlling party.

The Company was incorporated in the Russian Federation on 14 October 1992 and has its registered office at 63 Pyatiletki St., Berezniki, Perm region, Russian Federation. Almost all of the Group's production capacities and all long-term assets are located in the Russian Federation. As at 31 December 2016 the Group employed approximately 20.5 thousand employees (31 December 2015: 21.3 thousand).

2 Basis of preparation and significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the periods presented.

2.1 Basis of preparation and presentation

Compliance with International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Going concern

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

In making this assessment the Group has taken into account its financial position, expected commercial results, its borrowings, as well as planned capital expenditures and capital commitments and other risks which the Group is exposed to. After making appropriate enquires, the Group considers that it has adequate resources to continue in operational existence for at least the next 12 months from the date of issuance of these consolidated financial statements. Consequently, Management of the Group has determined that it is appropriate to adopt the going concern basis in the preparation of these consolidated financial statements.

2 Basis of preparation and significant accounting policies (continued)

Basis of presentation

The Company and its subsidiaries maintain their books and records in Russian roubles in accordance with statutory accounting and taxation principles and practices applicable in respective jurisdictions. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from these generally accepted under IFRS. Accordingly, such financial information has been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

2.2 Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and their subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.3 Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

2.4 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment loss. Cost includes all costs directly attributable to bringing the asset to its working condition for its intended use. Property, plant and equipment acquired through business combinations are recorded at fair value determined by independent valuation at the date of acquisition, less accumulated depreciation and accumulated impairment since acquisition date.

At each reporting date management reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss within other operating expenses.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use and fair value less costs to sell.

(in thousands of US dollars, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

Repair and maintenance expenditures are expensed as incurred. Major renewals and improvements are capitalised. Gains and losses on disposals are determined by comparing proceeds with the carrying amount are recognised in profit or loss.

Depreciation on property, plant and equipment items is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	10 to 60
Mining assets[2]	5 to 30
Plant and equipment	2 to 30
Transport vehicles	5 to 15
Other	2 to 15
Land	Not depreciated

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

2.5 Operating leases

Leases where substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged on a straight-line basis over the lease term to the profit or loss. Operating leases include long-term leases of land with rental payments contingent on cadastral values regularly reviewed by the government.

2.6 Finance lease liabilities

Where the Group is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of future finance charges, are included in borrowings.

The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

2.7 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (hereinafter – "CGU") or groups of CGUs that is expected to benefit from the synergies of the combination.

CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

[2] Mining assets include mine infrastructure and present value of future decommissioning and filling cavities costs. Depreciation methods applied to these mining assets as well as their useful lives are stated in Note 2.23. Future decommissioning costs for buildings and equipment are included in Buildings and Plant and equipment groups.

2 Basis of preparation and significant accounting policies (continued)

2.8 Intangible assets

The Group's intangible assets, other than goodwill, have definite useful lives and primarily include mining licences. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, or, in the case of assets acquired in a business combination, at fair value as at the date of the combination and subsequently on the same basis as intangible assets that are acquired separately.

Expenditure on software, patents, trademarks and non-mineral licences are capitalised and amortised using the straight-line method over their useful lives. Mining licences are amortized under a unit of production method.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

2.9 Classification of financial assets and liabilities

The Group classifies its financial assets into the following measurement categories: (a) financial assets at fair value through profit or loss; (b) loans and receivables; (c) investments held-to-maturity; and (d) available-for-sale financial assets.

Derivative financial instruments, represented by cross-currency interest rate and interest rate swaps, are carried at their fair value. All derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The income received from currency-interest rate swap transactions reduces interest expense. The Group does not apply hedge accounting.

Other financial assets held to maturity are financial assets, represent highly liquid corporate bonds, which at initial recognition have been classified as financial assets held for trading at fair value through profit or loss. During 2016, management decided to hold these corporate bonds to maturity. These assets held to maturity are carried at amortized cost calculated using the effective interest rate method. This change in accounting estimate is applied prospectively since 1 January 2016.

All other financial assets are included in the available-for-sale category.

Financial liabilities have the following measurement categories: (a) held for trading, which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

2.10 Financial instruments – key measurement terms

Depending on their classification, financial instruments are carried at fair value, cost or amortised cost, as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Financial instruments measured at fair value are analysed by levels of the fair value hierarchy as follows:

(i) level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(ii) level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and

(iii) level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

2 Basis of preparation and significant accounting policies (continued)

2.11 Initial recognition of financial instruments

Derivatives and other financial assets at fair value through profit or loss are initially recorded at fair value. All other financial assets/liabilities are initially recorded at fair value plus/minus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

A gain or loss on initial recognition is only recorded if there is a difference between the fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. All regular way purchases and sales of financial instruments are recognised on the trade date, which is the date that the Group commits to purchase or sell the financial instrument.

2.12 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and net amount is presented in the statement of financial position only when there is a legally enforceable right to set-off the recognised amounts, and there is intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. The right to offset (1) must not be contingent on a future event and (2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business activities, (b) in the event of default and (c) in the case of insolvency or bankruptcy.

2.13 Derecognition of financial assets and liabilities

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

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.14 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the reporting date in each of the jurisdictions where the Group’s entities are incorporated. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

The Group's uncertain tax positions are assessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the reporting date.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

2 Basis of preparation and significant accounting policies (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post-acquisition retained earnings of subsidiaries, since the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

2.15 Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis. The cost of finished products and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

The Group has capitalized transportation costs incurred related to finished goods and necessary for their transportation to the warehouses, where the shipment is performed, in the cost of finished goods.

2.16 Trade and other receivables

Trade and other receivables are measured at amortised cost using the effective interest method. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss.

2.17 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and deposits with original maturity of more than three months held for the purpose of meeting short-term cash needs that are convertible into known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Restricted balances being exchanged or used to settle liabilities at least twelve months after the reporting date are shown separately from cash and cash equivalents for the purposes of the consolidated statement of financial position and are included in non-current assets.

Bank overdrafts which are repayable on demand are included as a component of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

2.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, other than on a business combination, are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented as share premium.

2.19 Treasury shares

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2 Basis of preparation and significant accounting policies (continued)

2.20 Dividends

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

2.21 Value added tax (VAT)

Output VAT is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis (if the Company has no right to set-off) and disclosed separately as an asset and liability. Where a provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debt, including VAT.

2.22 Borrowings

Borrowings are measured at amortised cost using the effective interest method. Borrowing costs are recognised as an expense on a time-proportion basis using the effective interest method.

The Group capitalises borrowing costs relating to assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) as part of the cost of the asset. The Group considers a qualifying asset to be an investment project with an implementation period exceeding one year.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that a cash outflow will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

Net present value of provisions is determined by discounting future real cash outflows associated with the specific past event. The Group determined the yield to maturity of the Russian government bonds as a discount factor for discounting the future real cash outflows associated with provisions to reflect the time value of money.

***Provision for filling cavities*.** The Group recognises provision for filling cavities in respect of the Group's obligation to replace the earth extracted from the mines. The provision is recognised when the Group has a legal or constructive obligation in accordance with the plan of works agreed with the state mine supervisory bodies.

The estimated future filling cavities costs, discounted to net present value, are accounted together with the respective items of property, plant and equipment and corresponding obligations. The additions of property, plant and equipment are depreciated on a straight-line basis over the useful life of the corresponding asset. A change in present value of the obligation is recognised in profit or loss as part of finance costs. Changes to estimated future costs are recognised in the consolidated statement of financial position by either increasing or decreasing the provision for filling cavities and asset to which it relates. The Group reassesses its estimation of filling cavities provision as at the end of each reporting period.

***Provision for asset retirement obligations*.** The company recognises provisions for decommissioning obligations (also known as asset retirement obligations) primarily related to mining activities (Note 16). The major categories of asset retirement obligations are restoration costs at its potash mining operations, including decommissioning of underground and surface operating facilities and general cleanup activities aimed at returning the areas to an environmentally acceptable condition.

The present value of a liability for a decommissioning obligation is recognised in the period in which it is incurred if a reasonable estimate of present value can be made. The associated costs are capitalised as a separate part of the property, plant and equipment and then depreciated over the estimated remaining useful life of mine. The best estimate of the amount required to settle the obligation is reviewed at the end of each reporting period and updated to reflect changes in the discount and inflation rates and the amount and/or timing of the underlying cash flows.

(in thousands of US dollars, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

Changes to estimated future costs are recognised in the consolidated statement of financial position by either increasing or decreasing the provision for asset retirement obligations and asset to which it relates. The unwinding of the discount of decommissioning obligations due to the passage of time is included in the consolidated statement of profit or loss as finance costs.

2.24 Trade and other payables

Trade payables are accrued when the counterparty has performed its obligations under contract and are carried at amortised cost using the effective interest method.

2.25 Foreign currency translation

Functional and presentation currency. Functional currency of each company of the Group is the national currency of the Russian Federation, Russian Rouble ("RR"). The presentation currency of these consolidated financial statements is US dollar ("US$").

Transactions and balances. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end official exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items.

Translation to the presentation currency. The results and financial positions of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated to the presentation currency as follows:

(i) assets and liabilities for consolidated statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for consolidated statements of profit or loss, other comprehensive income and and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses and cash flows are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

Foreign currency exchange rates

The official rates of exchange, as determined by the Central Bank of the Russian Federation (CBRF):

	31 December 2016		**31 December 2015**	
	US$	Euro	US$	Euro
closing rate	60.66	63.81	72.88	79.70
average rate	67.03	74.23	60.96	67.78

2.26 Revenue recognition

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods under the appropriate INCOTERMS specified in the sales contracts;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales are shown net of VAT, export duties and discounts, and after eliminating sales within the Group. Revenues are measured at the fair value of the consideration received or receivable.

2 Basis of preparation and significant accounting policies (continued)

Revenue from sales of products other than potassium chloride (such as carnallite, salts, etc.) is recognised as Other revenue.

