URALKALI GROUP

Consolidated financial statements
for the year ended 31 December 2018

Contents

Page

Notes to the Consolidated Financial Statements

AO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047,
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
deloitte.ru

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the 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 2018, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, 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 2018, its consolidated financial performance, and its consolidated cash flows for the year then ended 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, and Note 15: Borrowings. The Group is highly leveraged with net debt of US$ 4,886,872 thousand as at 31 December 2018 and has to comply with certain financial and non-financial covenants stipulated in loan agreements. In addition to an analysis of compliance with covenants at the reporting date, Management prepares financial forecasts to assess going concern and the Group's ability to comply with covenants in the future. These financial forecasts are particularly sensitive to changes in potash prices. Due to the factors above, we consider assessment of compliance with covenants to be a key audit matter.	We obtained an understanding of the process for monitoring compliance with financial and non-financial covenants stipulated in loan agreements. We reviewed the terms and conditions of loan agreements and recalculated covenants. We challenged Management's key assumptions used in the financial forecast by: • Assessing covenant compliance forecasts, including stress test scenarios and related mitigation plans; • Testing the appropriateness of Management's assumptions including foreign currency exchange rates and potash prices, the inflation rate, and the discount rate based on the available market information; • Performing our own sensitivity analysis to test the adequacy of the available headroom related to covenant compliance.
Expected credit losses for the loan issued Refer to Note 4: Critical accounting judgements and key sources of estimation uncertainty, and Note 5: Related parties. The Group issued a loan to a related party amounting to US$400,615 thousand (including accrued interest) as at 31 December 2018. After initial recognition, the loan is measured at amortised cost using the effective interest rate method, less allowance for expected credit losses. This is a key audit matter due to the materiality of the outstanding balance as at 31 December 2018 and the significance of Management's estimates and judgements in assessing the expected credit losses for the loan. These estimates and judgements primarily relate to projections of potash prices and foreign currency exchange rates.	Our audit procedures included, but were not limited to, understanding the methodology and analysing the valuation model and inputs used by Management to assess the expected credit losses for the loan. We evaluated the appropriateness and consistency of Management's judgments and estimates, including the following: • Analysing different scenarios of the loan repayment; • Comparing the key assumptions used in the cash flows model to the available market information; • Challenging the historical accuracy of Management forecasts; • Assessing the sensitivity of the model to changes in key parameters. We assessed the financial condition and financial performance of the related party.

Other Information

Management is responsible for other information. Other information comprises the information included in the Annual report for 2018 and the Issuer's report for the first quarter of 2019, but does not include the consolidated financial statements and the auditor's report thereon. The Annual and Quarterly reports are expected to be made available to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not express any form of assurance conclusions 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 with our knowledge obtained during the audit or otherwise appears to be materially misstated.

When we read the Annual report for 2018 and the Quarterly report for the first quarter of 2019, if we conclude that there is a material misstatement therein, we are required to report that fact 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 IFRSs, 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, which constitute the key audit matters included herein.

Ilya Ryabtsev,
Team leader

14 March 2019

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: AO "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)

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	7	2,387,976	2,461,948
Prepayments for acquisition of property, plant and equipment and intangible assets		265,680	221,246
Goodwill	8	849,151	1,024,146
Intangible assets	9	2,414,466	2,973,680
Deferred income tax asset	25	24,278	16,615
Prepaid transaction costs on bank facilities		103,833	70,397
Loan receivable	5	400,615	-
Investment in associate		3,092	23,789
Derivative financial assets	12	338	6,047
Other non-current assets		56,739	63,242
Total non-current assets		**6,506,168**	**6,861,110**
Current assets			
Inventories	10	139,636	91,939
Trade and other receivables	11	351,887	533,959
Advances to suppliers		43,494	26,608
Income tax prepayments		21,115	3,812
Derivative financial assets	12	30,261	16,783
Loan receivable	5	-	379,232
Other financial assets		15	1,927
Cash and cash equivalents	13	1,013,015	1,072,609
Total current assets		**1,599,423**	**2,126,869**
TOTAL ASSETS		**8,105,591**	**8,987,979**
EQUITY			
Share capital	14	35,762	35,762
Preference shares	14	239	-
Treasury shares	14	(27,996)	(27,101)
Share premium		409,814	483,572
Currency translation reserve		(3,924,941)	(3,717,237)
Retained earnings		4,264,935	4,362,544
Equity attributable to the company's equity holders		**757,813**	**1,137,540**
Non-controlling interests		12,654	12,017
TOTAL EQUITY		**770,467**	**1,149,557**
LIABILITIES			
Non-current liabilities			
Borrowings	15	3,240,385	3,490,666
Bonds	16	575,243	1,059,954
Post-employment and other long-term benefit obligations		28,782	36,604
Deferred income tax liability	25	631,335	645,605
Provisions	17	340,497	221,314
Derivative financial liabilities	12	121,523	11,609
Other non-current liabilities		1,810	14,027
Total non-current liabilities		**4,939,575**	**5,479,779**
Current liabilities			
Borrowings	15	1,263,632	1,291,875
Bonds	16	820,627	601,237
Trade and other payables	18	217,745	272,918
Advances received		22,177	22,448
Provisions	17	62,820	40,996
Derivative financial liabilities	12	7,130	109,815
Current income tax payable		1,418	19,354
Total current liabilities		**2,395,549**	**2,358,643**
TOTAL LIABILITIES		**7,335,124**	**7,838,422**
TOTAL LIABILITIES AND EQUITY		**8,105,591**	**8,987,979**

Approved for issue and signed on behalf of the Board of Directors on 14 March 2019:

Dmitry Osipov
Chief Executive Officer

Anton Vishanenko
Chief Financial Officer

(in thousands of US dollars, unless otherwise stated)

	Note	2018	2017
Revenues	19	2,753,577	2,760,874
Cost of sales	20	(702,867)	(739,076)
Gross profit		**2,050,710**	**2,021,798**
Distribution costs	21	(632,923)	(747,804)
General and administrative expenses	22	(174,652)	(157,390)
Taxes other than income tax		(22,818)	(21,706)
Other operating (expenses) / income, net	23	(17,830)	6,404
Operating profit		**1,202,487**	**1,101,302**
Finance expenses, net	24	(1,194,753)	(8,285)
Profit before income tax		**7,734**	**1,093,017**
Income tax expense	25	(104,740)	(218,389)
Net (loss) / profit for the period		**(97,006)**	**874,628**
(Loss) / profit attributable to:			
Company's equity holders		(97,643)	873,979
Non-controlling interests		637	649
Net (loss) / profit for the period		**(97,006)**	**874,628**
Weighted average number of ordinary shares in issue (million)		1,284	1,336
(Loss) / earnings per share – basic and diluted (in US cents)		**(7.60)**	**65.42**

(in thousands of US dollars, unless otherwise stated)

	2018	2017
Net (loss) / profit for the period	**(97,006)**	**874,628**
Other comprehensive (loss) / income		
Items that will not be reclassified to profit or loss:		
Remeasurement of post-employment benefit obligations	560	2,382
Effect of translation to presentation currency	(207,704)	22,734
Total other comprehensive (loss) / income for the period	**(207,144)**	**25,116**
Total comprehensive (loss) / income for the period	**(304,150)**	**899,744**
Total comprehensive (loss) / income for the period attributable to:		
Company's equity holders	(304,787)	899,095
Non-controlling interests	637	649

(in thousands of US dollars, unless otherwise stated)