2.27 Transshipment, transport repairs and maintenance costs

Most of the transshipment costs are incurred by JSC "Baltic Bulker Terminal", a 100% subsidiary whose activity is related to the transshipment of fertilisers produced by the Group, and presented within distribution costs. In addition to this distribution costs include transport repairs and maintenance costs which are incurred by LLC "Vagon Depo Balahonzi", a 100% subsidiary of the Group. These costs include depreciation, payroll, material expenses and various general and administrative expenses.

2.28 Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

2.29 Social costs

The Group incurs social costs related to the provision of benefits such as health services and charity costs related to various social programmes. These amounts have been charged to other operating expenses.

2.30 Pension costs

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

For defined benefit pension plans, the cost of providing benefits is determined using the Projected Unit Credit Method and is charged to profit or loss so as to spread the cost over the service period of the employees. An interest cost representing the unwinding of the discount rate on the scheme liabilities is charged to profit or loss. The liability recognised in the consolidated statement of financial position, in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date. The plans are not externally funded. The defined benefit obligation is calculated annually by the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms of maturity approximating the terms of the relevant pension liability.

All actuarial gains and losses which arise in calculating the present value of the defined benefit obligation are recognised immediately in other comprehensive income.

2.31 Earnings per share

Earnings per share are determined by dividing the net income attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year. During current period diluted earnings per share are not different from basic earnings per share.

2.32 Segment reporting

The Group identifies and presents segments in accordance with the criteria set forth in IFRS 8, "*Operating segments"*, and based on the way the operations of the Company are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources. The chief operating decision-maker has been determined as Chief Executive Officer (hereinafter – "CEO"). It was determined, that the Group has one operating segment – the extraction, production and sales of potash fertilisers.

(in thousands of US dollars, unless otherwise stated)

3 Adoption of new or revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2016:

New or amended standard or interpretation:

- IAS 1 (Amended) *"Disclosure Initiative"*;
- IAS 16 (Amended) IAS 38 (Amended) *"Clarification of Acceptable Methods of Depreciation and Amortisation"*;
- IAS 27 (Amended) *"Equity Method in Separate Financial Statements"*;
- IFRS 10 (Amended), IFRS 12 (Amended) and IAS 28 (Amended) *"Investment Entities: Applying the Consolidation Exception"*;
- IFRS 11 (Amended) *"Accounting for Acquisitions of Interests in Joint Operations"*;
- IFRS 14 *"Regulatory Deferral Accounts"*;
- Annual improvements to IFRSs 2012-2014 Cycle.

The application of these amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

4 Application of new and revised International Financial Reporting Standards (IFRSs)

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New or amended standards or interpretations	Effective date[3] - for annual periods beginning on or after
IFRS 2 *"Classification and Measurement of Share-based Payment Transactions"*	1 January 2018
IAS 40 *"Transfers of objects of investment property"*	1 January 2018
IFRS 9 "*Financial Instruments"*	1 January 2018
IFRS 15 "*Revenue from Contracts with Customers (and the related Clarifications)"*	1 January 2018
IFRS 16 "*Leases"*	1 January 2019
Amendments to IFRS 10 and IAS 28 – "*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"*	Date to be determined by the IASB[4]
Amendments to IAS 7 *"Disclosure initiative"*	1 January 2017
Amendments to IAS 12 – *"Recognition of Deferred Tax Assets for Unrealised Losses"*	1 January 2017
Amendments to IFRS 4 – "*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"*	1 January 2018
IFRIC 22 "*Foreign Currency Transactions and Advance Consideration"*	1 January 2018
Amendments to IAS 40 – "*Transfers of Investment Property"*	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017

The Group is currently considering the potential impact of the adoption of these standards and amendments on the Group's consolidated financial statements.

[3] Early adoption is permitted for all new or amended standards and interpretations. IFRS 16 can be early adopted if IFRS 15 Revenue from Contracts with Customers has also been adopted.

[4] The amendment was initially issued in September 2014 with the effective date on 1 January 2016. In December 2015 the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been concluded.

5 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Provisions for mine Solikamsk-2 flooding

On 18 November 2014, a burst of suprasalt water was detected into the mined-out area of Solikamsk-2 ("SKRU-2"), which was caused by the negative development of the 1995 accident related to a mass collapse of the rock and subsequent substantial destruction of the water-proof layer – emergency circumstances which could not be prevented.

Comprehensive mitigation plan was developed immediately and has been executed throughout 2016 and 2015.

In line with the accident mitigation plan, the Group continues to comprehensively monitor the situation. Currently the Group is implementing a number of engineering and other arrangements to minimise the impact of the accident and reduce suprasalt water inflows into the mine.

During the twelve months ended 31 December 2015, the Group re-estimated costs required for liquidation of the accident consequences and updated provision for future expenses as at 31 December 2015 (Note 16).

The most significant estimates and judgements associated with the provision for mine Solikamsk-2 flooding are as follows:

- Period of time over which expenses are expected to be incurred. The major cash outflows are expected to be incurred up to 2023; and
- In 2016 management applied discount rates ranging from 8.2% to 8.4% (from 2015: 9.7% to 10.1%).

As at the date of approval of these consolidated financial statements there are no lawsuits against the Group for reimbursement of expenses resulting from the negative impact of the accident in the Solikamsk-2 mine.

Management believes that there are no liabilities relating to the Solikamsk-2 flooding other than those disclosed in the consolidated financial statements for the year ended 31 December 2016.

Provisions for mine Berezniki-1 flooding

Since 28 October 2006, the Group ceased production operations at the Berezniki-1 mine due to natural groundwater inflow that reached a level which could not be properly controlled by the Group.

In January 2007 the Government Committee for the prevention of negative consequences of the accident caused by the flooding of a mine in the Verkhnekamskoye field in Perm Region was set up. The Committee is still working, and a series of measures to prevent any negative consequences of the accident in Berezniki-1 are in place. The Company conducts constant monitoring of the mined-out area and is involved in other monitoring and prevention activities.

Management believes that as at 31 December 2016 there are no liabilities relating to the Berezniki-1 flooding which are not recorded or not disclosed in the consolidated financial statements.

Provision for filling cavities

A provision has been established in the consolidated financial statements for the Group's obligation to replace the ore and waste extracted from the Solikamsk mines and Berezniki-2 and Berezniki-4 mine (Note 16).

Management initially estimated the amount of legal obligations for filling cavities within fixed assets and subsequent change in estimates is recognised as change in assets and depreciated over its useful life using the straight-line method of depreciation. Remeasurement of an existing amount of these cavities that result from changes in estimates of mine surveys is recorded as an asset and is depreciated over its useful life using the straight-line method of depreciation. Unwinding of the discount is recognised in profit or loss in finance income and finance costs.

5 Critical accounting estimates and judgements in applying accounting policies (continued)

The amount of expenses incurred due to filling of the cavities for other reasons is recognised in the current period in the consolidated statement of profit or loss.

The major uncertainties that relate to the amount and timing of the cash outflows related to filling cavities and judgements made by management in respect of these uncertainties are as follows:

- Estimated time to fill cavities. Cash flow payments are expected to occur principally between 2023 and 2080;
- The extent of the filling cavities work which will have to be performed in the future may vary depending on the actual environmental situation. Management believes that the legal obligation to replace the ore and waste mined is consistent with the cavities filling plan agreed with the State Mine Supervisory Body;
- The future unit cost of replacing one cubic meter of the ore and waste mined may vary depending on the technology and the cost of methods utilised. Management estimates that the unit cost of replacing a cubic meter of waste and ore mined in future years, for the period of the current filling cavities plan, adjusted for the effect of inflation, will not be materially different from the actual cost incurred in the current period. The forecasted inflation rate in the Russian Federation is expected to be in the range of 4.5% to 5.4% for the period starting from 2017 till 2019 (2015: from 5.0% to 7.3%). Starting from 2020, the expected inflation rate in the Russian Federation is forecasted to be 4.7% (2015: 5.0%); and
- In 2016, management applied discount rates ranging from 8.2% to 8.6% (2015: from 9.7% to 10.1%).

Restructuring provision

The Group accrued a provision for the closing down of the processing and carnallite plants subdivision at Berezniki 1 (Note 16).

The major uncertainties that relate to the amount and timing of the cash outflows related to the restructuring works and assumptions made by management in respect of these uncertainties are as follows:

- Estimated costs of dismantling and restoration works for the dismantling of the processing and carnallite plants at Berezniki-1;
- Estimated time to complete works. Major cash outflows are expected to occur till 2019;
- In 2016 management applied discount rates ranging from 8.3% to 8.4% (2015: from 10.0% to 10.1%).

Provision for asset retirement obligations

The Group has recorded a provision relating to asset retirement obligations (Note 16), which will be settled at the end of estimated lives of mines, therefore requiring estimates to be made over a long period.

Environmental laws, regulations and interpretations by regulatory authorities, as well as circumstances affecting the Group's operations could change, either of which could result in significant changes to its current mining plans.

The recorded provision is based on the best estimate of costs required to settle the obligations, taking into account the nature, extent and timing of current and proposed restoration and closure techniques in view of present environmental laws and regulations. It is reasonably possible that the ultimate costs could change in the future and that changes to these estimates could have a material effect on the Group's consolidated financial statements.

The estimation of asset retirement obligation costs depends on the development of environmentally acceptable closure and post-closure plans. The Group uses appropriate technical resources, including internal consultants from scientific institutes JSC "NII Galurgii" and JSC "VNII Galurgii", to develop specific site closure and post-closure plans in accordance with the requirements of the legislation of the Russian Federation.

The major uncertainties that relate to the amount and timing of the cash outflows related to the asset retirement obligations and assumptions made by management in respect of these uncertainties are as follows:

- Mine life estimates. Cash flow payments are expected to occur principally between 2026 and 2069. These estimates are based on the management's current best assessment of the Group's current reserves;
- The extent of the restoration works which will have to be performed in the future may vary depending on the actual environmental situation. Management believes that the legal obligation for decommissioning of the underground and surface complex is consistent with the terms of licences;

5 Critical accounting estimates and judgements in applying accounting policies (continued)

- The future unit cost of decommissioning works may vary depending on the technology and the cost of resources used, as well as the inflation rate. The forecasted inflation rate in the Russian Federation is expected to be in the range of 4.5% to 5.4% for the period starting from 2017 till 2019 (2015: from 5.0% to 7.3%). Starting from 2020, the expected inflation rate in the Russian Federation is forecasted to be 4.7% (2015: 5.0%); and
- In 2016, management applied discount rates ranging from 8.5% to 8.6% (2015: from 9.3% to 9.5%).

Remaining useful life of property, plant and equipment and mining licences

Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical condition of assets and estimated period during which these assets will be bringing economic benefits to the Group (Note 8).

The Group holds operating mining licences for the production of potassium salts, magnesium and sodium which were extended to 2018-2021 upon their expiry on 1 April 2013. In 2016 licences previously valid until 2018 were prolonged to 2043 - 2055 (north part of Solikamskiy plot, Bigelsko-Troitsky and Novo-Solikamskiy plots). Management assesses the remaining useful life of mining licences on the basis of the expected mining reserves (Note 10).

The estimated remaining useful life of certain property, plant and equipment and mineral resources is beyond the expiry date of the relevant operating licences (Note 1). Management believes that in future the licences will be further renewed in due order at nominal cost. Any changes to this assumption could significantly affect prospective depreciation and amortisation charges and asset carrying values.

Goodwill

The Group tests goodwill for impairment at least annually. The main assumptions used in value-in-use calculations are described in Note 9.

Mining licences

Management makes estimates, judgements and significant assumptions to assess whether the recoverable amount of the licences exceeds their carrying value. This largely depends on the estimates about a range of technical and economic factors, including technology for construction of the mines, the level of capital expenditure needed to develop the deposit, the expected start of the production, the future potash prices and exchange rates. Since the assumptions used to estimate the above factors might change from period to period, the results of management estimates might also change from period to period.

Income tax prepayment

The Group has recorded an income tax prepayment recoverable after more than 12 months in the consolidated financial statements. There is an uncertainty in terms of using this payment to cover current liabilities of the Company to pay income taxes. As a consequence, the asset carrying amount may vary depending on the Company's financial performance in future periods.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 28.2).

6 Related parties

Related parties include shareholders, associates and entities under common ownership and control of the Group's major shareholders and key management personnel. The Company and its subsidiaries, in the ordinary course of their business, enter into various sale, purchase and service transactions with related parties. Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

On 8 July 2016, Onexim Group Limited ceased to be related party of the Group following disposal of 18.66% of the Company's share through Rinsoco Trading Limited.

(in thousands of US dollars, unless otherwise stated)

6 Related parties (continued)

Details of significant transactions between the Group and other related parties are disclosed below.

Outstanding balances with related parties under common control of significant shareholders	31 December 2016	31 December 2015
Loan issued including interest receivable	188 762	-
Trade and other payables	4 163	896
Advances received	1 317	158
Trade and other receivables	39	26
Cash and cash equivalents	-	400 423
Restricted cash	-	200 000
Prepayments for acquisition of property, plant and equipment and intangible assets	-	605

Cash and cash equivalents as at 31 December 2015 comprise cash on a brokerage account.

The loan to a related party is a US$ denominated revolving loan facility granted for a period of 2 years under market conditions.

Outstanding balances with associate	31 December 2016	31 December 2015
Trade and other payables	-	12,760

Transactions with related parties under common control of significant shareholders	2016	2015
Revenue (sales of potassium chloride)	27,497	22,243
Other revenue	1,264	-
Purchase of inventories	7,416	3,745
Transportation expenses	6,365	2,743
Purchase of property, plant and equipment and assets under construction	1,651	-
General and administrative expenses	1,450	1,300
Other expenses	88	104

Transactions with associate	2016	2015
Other income	6,317	-
Distribution costs	4,686	12,760
Transshipment	4,288	4,931

Key management's compensation

Key management personnel compensation consists of remuneration paid to executive directors and other directors for their services in full- or part-time positions. Compensation is made up of annual remuneration and a performance bonus depending on operating results.

Key management compensation is presented below:

	2016		2015	
	Expenses	Accrued liability	Expenses	Accrued liability
Short-term employee benefits	7,412	4,866	18,167	7,444
Termination benefits	134	-	1,952	-
Total	**7,546**	**4,866**	**20,119**	**7,444**

7 Segment information

The Group evaluates performance and makes investment and strategic decisions based on a review of the profitability of the Group as a whole, and based on operating segments. The company's operating segment has been determined based on reports reviewed by CEO, assessed to be Company's chief operating decision maker ("CODM"), that are used to make strategic decisions.

It was determined, that the Group has one operating segment – the extraction, production and sales of potash fertilizers.

The financial information reported on operating segments is based on the management accounts which are based on IFRS. The CODM performs an analysis of the operating results based on the measurements of:

- revenues;
- revenues net of freight, railway tariff and transshipment costs;
- operating profit;
- tonnes of potash sold, in thousands;
- cash cost ("CC") per unit sold (cost of sales adjusted for depreciation and amortisation); and
- cash capital expenditures net of VAT ("Cash CAPEX").

Business segment assets and liabilities are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements.

a) The following is an analysis of the Group's revenue and results from continuing operations for reportable segment:

	Note	**2016**	**2015**
Revenues	21	2,278,249	3,123,302
Revenues net of freight, railway tariff and transshipment costs	21, 23	1,850,970	2,645,414
Operating profit		988,570	1,725,241
Tonnes of potash sold in thousands		10,952	11,205
CC per unit sold (US dollar per tonne)		35	33
Cash CAPEX		323,130	342,630

The measurement of CC per tonne of potash sold reconciles to the IFRS reported figures on a consolidated basis as follows:

	Note	**2016**	**2015**
Cost of sales	22	549,766	568,758
Adjusted for:			
Depreciation and amortisation	22	(171,395)	(195,268)
CC		378,371	373,490
Tonnes of potash sold, in thousands		10,952	11,205
CC per tonne of potash sold (US dollar per tonne)		35	33

b) Geographical information

The analysis of Group sales by region was:	**2016**	**2015**
Russia	350,800	406,378
China, India, South East Asia	952,949	1,388,746
Latin America, USA	632,751	860,819
Europe, other countries	341,749	467,359
Total revenue	**2,278,249**	**3,123,302**

The sales are allocated by region based on the destination country.

c) Major customers

The Group had no external customers which represented more than 10% of the Group's revenues in the years ended 31 December 2016 and 2015.

(in thousands of US dollars, unless otherwise stated)

8 Property, plant and equipment

	Buildings	Mining assets	Plant and equipment	Transport	Assets under construction	Other	Land	Total
Cost								
Balance at 1 January 2015	**549,757**	**550,587**	**1,056,032**	**195,426**	**553,090**	**25,742**	**5,049**	**2,935,683**
Additions	66	-	345	7,431	338,988	279	2,838	349,947
Changes in estimates added to property, plant and equipment (Note 16)	-	68,730	-	-	-	-	-	68,730
Commissioning of assets and transfers	83,245	141,353	27,839	5,315	(258,916)	1,148	16	-
Disposals	(6,651)	(2,634)	(24,689)	(7,218)	(6,742)	(591)	(16)	(48,541)
Effect of translation to presentation currency	(137,501)	(126,204)	(242,487)	(45,480)	(137,892)	(6,000)	(1,616)	(697,180)
Balance at 31 December 2015	**488,916**	**631,832**	**817,040**	**155,474**	**488,528**	**20,578**	**6,271**	**2,608,639**
Additions	74	-	1,558	139	323,884	-	-	325,655
Changes in estimates added to property, plant and equipment (Note 16)	634	46,676	-	-	-	-	-	47,310
Commissioning of assets and transfers	105,932	1,915	157,932	17,116	(289,752)	(3,735)	74	(10,518)
Disposals	(4,000)	(996)	(18,445)	(2,468)	(6,678)	(226)	(14)	(32,827)
Effect of translation to presentation currency	110,991	123,964	185,732	32,530	101,110	3,347	1,270	558,944
Balance at 31 December 2016	**702,547**	**803,391**	**1,143,817**	**202,791**	**617,092**	**19,964**	**7,601**	**3,497,203**

(in thousands of US dollars, unless otherwise stated)

8 Property, plant and equipment (continued)

	Buildings	Mining assets	Plant and equipment	Transport	Assets under construction	Other	Land	Total
Accumulated depreciation								
Balance at 1 January 2015	**125,435**	**212,866**	**596,982**	**84,555**	**7,568**	**9,169**	**-**	**1,036,575**
Depreciation charge	19,177	43,325	90,833	14,403	-	1,591	-	169,329
Disposals	(1,613)	(839)	(16,841)	(6,628)	-	(230)	-	(26,151)
Transfers	(864)	64,096	(63,232)	-	-	-	-	-
(Reversal of impairment)/impairment	(427)	(21,539)	1,706	-	(5,430)	-	-	(25,690)
Effect of translation to presentation currency	(30,822)	(34,884)	(139,242)	(20,553)	(589)	(2,308)	-	(228,398)
Balance at 31 December 2015	**110,886**	**263,025**	**470,206**	**71,777**	**1,549**	**8,222**	**-**	**925,665**
Depreciation charge	21,910	50,332	69,785	11,968	-	959	-	154,954
Disposals	(1,590)	(398)	(15,129)	(2,095)	-	(83)	-	(19,295)
Transfers	11,456	(82,315)	61,371	(1,829)	1,516	(716)	-	(10,517)
(Reversal of impairment)/impairment	(1,229)	4,663	(5,347)	512	4,592	-	-	3,191
Effect of translation to presentation currency	26,601	42,234	112,320	15,191	1,101	1,605	-	199,054
Balance at 31 December 2016	**168,034**	**277,541**	**693,206**	**95,524**	**8,758**	**9,987**	**-**	**1,253,050**
Net Book Value								
Balance at 1 January 2015	**424,322**	**337,721**	**459,050**	**110,871**	**545,522**	**16,573**	**5,049**	**1,899,108**
Balance at 31 December 2015	**378,030**	**368,807**	**346,834**	**83,697**	**486,979**	**12,356**	**6,271**	**1,682,974**
Balance at 31 December 2016	**534,513**	**525,850**	**450,611**	**107,267**	**608,334**	**9,977**	**7,601**	**2,244,153**

In 2016 and 2015, the Group changed the classification between groups of fixed assets due to the changes to approach of classification of assets as Mining assets.