	Note	2018	2017
Cash flows from operating activities			
Profit before income tax		7,734	1,093,017
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	7, 9	256,766	239,176
Loss on disposals of property, plant and equipment and intangible assets	23	6,241	8,318
Loss on impairment of prepayments for acquisition of property, plant and equipment and intangible assets		202	448
Reversal of write-down of inventories to net realisable value		(616)	(798)
Accrual / (reversal) of impairment of property, plant and equipment and assets under construction	7	878	(2,849)
Accrual of impairment of trade and other receivables and advances to suppliers		7,853	1,304
Change in provisions, net	17	7,421	(8,696)
Fair value loss / (gain) on derivative financial instruments, net	24	106,246	(51,662)
Foreign exchange loss / (gain), net	24	737,676	(271,908)
Other finance expenses, net	24	350,831	331,855
Operating cash flows before working capital changes		**1,481,232**	**1,338,205**
Decrease / (increase) in trade and other receivables and advances to suppliers		122,203	(277,104)
(Increase) / decrease in inventories		(69,408)	78,687
Decrease in trade and other payables, advances received and provisions		(73,153)	(18,275)
Increase / (decrease) in other taxes payable		13,472	(6,934)
Cash generated from operations		**1,474,346**	**1,114,579**
Interest paid		(328,723)	(326,436)
Income taxes paid		(49,143)	(77,643)
Net cash generated from operating activities		**1,096,480**	**710,500**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(356,818)	(269,782)
Acquisition of intangible assets		(1,623)	(1,106)
Proceeds from sales of property, plant and equipment		3,185	2,575
Loans issued		(131,279)	(333,973)
Proceeds from loans repayments		104,639	160,192
Purchase of other financial assets		(537)	(1,704)
Proceeds from sale of other financial assets		-	70,010
Acquisition of subsidiaries, net of cash acquired		164	(165)
Proceeds from sale of subsidiaries, net of cash disposed		319	-
Dividends and interest received		12,962	10,149
Net cash used in investing activities		**(368,988)**	**(363,804)**
Cash flows from financing activities			
Repayments of borrowings	15	(1,841,598)	(3,244,000)
Proceeds from borrowings		1,521,883	1,603,010
Proceeds from issuance of bonds	16	389,056	1,070,181
Arrangement fees and other financial charges paid		(83,309)	(32,391)
Redemption of bonds	16	(581,900)	-
Cash proceeds from derivatives	12	17,816	12,710
Cash paid for derivatives	12	(111,507)	(151,792)
Purchase of treasury shares	14	(125,640)	(26,104)
Proceeds from issuance of preference shares	14	51,226	-
Finance lease payments		(35)	(34)
Dividends paid to the Company's shareholders		(48)	-
Net cash used in financing activities		**(764,056)**	**(768,420)**
Effect of changes in foreign exchange rate on cash and cash equivalents		(23,030)	8,812
Net decrease in cash and cash equivalents		**(59,594)**	**(412,912)**
Cash and cash equivalents at the beginning of the period	**13**	**1,072,609**	**1,485,521**
Cash and cash equivalents at the end of the period	**13**	**1,013,015**	**1,072,609**

(in thousands of US dollars, unless otherwise stated)

	Note	Attributable to equity holders of the Company							Non-controlling interests	Total equity
		Share capital	Preference shares	Treasury shares	Share premium	Retained earnings	Currency translation reserve	Total		
Balance at 1 January 2017		**35,762**	**-**	**(26,909)**	**509,484**	**3,486,183**	**(3,739,971)**	**264,549**	**11,533**	**276,082**
Profit for the period		-	-	-	-	873,979	-	873,979	649	874,628
Other comprehensive income		-	-	-	-	2,382	22,734	25,116	-	25,116
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**876,361**	**22,734**	**899,095**	**649**	**899,744**
Transactions with owners										
Purchase of non-controlling interest		-	-	-	-	-	-	-	(165)	(165)
Purchase of treasury shares	14	-	-	(192)	(25,912)	-	-	(26,104)	-	(26,104)
Total transactions with owners		**-**	**-**	**(192)**	**(25,912)**	**-**	**-**	**(26,104)**	**(165)**	**(26,269)**
Balance at 31 December 2017		**35,762**	**-**	**(27,101)**	**483,572**	**4,362,544**	**(3,717,237)**	**1,137,540**	**12,017**	**1,149,557**
Balance at 1 January 2018, as previously reported		**35,762**	**-**	**(27,101)**	**483,572**	**4,362,544**	**(3,717,237)**	**1,137,540**	**12,017**	**1,149,557**
Adjustment due to adoption of IFRS 9	3	-	-	-	-	(478)	-	(478)	-	(478)
Balance at 1 January 2018, adjusted		**35,762**	**-**	**(27,101)**	**483,572**	**4,362,066**	**(3,717,237)**	**1,137,062**	**12,017**	**1,149,079**
(Loss) / profit for the period		-	-	-	-	(97,643)	-	(97,643)	637	(97,006)
Other comprehensive (loss) / income		-	-	-	-	560	(207,704)	(207,144)	-	(207,144)
Total comprehensive (loss) / income for the period		**-**	**-**	**-**	**-**	**(97,083)**	**(207,704)**	**(304,787)**	**637**	**(304,150)**
Transactions with owners										
Dividends declared for preference shares	14	-	-	-	-	(48)	-	(48)	-	(48)
Purchase of treasury shares	14	-	-	(895)	(124,745)	-	-	(125,640)	-	(125,640)
Preference shares issue	14	-	239	-	50,987	-	-	51,226	-	51,226
Total transactions with owners		**-**	**239**	**(895)**	**(73,758)**	**(48)**	**-**	**(74,462)**	**-**	**(74,462)**
Balance at 31 December 2018		**35,762**	**239**	**(27,996)**	**409,814**	**4,264,935**	**(3,924,941)**	**757,813**	**12,654**	**770,467**

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 Company holds operating licences, issued by the Department of Subsoil Use of the Privolzhsky Federal district for the extraction of potassium, magnesium and sodium salts from the Durimansky, Bigelsko-Troitsky, Solikamsky (northern and southern parts) and Novo-Solikamsky plots of the Verkhnekamskoye field. On 1 April 2013 the licences were prolonged till 2018 - 2021 at insignificant cost. In 2016 the licences previously valid till 2018 were prolonged till 2043 - 2055 (northern part of Solikamsky plot, Bigelsko-Troitsky and Novo-Solikamsky plots). In 2017 the licences for Durimansky plot and the southern part of Solikamsky plot previously valid till 2021 were prolonged till 2024 and 2026, respectively. The Company also owns licences for the Ust'-Yaivinsky plot of the Verkhnekamskoye field, which expires in 2024, for the Polovodovsky plot of the Verkhnekamskoye field, which expires in 2054, and for the Romanovskoye plot of the Verkhnekamskoye field, which expires in 2039. In 2017 the Company received a licence for geological exploration of the Izversky plot on the territory of Usolsky and Alexandrovsky districts of the Perm region, which is valid until 2022.

As at 31 December 2018 and 31 December 2017, 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.

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.

As at 31 December 2018, the Group's current liabilities exceeded its current assets by US$ 796,126 (31 December 2017: US$ 231,774).

In making its going concern assessment the Group has taken into account its financial position, expected commercial results, its borrowings and available but not yet used credit lines, as well as planned capital expenditures and capital commitments and other risks to which the Group is exposed.

After making appropriate enquires, the Group considers that it has adequate resources to cover the working capital deficit and continue in operational existence for at least the next 12 months from the date of issuance of these consolidated financial statements. The Group has sufficient available credit lines (including revolving credit lines with Russian and international banks) to cover short-term liquidity gaps, if any. For more detailed information refer to Note 15.

Consequently, the Management of the Group 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. 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 variable 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 equity attributable to the company's equity holders.

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 property, plant and equipment 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 or cash generating unit's, to which the asset is attributable, 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.

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 costs to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	10 to 60
Mining assets[1]	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 profit or loss. Operating leases include long-term leases of land with rental payments, as a general land lease rates depend on land cadastral value that are regularly reviewed by authorities of different levels.

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.

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 the consolidated statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

[1] Mining assets include mine infrastructure and present value of future decommissioning and filling cavities costs. 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 amortised 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 Financial instruments

Accounting policies applied since 1 January 2018

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially recorded at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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 assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the financial assets.

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 ("FVTPL");

(b) Financial assets at fair value through other comprehensive income ("FVTOCI"); and

(c) Financial assets at amortised cost.