(in thousands of US dollars, unless otherwise stated)

8 Property, plant and equipment (continued)

Allocation of depreciation charge for the period	2016	2015
Cost of sales (Note 22)	130,724	144,932
Distribution costs (Note 23)	10,719	13,162
General and administrative expenses (Note 24)	6,784	7,731
Other expenses (Note 25)	885	-
Capitalised within assets under construction	5,842	3,504
Total	**154,954**	**169,329**

Fully depreciated assets still in use

As at 31 December 2016 and 31 December 2015 the gross carrying value of fully depreciated property, plant and equipment still in use was US$ 385,964 and US$ 301,321, respectively.

Property, plant and equipment impairment due to the accident at Solikamsk-2

In 2015, due to decision to continue mining at Solikamsk-2, the Group reversed the impairment of fixed assets and construction in progress in amount US$ 27,248. In 2016 the Group reversed the impairment of fixed assets and construction in progress of US$ 582 (Note 25).

9 Goodwill

	2016	2015
Carrying value at 1 January	**809 397**	**1 048 573**
Effect of translation to presentation currency	163 139	(239 176)
Carrying value at 31 December	**972 536**	**809 397**

The goodwill is primarily attributable to the expected future operational and marketing synergies arising from the business combinations with Silvinit Group and not to individual assets of the subsidiaries and was allocated to cash-generating unit ("CGU") – PJSC "Uralkali". The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on actual financial results, budget approved by management and discount rates reflecting time value of money and inherent risks.

Management analysed the impact of changes in key assumptions on the value-in-use amount. Changes in key assumptions which may lead to potential impairment of goodwill are not probable considering current market estimates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2016	2015
RR/US$ exchange rate (till 2040)	From 65 to 123	From 67 to 129
Growth rate beyond one year	4.0% p.a.	3.0% p.a.
US$ weighted average cost of capital	10.9% p.a.	12.7% p.a.
Long-term inflation rate	From 3.0% to 6.4% p.a.	From 3.0% to 7.5% p.a.

The Group did not recognise any impairment of goodwill in the consolidated financial statements for the years ended 31 December 2016 and 31 December 2015.

(in thousands of US dollars, unless otherwise stated)

10 Intangible assets

	Note	Mining licences	Software	Other	Total
Cost					
Balance at 1 January 2015		**3,465,410**	**5,119**	**11,803**	**3,482,332**
Additions		-	6,927	988	7,915
Disposals		-	(518)	(89)	(607)
Effect of translation to presentation currency		(790,448)	(2,174)	(2,741)	(795,363)
Balance at 31 December 2015		**2,674,962**	**9,354**	**9,961**	**2,694,277**
Additions		-	6,336	132	6,468
Disposals		-	(1,608)	(2,292)	(3,900)
Effect of translation to presentation currency		539,156	2,391	1,775	543,322
Balance at 31 December 2016		**3,214,118**	**16,473**	**9,576**	**3,240,167**
Accumulated amortisation					
Balance at 1 January 2015		**(286,897)**	**(2,588)**	**(782)**	**(290,267)**
Amortisation charge	22, 23, 24	(50,336)	(1,961)	(2,224)	(54,521)
Disposals of accumulated amortisation		-	504	89	593
Effect of translation to presentation currency		73,686	691	524	74,901
Balance at 31 December 2015		**(263,547)**	**(3,354)**	**(2,393)**	**(269,294)**
Amortisation charge	22, 23, 24	(40,671)	(2,448)	(1,920)	(45,039)
Disposals of accumulated amortisation		-	1,372	956	2,328
Effect of translation to presentation currency		(57,396)	(789)	(590)	(58,775)
Balance at 31 December 2016		**(361,614)**	**(5,219)**	**(3,947)**	**(370,780)**
Net book value					
As at 1 January 2015		**3,178,513**	**2,531**	**11,021**	**3,192,065**
As at 31 December 2015		**2,411,415**	**6,000**	**7,568**	**2,424,983**
As at 31 December 2016		**2,852,504**	**11,254**	**5,629**	**2,869,387**

The table below summarises descriptions and carrying amounts of individually material mining licences, except for fully amortised, as well as software and other intangible assets:

Licence plot	Mining complex	31 December 2016	31 December 2015
Solikamskiy plot (south part)	Solikamsk-2	1,029,102	865,333
Novo-Solikamskiy plot	Solikamsk-3	945,271	805,646
Solikamskiy plot (north part)	Solikamsk-1	62,771	61,849
Polovodovskiy plot (south part)		205,189	170,769
Polovodovskiy plot (north part)		604,798	503,345
Romanovskoye plot		5,373	4,473
Total mining licences		**2,852,504**	**2,411,415**
Software		11,254	6,000
Other intangible assets		5,629	7,568
Total intangible assets		**2,869,387**	**2,424,983**

(in thousands of US dollars, unless otherwise stated)

11 Income tax prepayments

On 16 April 2013 the Company concluded an agreement with the government of Perm Region to maintain minimum income tax payments at certain minimum amount per year in 2013-2015. In subsequent periods the addenda to this agreement were signed. In particular, on 27 August 2015 the Company signed an Addendum to the agreement which determined minimum income tax payments for 2015 at the amount of 2,750 RR mln per year (US$ 45,337 at the exchange rate on 31 December 2016). On 25 May 2016, a new Addendum was signed which determined payments for 2016 at the amount of 1,500 RR mln per year (US$ 24,729 at the exchange rate on 31 December 2016).

As at 31 December 2016 income tax prepayments recoverable in more than 12 months were recorded at amortised cost using the discount rate of 8.4%. As at 31 December 2016 the carrying value of income tax prepayments recoverable in more than 12 months was US$ 26,222 (31 December 2015: US$ 82,218 at a discount rates of 10.1%).

12 Inventories

	31 December 2016	31 December 2015
Finished products	77,330	59,862
Raw materials and spare parts	72,754	63,589
Work in progress	4,553	2,933
Other inventories	7,399	3,847
Total inventories	**162,036**	**130,231**

13 Trade and other receivables

	31 December 2016	31 December 2015
Financial receivables		
Trade receivables	209,630	347,362
Other accounts receivable	17,315	12,067
Less: provision for doubtful debt	(13,313)	(13,191)
Total financial receivables	**213,632**	**346,238**
Non-financial receivables		
VAT recoverable	47,286	51,265
Other taxes recoverable	636	2,327
Total non-financial receivables	**47,922**	**53,592**
Total trade and other receivables	**261,554**	**399,830**

As at 31 December 2016 trade receivables of US$ 189,513 (31 December 2015: US$ 334,724), net of provision for impairment, were denominated in foreign currencies; 88% of this balance was denominated in US$ (31 December 2015: 85%) and 12% was denominated in Euro (31 December 2015: 15%). Management believes that the fair value of accounts receivable does not differ significantly from their carrying amount.

Movements of the provision for doubtful debt were as follows:

	2016		2015	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As at 1 January	**(8,503)**	**(4,755)**	**(4,693)**	**(3,359)**
Provision accrued	(7,585)	(2,858)	(6,808)	(2,838)
Provision reversed	10,618	892	837	472
Provision utilised	90	40	-	-
Foreign exchange differences	83	1,087	-	-
Effect of translation to presentation currency	(1,377)	(1,045)	2,032	1,166
As at 31 December	**(6,674)**	**(6,639)**	**(8,632)**	**(4,559)**

(in thousands of US dollars, unless otherwise stated)

13 Trade and other receivables (continued)

The accrual and reversal of the provision for doubtful debt have been included in other operating expenses in the consolidated statement of profit or loss (Note 25). Amounts charged to the provision account are written off when there is no expectation of recovering additional cash.

Analysis by credit quality of trade and other receivables is as follows:

	31 December 2016		31 December 2015	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Current and not impaired				
Insured	85,068	158	64,649	-
Not insured or factored	97,787	9,978	241,158	4,399
Total current and not impaired	**182,855**	**10,136**	**305,807**	**4,399**
Past due but not impaired				
less than 45 days overdue	12,319	404	15,510	1,408
45 to 90 days overdue	902	52	2,102	31
over 90 days overdue	6,880	84	15,311	1,670
Total past due but not impaired	**20,101**	**540**	**32,923**	**3,109**
Impaired				
45 to 90 days overdue	9	50	336	46
over 90 days overdue	6,665	6,589	8,296	4,513
Total amount of impaired accounts receivable	**6,674**	**6,639**	**8,632**	**4,559**
Total financial receivables (gross)	**209,630**	**17,315**	**347,362**	**12,067**
Provision for doubtful debt	(6,674)	(6,639)	(8,632)	(4,559)
Total financial receivables	**202,956**	**10,676**	**338,730**	**7,508**

As at 31 December 2016 and 2015 no trade and other receivables were pledged as collateral.

Management carried out the assessment of past due but not impaired trade and other receivables, as a result of which concluded that no impairment is needed due to stable financial position and solvency of counterparties.