The classification and subsequent measurement of financial assets depend on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

The Group classifies its financial assets at amortised cost if both of the following conditions are met:

(a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Otherwise, they are classified as financial asset measured at fair value.

The Group reclassifies financial assets when and only when its business model for managing those assets changes.

Financial liabilities have the following measurement categories:

(a) Financial liabilities at FVTPL;

(b) Financial liabilities at amortised cost;

(c) Financial guarantee contracts.

2 Basis of preparation and significant accounting policies (continued)

Subsequent measurement of financial assets

Debt financial assets

Debt financial assets at amortised cost are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest method. Impairment losses are recognised in the statement of profit or loss.

Debt financial assets at amortised cost comprise trade and other receivables, loans issued, cash and cash equivalents.

Debt financial assets at FVTOCI that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in financial income using the effective interest rate method.

Debt financial assets at FVTOCI are included trade receivables under factoring agreements, where the Group's objective is to realise the cash flows primarily through selling.

Financial assets at FVTPL that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss in the period in which it arises. The Group doesn't have investments into debt financial assets at FVTPL.

Equity financial assets

The Group subsequently measures all equity investments at fair value (except investments in associates). Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains / (losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

The Group doesn't have investments into equity instruments.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECL") on investments in debt instruments that are measured at amortised cost or at FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the Notes 3, 5, 11.

Trade and other receivables*.* The Group always recognises lifetime ECL for all trade and other receivables. To measure the expected credit losses, receivables have been grouped based on shared credit risk characteristics (international counterparties with high ratings, insured counterparties (including letters of credits), non-insured counterparties, other) and the days past due.

2 Basis of preparation and significant accounting policies (continued)

Other financial assets. For all other financial assets, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Other financial assets include loan to related party and other receivables.

The expected credit loss on trade receivables and other debt financial assets is calculated based on the amount at risk, the lifetime of receivables, and the probability of default, taking the following characteristics into account: corporate risk, country of origin, insurance company and use of bank letters of credit when paying the debt.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. The management of the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 45 days past due, unless the Group has reasonable and supportable information that demonstrate otherwise.

Definition of default

For internal credit risk management purposes the Group considers the following events indicating that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement of financial liabilities

Borrowings, loans and bonds are subsequently 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.

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are subsequently measured at amortised cost using the effective interest method.

Pledge agreements. A pledge agreement is a contract that requires the issuer to provide its property as security for debt or other obligation. This pledged property is transferred to the holder as reimbursement for a loss incurred in the event a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

IFRS 9 prescribes to measure the pledge similar to financial guarantees at the higher of:

- The loss allowance determined as expected credit loss under IFRS 9; and
- The amount initially recognised (fair value) less any cumulative amount of income recognised in line with IFRS 15.

2 Basis of preparation and significant accounting policies (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or a part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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.

Derivative financial instruments

Derivative financial instruments, represented by cross-currency interest rate and interest rate swaps and collars. Derivatives are recognised initially at fair value at the date of a derivative contract is entered into and are subsequently remeasured to the their fair value at each reporting date. Changes in the fair value of derivative instruments are included in profit or loss for the year. Derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The income received from currency-interest rate swap transactions reduces interest expense. The Group does not apply hedge accounting.

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. 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.

Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

***Classification*.** Until 31 December 2017, the Group classified its financial assets in the following categories: (a) financial assets at FVTPL; (b) loans and receivables; (c) investments held-to-maturity; and (d) available-for-sale financial assets.

Subsequent measurement. The measurement at initial recognition did not change on adoption of IFRS 9, see description above. Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest method.

2 Basis of preparation and significant accounting policies (continued)

Impairment. The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Fair value of financial assets and financial liabilities

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 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(ii) Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

(iii) Level 3 inputs are unobservable inputs for the asset or liability.

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 Russian Rouble (“RR”) and US$, exchange and interest rates) observable in markets.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally equal to 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.

2 Basis of preparation and significant accounting policies (continued)

2.10 Income tax

Income tax has 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 expenditures 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 income taxes 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.

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 unless there is an intention to sell subsidiary in the foreseeable future, 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.

2.11 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 capitalised 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.

2.12 Share capital

Ordinary shares and Global Depositary Receipts ("GDRs") 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 Basis of preparation and significant accounting policies (continued)

2.13 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.

2.14 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.

2.15 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 an allowance for ECL has been made for receivables, the impairment loss is recorded for the gross amount of the debt, including VAT.

2.16 Borrowing costs

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.

2.17 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 present value of expected expenses on filling cavities is recognised at property, plant and equipment and ecspective liabilities. Remeasurement of an existing amount of these cavities that result from changes in estimates of mine surveys is recorded as an addition or disposal of 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. 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.

(in thousands of US dollars, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

Provision for asset retirement obligations

The company recognises provisions for decommissioning obligations (also known as asset retirement obligations) primarily related to mining activities. 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. 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.

2.18 Foreign currency translation

Functional and presentation currency. Functional currency of each entity of the Group is the national currency of the Russian Federation, Russian Rouble. 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 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 2018		31 December 2017	
	US$	Euro	US$	Euro
closing rate	69.47	79.46	57.60	68.87
average rate	62.71	73.96	58.35	65.90

2 Basis of preparation and significant accounting policies (continued)

2.19 Revenue recognition

From 1 January 2018 the Group recognises revenue from contracts with customers under IFRS 15. The impact of the change in accounting policy is disclosed in Note 3.

The Group uses a single five-step revenue recognition model that is applied to all contracts with customers and is based on the transfer of control over goods and services. The Group recognises revenue from sale of potassium and delivery services.

Revenue from sale of potassium is recognised when control of the goods is transferred to the customer.

Contracts with buyers for the supply of potassium use a variety of delivery terms. In a number of contracts the Group is obliged to provide services for the delivery of potassium to a certain place after the control of the goods passed to the buyer. According to IFRS 15 revenue from rendering such delivery services is treated as a separate performance obligation, which should be recognised over period of time of service, not at moment of control for potassium transfer to the buyer, as recognised earlier under IAS 18.

Transportation cost related to the revenue from rendering transportation services is included into the Distribution cost.

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.

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

2.20 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.

2.21 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.

2.22 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.

2.23 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.

(in thousands of US dollars, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

As at 31 December 2017, the Group used assumptions of the retirement's dynamics upon reaching the retirement age established by Russian law (60 years for men, 55 years for women).

In October 2018, a federal law that stipulates for a gradual (from 1 January 2019) increase of the retirement age was published. The increase of the statutory retirement age changes the formalised conditions of defined benefit plans and was accounted in the cost of past services. According to the new legislation the pension obligation has to be distributed over a longer period of services rendered to the Group. As at 31 December 2018, the pension obligation decreased due to a decrease in the cost of services for past periods.

2.24 Earnings/loss 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 and comparative periods diluted earnings per share are not different from basic earnings per share.

2.25 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 Group 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.

3 IFRS standards update

The Group has adopted standards that are mandatory for financial periods beginning on 1 January 2018.

IFRS 9 Financial Instruments. IFRS 9 has replaced IAS 39 *Financial Instruments: Recognition and Measurement*. The standard provides amended guidance on the classification, recognition and measurement of financial assets and liabilities. The major impact from the transition relates to the classification of financial assets and introduction of an expected credit loss model which results in the earlier recognition of credit losses and is more forward looking than the previous incurred loss model. The Group used an exemption in IFRS 9 allowing not to restate prior periods presented as a result of adoption of the new measurement requirements, but rather recognise any differences in the retained earnings as at 1 January 2018. The impact of the adoption of the expected credit losses model on the Group's consolidated financial statements is disclosed below. The accounting approach of ECL calculation is disclosed in Note 2.

	Balance at 31 December 2017, as previously reported	**Adjustment, IFRS 9**	**Balance at 1 January 2018, adjusted**
Trade receivables	533,959	(580)	533,379
Deferred income tax assets	16,615	102	16,717
Retained earnings and other reserves	4,362,544	(478)	4,362,066

Once the Group expected to redeem a loan in March 2018, there was no significant impact of the adoption of the expected credit losses model for the loan issued as at 1 January 2018.

There were no significant changes in classification and measurement of financial instruments as a result of adoption of IFRS 9, except for classification of factored receivables which will be accounted at FVTOCI (Note 2).

(in thousands of US dollars, unless otherwise stated)

3 IFRS standards update (continued)

IFRS 15 Revenues from Contracts with Customers. IFRS 15 provides a single five-step revenue recognition model that will apply to all contracts with customers is based on the transfer of control over goods and services. IFRS 15 replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. In accordance with the transition provisions in IFRS 15 the Group has elected to apply the standard retrospectively without restating the comparatives with the effect of transition to be recognised as at 1 January 2018.The impact of IFRS 15 adoption on the Group's consolidated financial statements is disclosed in Note 19. The revenue's accounting approach is disclosed in Note 2.

The following standards and interpretations, which have not been applied in these consolidated financial statements, were in issue but not yet effective:

Title	Subject	Effective for annual periods beginning on or after	Expected effect on the consolidated financial statements
IFRS 16	Leases	1 January 2019	Under review, see below
IFRIC 23	Uncertainty Over Income Tax Treatments	1 January 2019	Under review
Amendments to IFRS 9	Prepayment Features With Negative Compensation	1 January 2019	Under review
Amendments to IAS 28	Long-Term Interests in Associates and Joint Ventures	1 January 2019	Under review
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019	Under review
Annual Improvements to IFRS Standards 2015-2017 Cycle:		1 January 2019	
• amendments to IFRS 3	Obtaining control of a business		Under review
• amendments to IFRS 11	Obtaining joint control of a business		Under review
• amendments to IAS 12	Income tax consequences of dividends		Under review
• amendments to IAS 23	Specific borrowing outstandings		Under review
Amendments to Conceptual Framework	Fair value, improved definitions and recommendations	1 January 2020	Under review
Amendments to IFRS 3	Definition of a business	1 January 2020	Under review
Amendments to IAS 1 and IAS 8	Definition of a materiality	1 January 2020	Under review
IFRS 17	Insurance contracts	1 January 2021	Not applicable

IFRS 16 Leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments of US$ 43 million (31 December 2017: US$ 21 million) (Note 26). IAS 17 does not require the recognition of any right-of-use assets or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 26. A preliminary assessment indicates that some of these arrangements would meet the definition of a lease under IFRS 16, and hence the Group would recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have an impact on the amounts recognised in the Group's consolidated financial statements and Management is currently assessing its full potential effect. It is not practicable to provide a reasonable estimate of the financial effect until the Management completes the review.

4 Critical accounting judgements and key sources of estimation uncertainty

In regard to the application of the Group's accounting policies, which are described in Note 2, Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Group's Management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

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 the estimated period during which these assets will be bringing economic benefits to the Group (Note 7).

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 that were previously valid until 2018 were prolonged to 2043–2055 (the northern part of the Solikamskiy, Bigelsko-Troitsky and Novo-Solikamskiy plots). Management assesses the remaining useful life of mining licences on the basis of estimated mining reserves.

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

Classification of loan issued to a related party

In 2016, the Group issued an unsecured revolving loan facility to a related party for a period of two years (Note 5). In 2018, the loan facility was extended and Management prepared an analysis of the key parameters of the market terms of the loan including the interest rate, historical payments, maturity, security and recoverability and concluded that the loan was issued at market terms and should be classified as a financial asset in the consolidated financial statement of financial position.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision for filling cavities

The Group accrued a provision for its obligation to replace ore and waste extracted from the Solikamsk, Berezniki-2, and Berezniki-4 mines (Note 17).

The major uncertainties over 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 2019 and 2028;
- 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 Rostechnadzor;
- 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 4.1% to 4.5% for the period starting from 2019 until 2022 (2017: from 4.0% to 4.9%). Starting from 2023, the expected inflation rate in the Russian Federation is forecasted to be 4% (2017: 4.3%); and
- In 2018, Management applied discount rates ranging from 8.3% to 8.8% based on government bonds interest rates (2017: from 7.1% to 9.3%).

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

During the third quarter 2018, as a result of changes in operational geological information the Group reassessed the volume and duration of its expenses for the liquidation of Solikamsk-2 ("SKRU-2") accident in 2014 (Note 4.2 Provision for SKRU-2 mine flooding) as well as the volume of SKRU-2 reserves, which slightly reduced the projected end of mining from the end of 2023 to the beginning of 2023. After the end of mining, the Group will be carrying out filling cavities and liquidation works in the northern part of the mine. According to preliminary estimates by the experts of the Group, the filling cavities and liquidation works are to be completed in the beginning of 2025 and in 2028 respectively. However, the completion dates, methods of liquidation and the revised expenses for mine liquidation will be determined by the technical liquidation project that will be prepared on or after the end of 2019.

During the mining period at SKRU-2, the Group will continue to incur expenses to mitigate consequences of the accident. During the remaining period of mining, the Group will be recording the above expenses within cost of sales as they relate to the day-to-day operation of the mine. After the end of mining, all similar expenses are to be incurred by the Group to ensure the safety of filling cavities and liquidation works until 2027. Thus as at 31 December 2018, the above expenses and overhead expenses for the period from 2023 to the beginning of 2025 estimated by the Group's experts are recognised within the provision for filling cavities. As a result the provision increased by US$ 82 million and US$ 54 million, respectively (Note 17), with the corresponding increase in property, plant and equipment.

The geological process is a subject to significant uncertainty; therefore, in the event of unforeseen circumstances related to the accident liquidation, there is a risk that mining may cease before 2023. For instance, if mining would have ended in 2019, the provision for filling cavities would have been higher than the current provision by US$ 156 million (the increase would also be capitalised within property, plant and equipment).

The carrying amount of assets that will be used to both replace ore and waste extracted from the mine and to perform other decommissioning activities are depreciated over 6 years until the beginning 2025. The Group's Managements estimates the activity on cavity filling and part of decommissioning activities to be completed during the above period.

Provisions for Solikamsk-2 mine flooding

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

The Group immediately developed a comprehensive mitigation plan that has been executed throughout 2015–2018.

In line with the 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.

The major uncertainties associated with the provision for Solikamsk-2 mine flooding are as follows:

- The amount of expenses that are best available estimates of future costs based on available information;
- The period over which expenses are expected to be incurred. Major cash outflows are expected to be incurred up to 2027; and
- In 2018, Management applied a discount rate of 8.8% based on government bonds interest rates (2017: 7.3%).

Due to changes in 2018 (Note 4.2 Provision for filling cavities) the mine flooding provision increased by US$ 6 million as at 31 December 2018.

As at the date of the 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 SKRU-2 flooding other than those disclosed in the consolidated financial statements for the year ended 31 December 2018.

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Provision for asset retirement obligations

The Group has recorded a provision relating to asset retirement obligations (Note 17), which will be settled at the end of the estimated lives of mines, therefore requiring estimates to be made over a long period of time.

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 the 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 the scientific institute 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 over the amount and timing of the cash outflows associate with 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 be incurred principally between 2019 and 2060. These estimates are based on Management's current best assessment of the Group's reserves.
- The extent of the restoration works that 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 the licences.
- 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 4.1% to 4.5% for the period starting from 2019 until 2022 (2017: from 4.0% to 4.9%). Starting from 2023, the expected inflation rate in the Russian Federation is forecasted to be 4% (2017: 4.3%).
- In 2018, Management applied discount rates ranging from 7.5% to 8.9% based on government bonds interest rates (2017: from 7.6% to 9.3%).

During 2017, the Group completed its assessment of future costs to fulfil its current decommissioning obligations for the Ust'-Yayvinskii mine. The total estimated provision for asset retirement obligations amounts to US$ 585 as at 31 December 2018 (31 December 2017: US$ 613).