14 Cash and cash equivalents and restricted cash

	Interest rates	31 December 2016	31 December 2015
Cash on hand and bank balances			
RR denominated cash on hand and bank balances		47,176	12,876
US$ denominated bank balances		1,035,325	551,739
EUR denominated bank balances		45,281	97,308
Other currencies denominated balances		12,390	11,509
Term deposits			
US$ term deposits	0.51% p.a. - 1.73% p.a. (31 December 2015: 0.43% p.a.)	312,000	387,700
RR term deposits	5.21% p.a. - 9.40% p.a. (31 December 2015: 8.49% p.a. - 10.8% p.a.)	33,349	50,746
Total cash and cash equivalents		**1,485,521**	**1,111,878**
Restricted cash		-	200,000
Total cash and cash equivalents, deposits and restricted cash		**1,485,521**	**1,311,878**

14 Cash and cash equivalents and restricted cash (continued)

As at 31 December 2016 and 31 December 2015, all term deposits have maturity within three months.

Restricted cash was cash reserved on the accounts of a related party as at 31 December 2015 for the purchase of treasury shares under Company's open market buyback programme (Notes 6, 15).

15 Equity

	Number of ordinary shares (in millions)	Number of treasury shares (in millions)	Ordinary shares	Treasury shares	Total
At 1 January 2015	**2,936**	**(370)**	**35,762**	**(5,759)**	**30,003**
Treasury shares purchased	-	(1,055)	-	(18,194)	(18,194)
At 1 January 2016	**2,936**	**(1,425)**	**35,762**	**(23,953)**	**11,809**
Treasury shares purchased	-	(171)	-	(2,956)	(2,956)
At 31 December 2016	**2,936**	**(1,596)**	**35,762**	**(26,909)**	**8,853**

The number of unissued authorised ordinary shares is 1,730 million (31 December 2015: 1,730 million) with a nominal value per share of 0.824 US cents (0.5 RR) (31 December 2015: 0.686 US cents (0.5 RR)). All shares stated in the table above have been issued and fully paid.

Treasury shares. On 23 November 2015, the Company's Board of Directors approved an open market buyback programme in respect of shares and GDRs. The programme commenced on 24 November 2015 and expired on 31 March 2016. Since the launch of the Company's open market buyback programme, an aggregate of 101,117,702 shares and 8,506,136 GDRs representing 4.9% of the Company's share capital have been purchased (including 28,428,735 shares and 8,430,936 GDRs that were purchased during November-December 2015).

On 18 May 2016 the Company's Board of Directors approved another open market buyback programme in respect of Company's ordinary shares. This programme included the purchase of GDRs in privately negotiated transactions. The programme was open from 19 May to 19 September 2016. During this period the Group purchased 92,272,796 shares and 1,215,191 GDRs that in aggregate constitute 3.4% of the Company's share capital.

During 2016 the Company purchased 46,211 ordinary shares as a result of redemption right exercise pursuant to Joint Stock Company Law.

The total amount spent on purchase of ordinary shares and GDRs of the Company during 2016 was US$ 506,134 (2015: US$ 3,366,878). All transaction costs were included into the purchase price of shares and GDRs. The difference between the purchase price of US$ 506,134 and the nominal value of the shares of US$ 2,956 was accounted for as a decrease in Share premium.

Treasury shares as at 31 December 2016 comprise 1,596,816,962 ordinary shares (31 December 2015: 1,425,357,033) represented by shares and GDRs of the Company owned by JSC "UK-Technologia", wholly owned subsidiary of the Group.

The listing and admission to trading of the Company's Rule 144A and Regulation S GDRs on the London Stock Exchange have been cancelled with effect from start of trading on 22 December 2015. The Company's Rule 144A GDR programme has been terminated with effect from 12 January 2016.

Subsequent to the completed buyback and open-market programmes, the free float of the Company's shares declined to 5.6% of the issued shares. As a result, the Moscow Stock Exchange may downgrade the listing of the shares from Level 1 to Level 3. Under the current Listing Rules of the Moscow Stock Exchange a decrease of the free float of the shares to 7.5% of the issued shares or lower which lasts for 6 consecutive months constitutes a ground for exclusion of the shares from the Level 1 listing. The Moscow Exchange in this case may change the listing level of the shares to the Level 3.

Dividends. All dividends are declared and paid in RR. In April 2015 the Company adopted a new dividend policy providing flexibility to the Board of Directors in determining the amount of dividend payments.

In 2016 and 2015, at the General Meeting of Shareholders of the Company Shareholders resolved not to pay any dividends.

15 Equity (continued)

Cross shareholding

As at 31 December 2016 and 31 December 2015 cross shareholding is presented as follows:

	31 December 2016		31 December 2015	
	Number of treasury shares (in millions)	Percentage of ordinary shares	Number of treasury shares (in millions)	Percentage of ordinary shares
JSC "Uralkali-Technologia" ("UK-Technologia") - subsidiary	1,597	54.4%	1,397	47.6%
Enterpro Services Ltd. ("Enterpro") - subsidiary	-	-	28	1.0%
Total	**1,597**	**54.4%**	**1,425**	**48.6%**

As at 31 December 2015, 370,123,777 ordinary shares of UK-Technologia (which comprises 12.6% of the Company's ordinary shares) were transferred under a REPO agreement. As at 31 December 2016 ordinary shares under the REPO agreement were replaced by exchange bonds (Note 17).

16 Provisions

	Note	Provision for filling cavities	Restructuring provision	Resettlement provision	Mine flooding provision	Legal provision	Provision for asset retirement obligations	Total
Carrying amount at 1 January 2015		**44,966**	**4,822**	**22,930**	**20,852**	**-**	**-**	**93,570**
Recognition of asset retirement obligations and changes in estimates added to property, plant and equipment	8	33,646	-	-	-	-	35,084	**68,730**
Changes in estimates		-	4,675	-	-	-	-	**4,675**
Accrual of provision		-	-	-	22,310	17,031	-	**39,341**
Utilisation of provision		(10,975)	(2,772)	(21,162)	(24,655)	-	-	**(59,564)**
Reversal of provision		-	-	-	(7,546)	-	-	**(7,546)**
Unwinding of the present value discount		5,528	361	-	-	-	-	**5,889**
Effect of translation to presentation currency		(14,869)	(1,475)	(1,768)	(3,138)	(2,787)	-	**(24,037)**
Current liabilities		**9,678**	**438**	**-**	**1,060**	**-**	**-**	**11,176**
Non-current liabilities		**48,618**	**5,173**	**-**	**6,763**	**14,244**	**35,084**	**109,882**
Carrying amount at 31 December 2015		**58,296**	**5,611**	**-**	**7,823**	**14,244**	**35,084**	**121,058**
Changes in estimates added to property, plant and equipment	8	31,094	-	-	-	-	16,216	47,310
Changes in estimates		-	(703)	-	207	140	-	(356)
Accrual of provision		-	-	9,792	-	-	-	9,792
Utilisation of provision		(11,997)	(318)	-	(1,219)	-	-	(13,534)
Unwinding of the present value discount		6,345	611		850	1,570	3,818	13,194
Effect of translation to presentation currency		14,444	1,086	1,030	1,562	3,052	9,172	30,346
Current liabilities		**11,639**	**200**	**10,822**	**1,460**	**19,006**	**-**	**43,127**
Non-current liabilities		**86,543**	**6,087**	**-**	**7,763**	**-**	**64,290**	**164,683**
Carrying amount at 31 December 2016		**98,182**	**6,287**	**10,822**	**9,223**	**19,006**	**64,290**	**207,810**

Provision for filling cavities

A provision for filling cavities is recorded in respect of the Group's obligation to replace the earth extracted from its mines.

(in thousands of US dollars, unless otherwise stated)

16 Provisions (continued)

A technical program for mining operations was agreed with the local State mine supervisory body in 2012 - 2016. Based on this framework program, the Group prepares annual mining plans and agrees them with the local State mine supervisory body.

The balance of the provision at the reporting date equals the total of expected future discounted cash outflows associated with replacing the earth extracted from the mine in accordance with the plan of filling cavities work agreed with the State mine supervisory body. The relevant cash flows are discounted at a rate reflecting the time value of money.

Restructuring provision

In 2011 the Board of Directors decided to abandon the ore-treatment plant and carnallite plant at Berezniki 1. The decision to abandon the plants was driven by the lack of the raw materials base due to the flooding of Mine 1. The Company ceased production at the plants at the end of 2011 and commenced dismantling them. The provision is for costs of dismantling of the plants which is expected to be completed in 2019.

Resettlement provision

In 2013 the Government of the Perm Region and the Administration of the town of Berezniki signed an agreement outlining the financing plan for the period between 2013 and 2015 for the relocation of people living in inadequate housing facilities in Berezniki, including the construction of new infrastructure facilities and demolition of the vacated buildings. The agreement was effected pursuant to the State programme on "Securing quality housing and facilities for the citizens of the Perm Region" and was in line with the decisions adopted by the Governmental Commission on 24 May 2013. As part of its commitment to corporate social responsibility, the Group had undertaken to provide US$ 34,851 (RUB 2,540 mln at the exchange rate on 31 December 2015) to the Perm Region and the town of Berezniki by instalments in 2013-2015. In 2013-2015 the liability was paid out in full.

In 2016, the Government of the Perm region requested additional funding from the Company to complete the resettlement programme. At 31 December 2016, it remained the Company's intention to provide additional future financing of the resettlement programme of US$ 10,822. As at the date of approval of the consolidated financial statement the Company has not signed any agreements with the Government of the Perm region.

Mine flooding provision

During the twelve months ended 31 December 2016, the Group re-estimated costs required for liquidation of the accident consequences. The updated provision for future expenses as of 31 December 2016 is US$ 9,223.

Asset retirement obligations

During 2015, the Group completed its assessment of future costs to fulfil its decommissioning obligations for mines located in Berezniki and Solikamsk. Total estimated provision for asset retirement obligations amounts to US$ 64,290 as at 31 December 2016 (2015: US$ 35,084).

17 Borrowings

	2016	**2015**
Bank loans	**6,409,114**	**5,897,427**
Short-term bank loans	1,827,100	2,325,387
Long-term bank loans	4,582,014	3,572,040
Finance lease payable	**8,760**	**7,237**
Short-term finance lease payable	101	83
Long-term finance lease payable	8,659	7,154
Total borrowings	**6,417,874**	**5,904,664**

Bank loans

As at 31 December 2016 and 31 December 2015 the fair value of borrowings is not materially different from their carrying amounts.