Due to changes in 2018 (Note 4.2 Provision for filling cavities) accident liquidation expenses for the period from the beginning 2025 to the middle 2027 are recognised within the provision for northern part of SKRU-2 asset retirement obligations, thus the provision increased by US$ 49 million as at 31 December 2018.

Annual impairment test of goodwill

The Group tests goodwill for impairment at least annually. The main assumptions used in value-in-use calculations are described in Note 8.

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 regarding a range of technical and economic factors, including technology for the construction of the mines, the level of capital expenditure needed to develop the deposit, the expected start of 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's estimates might also change from period to period.

Review of impairment indicators for property, plant and equipment

The Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets are impaired as at each reporting date. No impairment indicators were identified as at 31 December 2018.

(in thousands of US dollars, unless otherwise stated)

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Recoverability of a loan issued to a related party

At the end of each reporting period, Management considers the financial position and financial performance of the debtor to identify whether the loan is recoverable. The ability of the debtor to repay the loan depends on returns from its investments in companies operating in the fertiliser industry. Management applied a number of significant assumptions in their financial model to assess the recoverability of the loan, which are disclosed in Note 8.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 26.2).

5 Related parties

Related parties include shareholders, associate, entities under 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.

Details of outstanding balances between the Group and its related parties are disclosed below:

Outstanding balances with related parties under control of shareholders with significant influence over the Group	31 December 2018	31 December 2017
Loan receivable	386,974	358,684
Interest receivable	13,641	20,548
Loan payable including interest payable	(43,288)	-
Trade and other receivables and other financial assets	10,874	17,776
Trade and other payables	(6,704)	(5,308)
Other non-current liabilities	(1,809)	(14,026)
Advances to suppliers	7,952	-
Advances received	-	(1,115)

Outstanding balances with associate	31 December 2018	31 December 2017
Trade and other receivables and other financial assets	-	83
Trade and other payables	-	(160)
Advances to suppliers	1,641	-
Other accrued liabilities	-	(4,274)

The loan to a related party is a US$ denominated unsecured revolving loan facility granted in April 2016 initially for a period of two years under market conditions. In 2018, this facility was prolonged till 2023.

The loan was issued at a market rate with interests payable at the maturity date.

(in thousands of US dollars, unless otherwise stated)

5 Related parties (continued)

In 2018, Management prepared an analysis of the key parameters of the market terms of the loan including interest rate, historical payments, maturity, security and recoverability. Considering all factors above Management concluded that the loan should continue to be treated as an asset.

In December 2017, the Group entered into a share pledge agreement with PJSC Sberbank of Russia (hereinafter – "Sberbank") whereby the Company pledged some of its own shares held by JSC Uralkali-Technologiya, wholly owned subsidiary of the Group, as follows:

- Ordinary shares of PJSC Uralkali representing 1.4% of the Company's share capital as primary pledge; and
- Ordinary shares of PJSC Uralkali representing 8.6% of the Company's share capital as secondary pledge, which are also pledged as primary security for credit facilities received by the Group from Sberbank in 2016 (Note 15).

In April 2018, the Group additionally pledged:

- Ordinary shares and GDRs of PJSC Uralkali representing 24.7% of Company's share capital as primary pledge; and
- Ordinary shares and GDRs of PJSC Uralkali representing 20.0% of Company's share capital as secondary pledge, which are also pledged as primary security for credit facilities received by the Group from Sberbank in 2016 (Note 15).

The pledge was provided as a security for the loan of one of the Group's related parties with Sberbank effective till March 2023. The pledge was provided on paid basis at market terms.

As at 31 December 2018, the fair value of the pledge of US$ 7.2 million (31 December 2017: US$ 17.7 million) was recognised in other non-current assets; US$ 4.5 million in other payables (31 December 2017: US$ 3.7 million) and US$ 1.8 million in other non-current liabilities (31 December 2017: US$ 14 million).

In 2018, the Company placed preference shares among some of the Group's shareholders, who are related parties of the Group (Note 14).

Details of significant transactions between the Group and its related parties are disclosed below:

Transactions with related parties under control of shareholders with significant influence over the Group	**2018**	**2017**
Revenue (sales of potassium chloride)	49,200	39,357
Other revenue	8,446	1,355
Interest income	26,400	17,411
Purchase of inventories	(11,490)	(11,156)
Purchase of property, plant and equipment and assets under construction	(397)	(2,077)
Distribution costs	(16,281)	(10,406)
Interest expenses	(2,729)	-
General and administrative expenses	(1,534)	(1,603)
Bargain purchase	1,350	-
Other finance income, net	3,863	-
Other expenses	(365)	(209)
Acquisition of subsidiaries, net of cash acquired	164	-

Transactions with associate	**2018**	**2017**
Other income	185	-
Transportation expenses	1,385	4,920
Change in accrued liabilities	4,252	-
Distribution costs	(2,789)	(5,081)

(in thousands of US dollars, unless otherwise stated)

5 Related parties (continued)

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's compensation is presented below:

	Expenses		Accrued liabilities	
	2018	**2017**	**31 December 2018**	**31 December 2017**
Short-term employee benefits	12,927	7,071	2,933	4,837
Termination benefits	-	137	-	-
Total	**12,927**	**7,208**	**2,933**	**4,837**

6 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, rent of wagons and transshipment costs;
- Operating profit;
- 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 this Note.

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

	Note	**2018**	**2017**
Revenues	19	2,753,577	2,760,874
Revenues net of freight, railway tariff, rent of wagons and transshipment costs	19, 21	2,281,082	2,182,681
Operating profit		1,202,487	1,101,302
Cash CAPEX		358,441	270,888

(b) Geographical information

The analysis of Group sales by region was:	**2018**	**2017**
Russia	485,562	412,953
China, India, South East Asia	872,055	1,032,799
Latin America, USA	1,061,879	936,119
Europe, other countries	334,081	379,003
Total revenues	**2,753,577**	**2,760,874**

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 2018 and 31 December 2017.

(in thousands of US dollars, unless otherwise stated)

7 Property, plant and equipment

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

	Buildings	Mining assets	Plant and equipment	Transport	Other	Land	Assets under construction	Total
Cost								
Balance at 1 January 2017	**702,547**	**803,391**	**1,143,817**	**202,791**	**19,964**	**7,601**	**617,092**	**3,497,203**
Additions	29	-	33	-	-	-	244,644	244,706
Changes in estimates added to property, plant and equipment (Note 17)	(12,566)	71,466	(1,177)	-	-	-	-	57,723
Recognition of asset related to decommissioning obligations (Note 17)	201	-	-	-	-	-	412	613
Commissioning of assets and transfers	38,135	115,622	55,869	3,334	(927)	24	(212,057)	-
Disposals	(548)	(7,963)	(16,965)	(7,810)	(105)	-	(3,629)	(37,020)
Effect of translation to presentation currency	37,610	44,974	61,145	10,703	1,094	406	33,112	189,044
Balance at 31 December 2017	**765,408**	**1,027,490**	**1,242,722**	**209,018**	**20,026**	**8,031**	**679,574**	**3,952,269**
Acquired on acquisitions of subsidiaries	-	-	-	44,444	-	-	-	44,444
Additions	119	382	14	-	56	13	330,158	330,742
Changes in estimates added to property, plant and equipment (Note 17)	18,301	202,660	1,880	-	1	-	18	222,860
Commissioning of assets and transfers	23,542	99,945	37,727	24,301	620	46	(186,181)	-
Disposals	(1,893)	(1,457)	(22,979)	(3,096)	(283)	(15)	(6,091)	(35,814)
Effect of translation to presentation currency	(134,684)	(204,919)	(213,966)	(42,106)	(3,458)	(1,387)	(129,629)	(730,149)
Balance at 31 December 2018	**670,793**	**1,124,101**	**1,045,398**	**232,561**	**16,962**	**6,688**	**687,849**	**3,784,352**

(in thousands of US dollars, unless otherwise stated)