(in thousands of US dollars, unless otherwise stated)

17 Borrowings (continued)

The Group uses cross-currency interest rate and interest rate swaps to reduce interest payments (Note 19). The Group does not use hedge accounting.

	2016	2015
Balance at 1 January	**5,897,427**	**5,037,694**
Bank loans received, denominated in US$	1,350,389	1,761,317
Bank loans received, denominated in RR	-	163,392
Bank loans repaid, denominated in US$	(701,113)	(672,371)
Bank loans repaid, denominated in RR	(196,912)	(257,514)
Interest accrued	294,949	269,269
Interest paid	(296,476)	(254,929)
Recognition of syndication fees and other financial charges	(19,831)	(14,405)
Amortisation of syndication fees and other financial charges	12,338	8,010
Foreign exchange (gain)/loss, net	(1,055,914)	1,399,028
Effect of translation to presentation currency	1,124,257	(1,542,064)
Balance at 31 December	**6,409,114**	**5,897,427**

The table below shows interest rates as at 31 December 2016 and 31 December 2015 and the split of bank loans into short-term and long-term.

Short-term bank loans	Interest rates	31 December 2016	31 December 2015
Bank loans in US$: floating interest	From 1 month Libor +2.15% to 6 month Libor +4.65% (31 December 2015: From 1 month Libor +2.15% to 6 month Libor +5.2%)	1,641,788	2,108,341
Bank loans in US$: fixed interest	2.67%	-	28,495
Bank loans in RR: floating interest	MosPrime Rate 3M+2.59% (31 December 2015: MosPrime Rate 3M+2.59%)	185,312	188,551
Total short-term bank loans		**1,827,100**	**2,325,387**
Long-term borrowings			
Bank loans in US$: floating interest	From 1 month Libor +2.15% to 6 month Libor +4.65% (31 December 2015: From 3 month Libor +3.1% to 6 month Libor +5.2%)	4,447,492	3,310,399
Bank loans in RR: floating interest	MosPrime 3M + 2.59% (31 December 2015: MosPrime 3M + 2.59%)	134,522	261,641
Total long-term bank loans		**4,582,014**	**3,572,040**

As at 31 December 2016 and 2015 no equipment or inventories were pledged as security for bank loans.

As at 31 December 2016, bank loans amounting US$ 2,138,964 (31 December 2015: US$ 1,268,998) were collateralised by future sales proceeds of the Group under export contracts with certain customers.

On 9 September 2015, the Company signed an agreement with PJSC Sberbank to open a non-revolving US$ 1.5 billion credit line with maturity of 5 years. Funds under the committed credit line are available for utilisation from 9 September 2015 till 3 March 2017. The availability period of the loan assumes proportional increase of the limit in accordance with the Company's cash flows projections and the need in credit resources during 2016-2017. The final maturity date of the facility is 7 September 2020. As at the date of approval of these consolidated financial statements, the Company has not yet utilised the facility.

In March 2016 a credit line agreement with PJSC "Sberbank" was signed in the amount of up to US$ 3.9 billion for the purpose of refinancing of other loans received from the bank as well as for other general corporate purposes, which, together with related agreements, were secured by way of pledge to PJSC "Sberbank" of the Company shares and GDRs constituting 28.6% of the Company's issued ordinary shares (equivalent of 389,981,286 ordinary shares and 89,959,526 GDRs). Funds under the committed credit line in the amount of US$ 2.0 billion are available to be drawn down from 1 January 2018 till 31 December 2019; funds in the amount of US$ 1.9 billion are available to be drawn down from 24 December 2017 till 23 February 2020. As at 31 December 2016, the Company has not yet used the facility.

(in thousands of US dollars, unless otherwise stated)

17 Borrowings (continued)

In April 2016 the Company signed a Pre-Export Facility in the amount of US$1.2 billion with 16 international banks. The interest rate is Libor +3.25% with a loan maturity of 5 years. The loan was used for general corporate purposes including refinancing of Company's existing loans.

On 29 August 2016 the Extraordinary General Meeting of PJSC "Uralkali" shareholders approved a number of interrelated transactions in respect of the placement of the Company's Exchange Traded Bonds in favor of JSC "Uralkali-Technology" with a total nominal value of US$ 800 million and with a value of US$ 1,000 per one bond. The purpose of this placement was to replace the Company's shares/GDRs with the Exchange Traded Bonds in the US$ 800 million REPO deal signed on 23 September 2015 between JSC "Uralkali-Technology" and JSC "VTB Capital". In September 2016 Uralkali-Technology has terminated the pledge over the Company's GDRs and released Company's ordinary shares from REPO, constituting totally 20% of the Company's issued ordinary shares.

Due to the Russian Rouble devaluation as at 31 December 2015, financial covenants that require the Group to maintain a certain Net debt/Net worth ratio were breached, consequently loans which were subject to this restrictive covenant, in the amount of US$ 1,528,573 were reclassified from non-current liabilities to current liabilities in the consolidated statement of financial position. The lenders did not request accelerated repayment of the loans.

During 2016 the Group signed amendments to change the definition of Net Debt/Net Worth in several facilities. The amendments changed the calculation of Net Worth by excluding from the calculation foreign exchange losses/gains and fair value loss/gain on derivatives from 1 January 2013. Under several other amendments Net Worth was adjusted to exclude treasury shares and share premium.

18 Bonds

In April 2013 the Group issued US$ denominated bonds at the nominal value of US$ 650 million bearing a coupon of 3.723% p.a. maturing in 2018:

	2016	2015
Balance at 1 January	**584,668**	**583,972**
Interest accrued	21,325	21,963
Interest paid	(21,215)	(23,113)
Amortisation of syndication fees	476	422
Foreign exchange (gain)/loss	(107,001)	160,820
Effect of translation to presentation currency	106,654	(159,396)
Balance at 31 December	**584,907**	**584,668**

Short-term part of bonds is represented by future coupon payment in the amount of US$ 2,550 at 31 December 2016 (31 December 2015: US$ 3,785).

The fair value of the outstanding bonds issued at 31 December 2016 was US$ 580,084 according to Irish Stock Exchange quotations (31 December 2015: US$ 545,531).

19 Derivative financial assets and liabilities

At 31 December 2016, the derivative financial liabilities were represented by cross-currency interest rate swap, entered into in conjunction with RR-denominated loan in the notional amount of US$ 315,916 (31 December 2015: US$ 444,052) and interest rate swaps with insignificant fair value amount as at reporting date, entered in conjunction with $US-denominated loans in the aggregate notional amount of $US 1 billion as at the reporting date (31 December 2015: nil) with the rate to be fixed in June 2017.

In accordance with cross-currency interest rate swap, the Group pays US$ at floating rate USD-ISDA+4.2% (31 December 2015: floating rate USD-ISDA+4.2%) and receives RR at floating rates MosPrime 3m+2.59% (31 December 2015: MosPrime 3m+2.59%). Maturity of the swap is linked to loan redemption (2018).

	31 December 2016	31 December 2015
Liabilities		
Current derivative financial liabilities	153,372	227,480
Non-current derivative financial liabilities	123,753	358,123
Total net derivative financial liabilities	**277,125**	**585,603**

(in thousands of US dollars, unless otherwise stated)

19 Derivative financial assets and liabilities (continued)

Movements of the carrying amounts of derivative financial assets and liabilities were as follows:

	Note	2016	2015
Balance as at 1 January		**585,603**	**554,897**
Cash proceeds from derivatives		14,671	49,621
Cash paid for derivatives		(215,620)	(94,337)
Changes in the fair value	26	(184,983)	232,759
Effect of translation to presentation currency		77,454	(157,337)
Balance as at 31 December		**277,125**	**585,603**

20 Trade and other payables

	31 December 2016	31 December 2015
Trade payables	61,098	39,721
Accrued liabilities	94,825	99,200
Salary payable and related accruals	50,493	38,731
Other payables	15,397	26,207
Total financial payables	**221,813**	**203,859**
Other non-financial payables	1,446	-
Total non-financial payables	**1,446**	**-**
Total trade and other payables	**223,259**	**203,859**

As at 31 December 2016 trade and other accounts payable of US$ 13,437 (31 December 2015: US$ 113,809) were denominated in foreign currencies: 79% of this balance was denominated in US$ (31 December 2015: 94%) and 8% was denominated in Euro (31 December 2015: 6%).

21 Revenues

	2016	2015
Potassium chloride	1,482,803	2,156,680
Potassium chloride (granular)	736,041	901,392
Other revenues	59,405	65,230
Total revenues	**2,278,249**	**3,123,302**

(in thousands of US dollars, unless otherwise stated)

22 Cost of sales

	Note	2016	2015
Employee benefits		138,381	126,070
Depreciation	8	130,724	144,932
Materials and components		89,526	91,436
Fuel and energy		81,471	86,595
Amortisation of licences	10	40,671	50,336
Repairs and maintenance		36,054	59,667
Transportation between mines by railway		9,061	8,081
Change in work in progress, finished goods and goods in transit		4,578	452
Other costs		19,300	1,189
Total cost of sales		**549,766**	**568,758**

23 Distribution costs

	Note	2016	2015
Railway tariff and rent of wagons		214,641	234,862
Freight		183,318	217,348
Transshipment		29,320	25,678
Transport repairs and maintenance		25,055	31,269
Employee benefits		16,468	17,349
Storage expenses		13,722	1,891
Commissions and marketing expenses		11,148	15,999
Depreciation	8	7,398	9,816
Other costs		46,606	50,052
Total distribution costs		**547,676**	**604,264**

Depreciation in the amount of US$ 3,321 and amortisation in the amount of US$ 0 is included into Transport repairs and maintenance and Transshipment costs (2015: US$ 3,346 and 171 respectively).