7 Property, plant and equipment (continued)

	Buildings	Mining assets	Plant and equipment	Transport	Other	Land	Assets under construction	Total
Accumulated depreciation and impairment								
Balance at 1 January 2017	**(168,034)**	**(277,541)**	**(693,206)**	**(95,524)**	**(9,987)**	**-**	**(8,758)**	**(1,253,050)**
Depreciation charge	(27,603)	(82,396)	(73,795)	(12,585)	(1,268)	-	-	(197,647)
Disposals	186	6,610	15,149	4,178	102	-	-	26,225
Transfers	(29)	(81)	(370)	315	182	-	(17)	-
Reversal of impairment	14	137	568	589	-	-	1,541	2,849
Effect of translation to presentation currency	(9,275)	(15,718)	(37,549)	(5,199)	(514)	-	(443)	(68,698)
Balance at 31 December 2017	**(204,741)**	**(368,989)**	**(789,203)**	**(108,226)**	**(11,485)**	**-**	**(7,677)**	**(1,490,321)**
Depreciation charge	(28,204)	(100,947)	(58,309)	(15,052)	(1,097)	-	-	(203,609)
Disposals	1,068	1,166	21,047	2,867	274	-	24	26,446
Impairment	-	-	-	-	-	-	(878)	(878)
Effect of translation to presentation currency	37,625	72,762	138,480	19,679	2,042	-	1,398	271,986
Balance at 31 December 2018	**(194,252)**	**(396,008)**	**(687,985)**	**(100,732)**	**(10,266)**	**-**	**(7,133)**	**(1,396,376)**
Net Book Value								
Balance at 1 January 2017	**534,513**	**525,850**	**450,611**	**107,267**	**9,977**	**7,601**	**608,334**	**2,244,153**
Balance at 31 December 2017	**560,667**	**658,501**	**453,519**	**100,792**	**8,541**	**8,031**	**671,897**	**2,461,948**
Balance at 31 December 2018	**476,541**	**728,093**	**357,413**	**131,829**	**6,696**	**6,688**	**680,716**	**2,387,976**

(in thousands of US dollars, unless otherwise stated)

7 Property, plant and equipment (continued)

Allocation of depreciation charge for the period is presented below:

Allocation of depreciation charge for the period	Note	2018	2017
Cost of sales	20	176,565	169,512
Distribution costs	21	11,154	11,847
General and administrative expenses	22	9,738	7,862
Other operating expenses		1,206	1,364
Capitalised within assets under construction		4,946	7,062
Total		**203,609**	**197,647**

Fully depreciated assets still in use

As at 31 December 2018 and 31 December 2017, the gross carrying value of fully depreciated property, plant and equipment still in use was US$ 329,365 and US$ 416,046 respectively.

Capitalised interest expense and foreign exchange lossess capitalised in the cost of assets under construction were as follows:

	2018	2017
Capitalised interest expenses	42,647	36,280
Capitalised foreign exchange losses	20,512	600
Total capitalised borrowing costs	**63,159**	**36,880**

In 2018, the Group used average interest capitalisation rate 4.6% (2017: 4.2%).

8 Goodwill

	2018	2017
Carrying value at 1 January	**1,024,146**	**972,536**
Effect of translation to presentation currency	(174,995)	51,610
Carrying value at 31 December	**849,151**	**1,024,146**

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 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.

The Management uses cash flow projections until 2040, which defined by the Management of the Group as reasonable planning horizon. The period of more than 5 years is used as the mining period based on the volume of mineral resources the Company can extract is longer than 5 years.

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

	2018	2017
RR/US$ exchange rate (till 2040)	From 65 to 97.7	From 61 to 138
Growth rate beyond one year	4.0% p.a.	4.0% p.a.
US$ weighted average cost of capital	10.9% p.a.	10.2% p.a.
Long-term inflation rate in Russia	4.0% p.a.	4.0% p.a.

The Group did not recognise any impairment of goodwill in the consolidated financial statements for the years ended 31 December 2018 and 31 December 2017.

(in thousands of US dollars, unless otherwise stated)

9 Intangible assets

	Note	Mining licences	Software	Other	Total
Cost					
Balance at 1 January 2017		**3,214,118**	**16,473**	**9,576**	**3,240,167**
Additions		-	603	903	1,506
Disposals		-	(946)	(209)	(1,155)
Effect of translation to presentation currency		170,566	874	508	171,948
Balance at 31 December 2017		**3,384,684**	**17,004**	**10,778**	**3,412,466**
Additions		-	1,027	519	1,546
Disposals		-	(1,717)	(61)	(1,778)
Effect of translation to presentation currency		(578,339)	(2,850)	(1,882)	(583,071)
Balance at 31 December 2018		**2,806,345**	**13,464**	**9,354**	**2,829,163**
Accumulated amortisation					
Balance at 1 January 2017		**(361,614)**	**(5,219)**	**(3,947)**	**(370,780)**
Amortisation charge	20, 22	(45,327)	(2,394)	(870)	(48,591)
Disposals		-	884	2	886
Effect of translation to presentation currency		(19,782)	(296)	(223)	(20,301)
Balance at 31 December 2017		**(426,723)**	**(7,025)**	**(5,038)**	**(438,786)**
Amortisation charge	20, 22	(54,274)	(2,950)	(879)	(58,103)
Disposals		-	1,704	18	1,722
Effect of translation to presentation currency		78,197	1,383	890	80,470
Balance at 31 December 2018		**(402,800)**	**(6,888)**	**(5,009)**	**(414,697)**
Net book value					
Balance at 1 January 2017		**2,852,504**	**11,254**	**5,629**	**2,869,387**
Balance at 31 December 2017		**2,957,961**	**9,979**	**5,740**	**2,973,680**
Balance at 31 December 2018		**2,403,545**	**6,576**	**4,345**	**2,414,466**

10 Inventories

	31 December 2018	31 December 2017
Raw materials and spare parts	62,575	65,213
Finished products	67,105	16,986
Work in progress	3,750	3,671
Other inventories	6,206	6,069
Total inventories	**139,636**	**91,939**

(in thousands of US dollars, unless otherwise stated)

11 Trade and other receivables

	31 December 2018	31 December 2017
Financial receivables		
Trade receivables at amortised cost	241,218	484,536
Trade receivables at FVTOCI	63,260	-
Contract assets	4,150	-
Other receivables	16,616	11,936
Less: allowance for ECL	(18,877)	(14,010)
Total financial receivables	**306,367**	**482,462**
Non-financial receivables		
VAT recoverable	40,527	49,570
Other taxes recoverable	798	1,927
Other non-financial receivables	4,195	-
Total non-financial receivables	**45,520**	**51,497**
Total trade and other receivables	**351,887**	**533,959**

As at 31 December 2018, advances received comprise contract liabilities of US$ 6,292 (31 December 2017: null).

As at 31 December 2018, trade receivables of US$ 275,733 (31 December 2017: US$ 464,628), net of allowance for ECL, were denominated in foreign currencies; 81% of this balance was denominated in US$ (31 December 2017: 89%) and 19% was denominated in Euro (31 December 2017: 11%).

As at 31 December 2018, ECL for other receivables of US$ 7,076 (1 January 2018: US$ 4,044) was measured at an amount equal to 12-month ECL, ECL for other receivables of US$ 9,540 (1 January 2018: US$ 7,892) was measured at an amount equal lifetime ECL.

Movements of the allowance for ECL were as follows:

	2018		2017	
	Trade receivables	Other receivables	Trade receivables	Other receivables
31 December – calculated under IAS 39	**(6,920)**	**(7,090)**	**(6,673)**	**(6,640)**
Adjustment IFRS 9 (Note 3)	(539)	(41)	-	-
Opening balance at 1 January	**(7,459)**	**(7,131)**	**(6,673)**	**(6,640)**
Allowance accrued	(6,244)	(3,494)	(762)	(1,138)
Allowance reversed	1,219	708	490	345
Allowance utilised	606	417	188	710
Foreign exchange (loss) / gain, net	(674)	-	190	(13)
Effect of translation to presentation currency	1,733	1,442	(353)	(354)
Balance at 31 December	**(10,819)**	**(8,058)**	**(6,920)**	**(7,090)**

The accrual and reversal of the allowance for ECL have been included in other operating expenses in the consolidated statement of profit or loss.

(in thousands of US dollars, unless otherwise stated)

11 Trade and other receivables (continued)

Analysis of trade and other receivables by quantity of days overdue is as follows:

31 December 2018	Current	less than 45 days overdue	45 to 90 days overdue	over 90 days overdue	Total
Gross carring amount - trade receivables (insured)	153,376	17,590	72	63	171,101
Gross carring amount - trade receivables (non-insured)	116,799	12,221	2,562	5,945	137,527
Gross carring amount - other receivables	5,312	1,764	677	8,863	16,616
Allowance for ECL	(1,713)	(1,641)	(2,390)	(13,133)	(18,877)

1 January 2018	Current	less than 45 days overdue	45 to 90 days overdue	over 90 days overdue	Total
Gross carring amount - trade receivables (insured)	307,743	6,510	-	-	314,253
Gross carring amount - trade receivables (non-insured)	158,008	4,514	144	7,617	170,283
Gross carring amount - other receivables	2,711	1,333	813	7,079	11,936
Allowance for ECL	(747)	(104)	(330)	(13,409)	(14,590)

As at 31 December 2018 and 31 December 2017, no trade and other receivables were pledged as collateral.

12 Derivative financial instruments

As at 31 December 2018, the derivative financial instruments were represented by:

	The Group pays	The Group receives	Issue	Maturity	Notional amount 31 December 2018	Notional amount 31 December 2017
Cross-currency interest rate swap	US$ at fixed rate	RR at fixed rate	2018	2023	US$ 239 mln (RR 15,000 mln)	-
	US$ at fixed rate	RR at fixed rate	2018	2021	US$ 149 mln (RR 10,000 mln)	-
	US$ at fixed rate	RR at fixed rate	2017	2020	US$ 265 mln (RR 15,000 mln)	US$ 265 mln (RR 15,000 mln)
	US$ at floating rate	RR at floating rate	2013	2018	-	US$ 250 mln (RR 8,213 mln)
Interest rate swap	US$ at fixed rate	US$ at floating rate	2016	2019	US$ 333 mln (RR 23,134 mln)	US$ 833 mln (RR 47,981 mln)
	US$ at fixed rate	US$ at floating rate	2017	2020	US$ 1,000 mln (RR 69,470 mln)	US$ 1,000 mln (RR 57,600 mln)

In these consolidated financial statements derivative financial instruments were as follows:

	31 December 2018	31 December 2017
Assets		
Current derivative financial assets	30,261	16,783
Non-current derivative financial assets	338	6,047
Total derivative financial assets	**30,599**	**22,830**
Liabilities		
Current derivative financial liabilities	(7,130)	(109,815)
Non-current derivative financial liabilities	(121,523)	(11,609)
Total derivative financial liabilities	**(128,653)**	**(121,424)**

12 Derivatives (continued)

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

	Note	2018	2017
Balance at 1 January		**98,594**	**277,125**
Cash proceeds from derivatives		17,816	12,710
Cash paid for derivatives		(111,507)	(151,792)
Changes in the fair value	24	106,246	(51,662)
Effect of translation to presentation currency		(13,095)	12,213
Balance at 31 December		**98,054**	**98,594**

Derivatives are carried at their fair value and categorised within Level 2 of the fair value hierarchy.

13 Cash and cash equivalents

	Interest rates	31 December 2018	31 December 2017
Cash on hand and bank balances			
RR denominated cash on hand and bank balances		49,716	73,165
US$ denominated bank balances		475,309	856,422
EUR denominated bank balances		31,226	32,387
Other currencies denominated balances		369	110
Highly liquid risk-free bonds		-	70,158
Term deposits			
US$ term deposits	0.6% p.a. - 3.5% p.a. (31 December 2017: 0.6% p.a. - 1.38% p.a.)	452,327	39,134
RR term deposits	4% p.a. - 7.4% p.a. (31 December 2017: 5.7% p.a. - 6.52% p.a.)	4,068	1,233
Total cash and cash equivalents		**1,013,015**	**1,072,609**

As at 31 December 2018 and 31 December 2017, all term deposits had maturity within three months.

In 2017, the Group purchased US government bonds. These bonds were short-term, highly liquid with AAA rating from Fitch and Moody's agencies and were considered risk-free. These bonds were sold in 2018.

14 Equity

	Number of ordinary shares (in millions)	Number of preference shares (in millions)	Number of treasury shares (in millions)	Ordinary shares	Preference shares	Treasury shares	Total
At 1 January 2017	**2,936**	**-**	**(1,596)**	**35,762**	**-**	**(26,909)**	**8,853**
Treasury shares purchased	-	-	(11)	-	-	(192)	(192)
At 31 December 2017	**2,936**	**-**	**(1,608)**	**35,762**	**-**	**(27,101)**	**8,661**
At 1 January 2018	**2,936**	**-**	**(1,608)**	**35,762**	**-**	**(27,101)**	**8,661**
Treasury shares purchased	-	-	(52)	-	-	(895)	(895)
Issuance of own shares	-	30	-	-	239	-	239
At 31 December 2018	**2,936**	**30**	**(1,660)**	**35,762**	**239**	**(27,996)**	**8,005**

The number of unissued authorised ordinary shares is 1,730 million (31 December 2017: 1,730 million) with a nominal value per share of 0.720 US cents (0.5 RR) (31 December 2017: 0.868 US cents (0.5 RR)).

14 Equity (continued)

The number of unissued authorised preference shares is 120 million (31 December 2017: 150 million) with a nominal value per share of 0.720 US cents (0.5 RR) (31 December 2017: 0.868 US cents (0.5 RR)) according to the Company's Charter on 27 July 2018. In 2018, the Company issued 30 million preference shares.

All shares presented in the table above have been issued and fully paid.

Treasury shares. During 2018, the Company purchased 51,908,433 (2017: 11,109,568) ordinary shares for a total amount of US$ 125,640 (2017: US$ 26,104) as a result of a mandatory redemption procedure pursuant to Russian Federal Law On Joint Stock Companies. The difference between the total acquisition cost of US$ 125,640 (2017: US$ 26,104) and the nominal value of the shares of US$ 895 (2017: US$ 192) was reflected as a decrease in share premium.

As at 31 December 2018, the treasury shares comprise 1,659,834,963 ordinary shares (31 December 2017: 1,607,926,530) represented by the shares and GDRs of the Company.

On 16 November 2018, the Board of Directors of the Company recommended to the shareholders to approve a major transaction (that together with other related transactions is worth over 50% of the carrying value of the Company's assets) to increase the credit limit of one of the Group's loan facilities with Sberbank. On 26 December 2018, this transaction was approved by the general shareholders meeting. According to the Federal Law on Joint Stock Companies the shareholders who voted against or did not take part in voting on the transaction became entitled to submit their shares to the Company for buyback. As at 31 December 2018, the Group did not accrue any liabilities in the statement of financial position related to the major transaction. Within the 45-day period prescribed by the law (which ended on 9 February 2019), 7,537,670 ordinary shares were to be repurchased for a total amount of RR 666 million (US$ 9.6 million).

Delisting. The Moscow Stock Exchange downgraded the listing of the Company's shares from Level 1 to Level 3 effective from 26 June 2017 following a decrease of the Company's free float to below 7.5% of the issued capital for over six months. Taking into account this fact and the reduced trading activity with the Company's shares on the Moscow exchange, the Board of Directors unanimously recommended that the Company's shareholders approve the delisting of the Company's shares from the Moscow Exchange. On 18 December 2017, the delisting was approved by the extraordinary general shareholders' meeting ("EGM"). As of the reporting date, the delisting procedure has not been completed yet.