24 General and administrative expenses

	Note	2016	2015
Employee benefits		87,354	87,531
Consulting, audit and legal services		8,713	9,853
Depreciation	8	6,784	7,731
Security		6,041	6,574
Mine rescue crew		5,123	4,891
Amortisation of intangible assets	10	4,367	4,014
Materials and fuel		4,263	5,572
Communication and information system services		4,016	2,963
Labour protection		3,159	3,228
Repairs and maintenance		3,059	4,226
Insurance		2,784	3,095
Rent		2,465	1,456
Bank charges		1,086	1,254
Other expenses		14,868	14,496
Total general and administrative expenses		**154,082**	**156,884**

(in thousands of US dollars, unless otherwise stated)

25 Other operating income and expenses

	Note	2016	2015
Other operating (income)/expenses related to non-current assets			
Loss on disposals of property, plant and equipment and intangible assets		9,322	22,390
(Reversal)/impairment of prepayments for acquisition of property, plant and equipment and intangible assets		(2,207)	2,414
Loss on impairment of property, plant and equipment and assets under construction	8	3,773	1,558
Depreciation	8	885	-
Reversal of impairment of Solikamsk-2 property, plant and equipment and assets under construction	8	(582)	(27,248)
Other operating (income)/expenses related to accounting estimates and accrued liabilities			
Resettlement provision	16	9,792	-
Expenses related to mine flooding		207	10,113
(Income)/expenses related to accrued liabilities		(6,317)	12,760
(Reversal)/accrual of provision for impairment of receivables	13	(991)	8,337
Accrual of legal provision	16	-	17,031
Other operating (income)/expenses			
Social cost and charity		7,742	8,452
Other operating income, net		(8,883)	(12,478)
Total other operating expenses, net		**12,741**	**43,329**

26 Finance income and expenses

	Note	2016	2015
Foreign exchange gain		888,967	-
Fair value gain on derivative financial liabilities, net	19	184,983	-
Interest income		17,260	36,368
Gain from discounting and unwinding, net		1,694	-
Income from associates		279	-
Dividend income		172	-
Fair value gain on investments		-	24,910
Total finance income		**1,093,355**	**61,278**
Interest expense		(289,685)	(270,841)
Syndication fee and other financial charges		(30,407)	(23,401)
Letters of credit fees		(4,043)	(4,167)
Finance lease expense		(797)	(812)
Fair value losses on investments		(297)	-
Foreign exchange loss		-	(1,038,810)
Fair value loss on derivative financial liabilities, net	19	-	(232,759)
Unwinding of the present value discount and effect of changes in discount rates		-	(8,063)
Loss from associate		-	(67)
Total finance expenses		**(325,229)**	**(1,578,920)**
Total finance income/(expenses), net		**768,126**	**(1,517,642)**

Coupon income from corporate bonds classified as other financial assets held to maturity in the amount of US$ 3,966 is included in interest income (2015: US$ 3,789).

(in thousands of US dollars, unless otherwise stated)

26 Finance income and expenses (continued)

Capitalised interest expense and foreign exchange gain/loss in the cost of property, plant and equipment were as follows:

	2016	2015
Interest expense	26,949	20,391
Foreign exchange loss	-	19,332
Total capitalised borrowing costs	**26,949**	**39,723**

27 Income tax expense

	2016	2015
Current income tax expense	197,124	47,058
Adjustments recognised in the period for current income tax of prior periods	(449)	3,986
Deferred income tax expense/(benefit)	132,875	(27,213)
Income tax expense	**329,550**	**23,831**

Income before taxation and non-controlling interests for consolidated financial statements purposes is reconciled to income tax as follows:

	2016	2015
Profit before income tax	**(1,756,696)**	**(207,599)**
Theoretical tax charge	272,288	32,178
Corrections of profit tax for prior years	(449)	3,986
Tax effect of expenses which are not deductible, net	13,721	1,301
Effect of different tax rates in countries	176	(9,088)
Effect of changes in tax rate	39,452	-
Write-off of deferred tax asset	6,006	-
Other	(1,644)	(4,546)
Income tax expense	**329,550**	**23,831**

In the years ended 31 December 2016 and 2015, most companies of the Group were registered in the Russian Federation, Perm region and were taxed at a rate of 15.5% on taxable profits as at 31 December 2015 and at a rate from 15.5% to 17.0% as at 31 December 2016. However, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the end of the reporting period. In 2015, a new law was adopted by Legislative Assembly of Perm region which determined the income tax rate of 17.0% in 2016 up to 20.0% in 2018 and further. However, for those taxpayers which make significant capital investments and/or donate to charity on the territory of Perm region, the tax rate can be decreased by a certain percentage (which is calculated using the formula stated in the law). The decreased tax rate cannot be lower than 15.5% in 2016 and 16.5% starting from 2017.

The management of the Group performed an analysis using the forecasts of capital expenditure and profits based on which they expect to utilize the tax benefit for some of the entities of the Group registered in Perm region, including the Company.

As at 31 December 2016 the Group had unused tax losses carried forward in the amount of US$ 103,022 (31 December 2015: US$ 137,322). Due to changes in the tax legislation taking effect since January 2017 tax losses may be now carried forward for an indefinite period. The carryforward period used to be limited to 10 years. In 2017-2020 the taxable profit can be reduced by maximum 50% losses of previous tax periods in any fiscal year. The deferred tax asset in the amount of US$ 19,651 (31 December 2015: US$ 23,215) was recognised in relation to these losses as the management believes that taxable profits would be received in the amount sufficient to utilize such losses.

In 2016 and 2015, foreign subsidiaries were taxed applying respective national income tax rates.

(in thousands of US dollars, unless otherwise stated)

27 Income tax expense (continued)

The tax effect of the movements in the temporary differences for the year ended 31 December 2016 was the following:

	31 December 2015	Recognised in profit or loss	Effect of translation to presentation currency	31 December 2016
Tax effects of taxable and deductible temporary differences:				
Property, plant and equipment	(104,222)	(25,647)	(23,704)	(153,573)
Intangible assets	(374,959)	(20,604)	(77,742)	(473,305)
Inventories	30,487	(27,691)	3,233	6,029
Borrowings	(3,869)	(1,485)	(936)	(6,290)
Trade and other receivables	(3,581)	(10,094)	(1,784)	(15,459)
Derivative financial instruments	90,762	(57,305)	12,269	45,726
Trade and other payables	590	725	195	1,510
Tax loss carry-forward	23,215	(7,459)	3,895	19,651
Provisions	18,756	10,639	4,899	34,294
Other assets and liabilities	2,410	6,046	1,132	9,588
Total net deferred tax liability	**(320,411)**	**(132,875)**	**(78,543)**	**(531,829)**

The tax effect of the movements in the temporary differences for the year ended 31 December 2015 was the following:

	31 December 2014	Recognised in profit or loss	Effect of translation to presentation currency	31 December 2015
Tax effects of taxable and deductible temporary differences:				
Property, plant and equipment	(107,107)	(25,772)	28,657	(104,222)
Intangible assets	(493,680)	7,300	111,421	(374,959)
Inventories	4,416	32,350	(6,279)	30,487
Borrowings	(3,179)	(1,690)	1,000	(3,869)
Trade and other receivables	4,367	(8,284)	336	(3,581)
Derivative financial instruments	86,009	29,135	(24,382)	90,762
Trade and other payables	24,394	(21,786)	(2,018)	590
Tax loss carry-forward	28,234	1,706	(6,725)	23,215
Provisions	6,970	15,995	(4,209)	18,756
Other assets and liabilities	4,996	(1,741)	(845)	2,410
Total net deferred tax liability	**(444,580)**	**27,213**	**96,956**	**(320,411)**

Deferred tax balances presented in the consolidated statement of financial position were as follows:

	31 December 2016	31 December 2015
Deferred tax asset	47,408	56,721
Deferred tax liability	(579,237)	(377,132)
Deferred tax liability, net	**(531,829)**	**(320,411)**

The Group has not recognised a deferred income tax liability in respect of taxable temporary differences associated with investments in subsidiaries in the amount of US$ 200,565 (31 December 2015: US$ 199,444). The Group controls the timing of the reversal of these temporary differences and does not expect their reversal in the foreseeable future.

28 Contingencies, commitments and operating risks

28.1 Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, the management is of the opinion that there are no current legal proceedings or other claims outstanding that could have a material effect on the results of operations or financial position of the Group which have not been disclosed in these consolidated financial statements.

28.2 Tax legislation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the consolidated financial statements could be significant.

According to the amendments introduced into the Russian tax legislation, the undistributed profits of the Group foreign subsidiaries, recognised as controlled foreign companies, may result in an increase of the tax base of the controlling entities. According to current forecasts the profits of controlled foreign companies is not subject to inclusion into the tax base of the Company. Despite the fact that the Group has developed a tax planning strategy with regard to the legislation on controlled foreign companies applicable to the Group foreign subsidiaries, the management of the Group does not exclude the fiscal approach of regulating authorities to the order of determination of taxable profits in controlling entities of the Group in Russia.

28.3 Insurance policies

The Company generally enters into insurance agreements when it is required by statutory legislation. The insurance agreements do not cover the risks of damage to third parties' property resulting from the Group's underground activities and the risks reflected in Note 5.

28.4 Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage due to legal requirements except for those mentioned in Note 5. The Group's mining activities and the recent mine flooding may cause subsidence that may affect the Group's facilities, and those of the cities of Berezniki and Solikamsk, State organisations and others.

28.5 Operating environment of the Group

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014, the oil price decreased significantly.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

(in thousands of US dollars, unless otherwise stated)

28 Contingencies, commitments and operating risks (continued)

28.6 Capital expenditure commitments

As at 31 December 2016 the Group had contractual commitments for the purchase of property, plant and equipment and intangible assets for US$ 425,742 (31 December 2015: US$ 480,484) and US$ 274 (31 December 2015: US$ 1,760) from third parties, respectively. As at 31 December 2016, the Group had no contractual commitments for the purchase of property, plant and equipment from related parties (31 December 2015: US$ 835).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

28.7 Operating lease commitments

As at 31 December 2016 and 2015 the Group leased property, plant and equipment, mainly land plots. The future minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
Not later than 1 year	3,198	1,677
Later than 1 year and not later than 5 years	9,958	6,960
Later than 5 years	16,074	29,188
Total operating lease commitments	**29,230**	**37,825**

29 Financial risk management

29.1 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital.

29.2 Categories of financial instruments

	Note	31 December 2016	31 December 2015
Financial assets			
Loan issued	6	188,762	-
Trade and other receivables	13	213,632	346,238
Other financial assets		68,267	67,599
Cash and cash equivalents	14	1,485,521	1,111,878
Restricted cash	14	-	200,000
Financial liabilities			
Borrowings	17	6,417,874	5,904,664
Bonds	18	584,907	584,668
Derivative financial liabilities	19	277,125	585,603
Trade and other payables	20	221,813	203,859

29.3 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. Market risk is the possibility that currency exchange rates, reduction in the prices of potash products and changes in interest rates will adversely affect the value of assets, liabilities or expected future cash flows. Overall risk management procedures adopted by the Group focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance.

29 Financial risk management (continued)

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is different from the functional currency of the companies of the Group.

The Group operates internationally and exports approximately 79% of potash fertilizers sales (2015: 82%). As a result the Group is exposed to foreign exchange risk arising from various currency exposures. Export sales are primarily denominated in US$ or Euro. The Group is exposed to the risk of significant RR/US$ and RR/Euro exchange rates fluctuations. The Group's operating profit benefits from the weak exchange rate of the RR against the US$ and Euro, since all the Group major operating expenses are denominated in RR. The net profit suffers from the weak Rouble exchange rate mainly due to the foreign exchange differences on the Group's loans which are predominantly denominated in USD.

For the year ended 31 December 2016, if during the year the RR had strengthened/weakened by 20% against the US$ and Euro with all other variables held constant, the foreign exchange loss for the year would have been US$ 815,925 lower/higher (31 December 2015: US$ 940,062 lower/higher), mainly as a result of foreign exchange gains/losses on the translation of US$ and Euro denominated trade receivables, cash in bank, deposits, foreign exchange losses/gains on the translation of US$ denominated borrowings and bonds issued and changes of fair value of derivative financial assets and liabilities.

(ii) Price risk

The Group is not exposed to commodity price risk, since the Group does not enter in any operations with financial instruments whose value is exposed to the value of commodities traded on the public market.

(iii) Interest rate risk

The Group's income and operating cash flows are exposed to market interest rates changes. The Group is exposed to fair value interest rate risk through market value fluctuations of interest bearing short- and long-term borrowings, whose interest rates comprise a fixed component. Borrowings issued at variable rates expose the Group to cash flow interest rate risk (Notes 17, 18). The objective of managing interest rate risk is to prevent losses due to adverse changes in market interest rates. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, the renewal of existing positions and alternative financing.

For the year ended 31 December 2016, if LIBOR and ISDA rates on US$ denominated borrowings had been 200 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been US$ 100,192 lower/higher (year ended 31 December 2015: post-tax profit for the year would have been US$ 85,842 lower/higher). For the year ended 31 December 2016, if MosPrime rates on RR denominated borrowings had been 1,500 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been US$ 45,799 higher/lower (year ended 31 December 2015: post-tax profit for the year would have been US$ 73,372 higher/lower).

The effect is mainly as a result of higher/lower interest expense on floating rate borrowings and changes in the fair value of derivative financial assets and liabilities with floating rates terms.

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. The objective of managing credit risk is to prevent losses of liquid funds deposited or invested in such counterparties. Financial assets, which potentially subject Group entities to credit risk, consist primarily of loan issued, trade receivables, other financial assets held to maturity, cash and bank deposits.

The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets of US$ 1,956,182 (31 December 2015: US$ 1,725,715).

The Group is not exposed to significant concentrations of credit risk. As at 31 December 2016 the Group had 28 counterparties (31 December 2015: 52 counterparties), each of them having receivables balances above US$ 1,000. The total aggregate amount of these balances was US$ 181,529 (31 December 2015: US$ 320,612) or 85% of the total amount of financial trade and other receivables (31 December 2015: 89%). Cash and short-term deposits are placed in banks and financial institutions, which are considered at the time of deposit to have optimal balance between rate of return and risk of default. The Group has no other significant concentrations of credit risk.

(in thousands of US dollars, unless otherwise stated)

29 Financial risk management (continued)

Trade receivables are subject to a policy of active credit risk management which focuses on an assessment of ongoing credit evaluation and account monitoring procedures. The objective of the management of trade receivables is to sustain the growth and profitability of the Group by optimising asset utilisation while at the same time maintaining risk at an acceptable level.

The effective monitoring and controlling of credit risk is performed by the Group's corporate treasury function. The credit quality of each new customer is analysed before the Group enters into contractual agreements. The credit quality of customers is assessed taking into account their financial position, past experience, country of origin and other factors. The management believes that the country of origin is one of the major factors affecting a customer's credit quality and makes a corresponding analysis (Note 13). Most customers from developing countries are supplied on secured payment terms, including letters of credit or factoring arrangements. These terms include deliveries against opened letters of credit and arrangements with banks on non-recourse discounting of promissory notes received from customers. Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 13).

The table below shows the credit quality of cash, cash equivalents, deposits and restricted cash balances neither past due nor impaired on the reporting date, based on the credit ratings of independent agencies as at 31 December 2016 and 2015, if otherwise not stated in table below:

Ratings – Moody's, Fitch, Standard&Poor's	31 December 2016	31 December 2015
From AAA / Aaa to A- / A3	255,146	155,572
From BBB+ / Baa1 to BBB- / Baa3	629,599	53,123
From BB+ / Ba1 to B- / B3	133,211	496,943
Unrated*	467,565	606,240
Total cash and cash equivalents, deposits and restricted cash not past due nor impaired	**1,485,521**	**1,311,878**

* Unrated balance contains cash on hand and other cash equivalents.

(c) Liquidity risk

In accordance with prudent liquidity risk management, the management of the Group aims to maintain sufficient cash in order to meet its obligations. Group treasury aims to maintain sufficient level of liquidity based on monthly cash flow budgets, which are prepared for the year ahead and continuously updated during the year.

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the time remaining from the reporting to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows at spot rates.

(in thousands of US dollars, unless otherwise stated)

29 Financial risk management (continued)

As at 31 December 2016	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	20	221,813	-	-	**221,813**
Bank borrowings		2,149,567	5,050,662	79,925	**7,280,154**
Bonds		26,397	658,679	-	**685,076**
Finance lease liabilities		894	3,576	33,576	**38,046**
Derivative financial liabilities		146,923	114,248	-	**261,171**
Total		**2,545,594**	**5,827,165**	**113,501**	**8,486,260**

As at 31 December 2015	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	20	203,859	-	-	**203,859**
Bank borrowings		2,591,286	3,858,044	337,422	**6,786,752**
Bonds		20,588	677,356	-	**697,944**
Finance lease liabilities		744	2,976	28,687	**32,407**
Derivative financial liabilities		218,468	321,713	-	**540,181**
Total		**3,034,945**	**4,860,089**	**366,109**	**8,261,143**

30 Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets and liabilities carried at fair value. Derivatives (Level 2) are carried in the consolidated statement of financial position at their fair value. Fair values of derivative financial assets and liabilities were determined using discounting cash flows valuation techniques with inputs (discount rates for RR and US$) observable in markets.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of trade and other financial receivables approximate fair values. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. As at 31 December 2016 and 31 December 2015, the estimated fair value of the current and non-current borrowings, trade and other payables is not materially different from their carrying amounts.

(in thousands of US dollars, unless otherwise stated)

30 Fair value of financial instruments (continued)

Financial assets	Stated at	Level	31 December 2016 Carrying value	31 December 2016 Fair value	31 December 2015 Carrying value	31 December 2015 Fair value
Trade and other receivables	Amortised cost	3	213 632	213 632	346 238	346 238
Other financial assets	Amortised cost (31 December 2015: Fair value)	3, 1	68 267	68 770	67 599	67 599
Total			**281 899**	**282 402**	**413 837**	**413 837**

Financial liabilities	Stated at	Level	31 December 2016 Carrying value	31 December 2016 Fair value	31 December 2015 Carrying value	31 December 2015 Fair value
Borrowings	Amortised cost	3	6 417 874	6 417 874	5 904 664	5 904 664
Bonds	Amortised cost	1	584 907	580 084	584 668	545 531
Derivative financial liabilities	Fair value	2	277 125	277 125	585 603	585 603
Trade and other payables	Amortised cost	3	221 813	221 813	203 859	203 859
Total			**7 501 719**	**7 496 896**	**7 278 794**	**7 239 657**

31 Principal subsidiaries

The Group had the following principal subsidiaries as at 31 December 2016 and 31 December 2015:

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
LLC “SMT “BSHSU”	Construction	100.00%	100.00%	Russia
LLC “Vagon Depo Balahonzi”	Repair and maintenance	100.00%	100.00%	Russia
LLC “Uralkali-Remont”	Repair and maintenance	100.00%	100.00%	Russia
LLC “Avtotranskali”	Transportation	100.00%	100.00%	Russia
JSC “Baltic Bulker Terminal”	Sea terminal	100.00%	100.00%	Russia
LLC “Satellit-Service”	IT services	100.00%	100.00%	Russia
JSC “NII Galurgii”	Scientific institute	80.00%	80.00%	Russia
JSC “VNII Galurgii”	Scientific institute	85.25%	85.25%	Russia
Uralkali Trading S.A.	Trading	100.00%	100.00%	Switzerland
Uralkali Trading SIA	Trading	100.00%	100.00%	Latvia
Uralkali Trading Chicago	Trading	100.00%	100.00%	USA