Preference shares. On 18 December 2017, the EGM approved the decision to increase the share capital of the Company by way of issuing 150 million non-convertible preference shares.

As at 31 December 2018, the Company placed 30 million preference shares through a closed subscription among the shareholders who owned more than 10% of the issued ordinary shares of the Company on 23 November 2017.

The difference between the total value of the issue of US$ 51,226 and the nominal value of preference shares of US$ 239 was reflected as an increase in share premium.

According to Russian law and the Company's Charter, preference shares are non-cumulative and generally do not provide voting rights, except as expressly provided for by law. Holders of preference shares are entitled to vote starting from the meeting that follows the annual general meeting, which resolved to refrain from paying dividends or to partially pay dividends on preference shares.

The minimum dividend size is fixed in the Charter and amounts to 0.1 roubles per preference share. In July 2018, the Company paid the minimum dividends in the amount of US$ 48 to the holders of preference shares.

Dividends on ordinary shares. All dividends are declared and paid in RR. The current dividend policy provides certain flexibility to the Board of Directors in determining the amount of dividends.

General meetings held in 2018 and 2017 resolved not to pay any dividends on ordinary shares.

(in thousands of US dollars, unless otherwise stated)

15 Borrowings

The table below shows interest rates as at 31 December 2018 and 31 December 2017 and the split of bank loans into short-term and long-term.

Short-term bank loans and current portion of long-term bank loans due within 12 months	Interest rates	31 December 2018	31 December 2017
Bank loans in US$: floating interest	From 3 month LIBOR + 1.45% to 3 month LIBOR + 3.55% (31 December 2017: From 1 month Libor +2.2% to 3 month LIBOR +3.55%)	1,259,371	1,145,987
Bank loans in US$: fixed interest	From 3,8% to 5.22% (31 December 2017: From 3,8% to 4.61%)	2,570	1,852
Bank loans in EUR: floating interest	6 month EURIBOR + 1.05%	1,674	-
Bank loans in RR: floating interest	(31 December 2017: 3 month MosPrime + 2.59%)	-	144,018
Total short-term bank loans and current portion of long-term bank loans due within 12 months		**1,263,615**	**1,291,857**
Long-term bank loans			
Bank loans in US$: floating interest	From 3 month Libor + 1.45% to 3 month LIBOR + 3.55% (31 December 2017: From 1 month LIBOR +2.2% to 3 month LIBOR +3.55%)	2,228,939	2,731,858
Bank loans and other borrowings in US$: fixed interest	From 3% to 5.22% (31 December 2017: From 3.8% to 4.61%)	993,045	749,629
Bank loans in EUR: floating interest	6 month EURIBOR + 1.05%	10,816	-
Total long-term bank loans and borrowings		**3,232,800**	**3,481,487**
Finance lease payable			
Short-term finance lease payable		17	18
Long-term finance lease payable		7,585	9,179
Total finance lease payable		**7,602**	**9,197**
Total borrowings		**4,504,017**	**4,782,541**

	2018	2017
Balance at 1 January	**4,773,344**	**6,409,114**
Bank loans and other borrowings received, denominated in US$	1,550,625	1,603,010
Bank loans received, denominated in EUR	16,883	-
Bank loans repaid, denominated in US$	(1,708,783)	(3,056,349)
Bank loans repaid, denominated in EUR	(1,851)	-
Bank loans repaid, denominated in RR	(130,964)	(187,651)
Interest accrued	233,176	278,922
Interest paid	(232,449)	(293,041)
Recognition of syndication fees and other financial charges	(14,820)	(13,486)
Amortisation of syndication fees and other financial charges	12,425	20,727
Foreign exchange loss / (gain), net	826,278	(292,516)
Effect of translation to presentation currency	(827,449)	304,614
Balance at 31 December	**4,496,415**	**4,773,344**

As at 31 December 2018 and 31 December 2017, no equipment or inventories were pledged as security for bank loans.

15 Borrowings (continued)

As at 31 December 2018, bank loans amounting US$ 2,585,075 (31 December 2017: US$ 2,025,340) were collateralised by future sales proceeds of the Group under export contracts with certain customers.

In March 2016, a credit line agreement with 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 Sberbank of the Company's 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). In 2017 and 2018, amendments to Sberbank facilities were signed – the term of the credit facility was extended and the interest rate was decreased. Funds under the committed credit line in the amount of US$ 2.0 billion are available to be drawn down from 1 January 2020 till 31 December 2020; funds in the amount of US$ 1.9 billion are available to be drawn down from 23 November 2019 till 19 June 2020.

In April 2017, the Company signed a revolving credit line agreement in the amount of up to US$ 750 million with Sberbank, Sberbank AG (Switzerland) and SIB LIMITED (CYPRUS). The availability period of the credit line is 3 years, during which the Company can borrow funds in tranches and with different maturities within the limit and the tenor of the credit line availability. The funds raised can be used for the Company's general corporate purposes, including refinancing of its current debt obligations. In October 2018, the Company signed an amendment to the credit line agreement. The amount of the line was increased to US$ 1,250 million. The final maturity date should not exceed 1 July 2023. As at 31 December 2018, the credit line was utilised in the amount of US$ 950 million.

On 16 August 2017, the Company signed a US$ 850 million 5-year pre-export facility with 11 international banks. The interest rate is 1 month LIBOR + 2.2%. The loan was used for refinancing of the Company's existing loans including PXF facilities of 2013 and 2015 and for general corporate purposes. As at 31 December 2018, the credit line was fully utilised.

In October 2017, the Company signed uncommitted revolving facility agreement in the amount up to US$ 500 million with Gazprombank with an availability period of 23 months from the signing date. The borrower shall apply all amounts borrowed by it under the facility towards its general corporate purposes (including, but not limited to, refinancing of its existing indebtedness). As at 31 December 2018, the Company has not utilised the facility.

In January 2018, the Company signed an uncommitted revolving credit facility in the amount of up to US$ 100 million with Credit Agricole, which is available for one year. In December 2018, the availability period was extended till 31 March 2019. As at 31 December 2018, the Company has not utilised the facility.

In May 2018, the Company signed an uncommitted credit facility in the amount of up to US$ 80 million with Rosbank, which is available for two years. As at 31 December 2018, the Company has not utilised the facility.

In June 2018, the Company signed a US$ 825 million 5-year pre-export facility with 11 international banks. The interest rate is 1 month LIBOR + 1.9%. The loan was used for refinancing of the Company's existing loans and for general corporate purposes. As at 31 December 2018, US$ 825 million of the facility was drawn-down.

The Group was in compliance with all financial and non-financial covenants as at 31 December 2018.

(in thousands of US dollars, unless otherwise stated)

16 Bonds

In April 2013, the Group issued US$ denominated Eurobonds at the nominal value of US$ 650 million bearing a coupon of 3.723% p.a. maturing in 2018. These bonds were fully redeemed in 2018.

In May 2017, the Company issued RR bonds in the amount of RR 15 billion (US$ 265.4 million) under its exchange bond programme. The coupon rate was 8.80% p.a., coupon period is 182 days. Nominal value of the bond is RR 1,000. The bond matures in 3 years. The Group has concluded cross-currency interest rate swap agreements to translate debt and interest payments to US$ (Note 12).

In October 2017, JSC "Uralkali-Technologia" sold bonds issued by the Company to JSC VTB Capital. At the same time the Company entered into an interest rate swap to exchange the coupon rate with the interest rate of financing (Note 12).

In June 2018, the Company issued RR bonds in the amount of RR 15 billion (US$ 241 million) at par under its exchange bond programme. The coupon rate was 7.70% p.a., and the coupon period is 182 days. Nominal value of the bond is RR 1,000. The bond matures in 5 years. The Group has concluded cross-currency interest rate swap agreements to translate debt and interest payments to dollars (Note 12).

In November 2018, the Company issued RR bonds in the amount of RR 10 billion (US$ 148 million) at par under its exchange bond programme. The coupon rate was 9.30% p.a., and the coupon period is 182 days. Nominal value of the bond is RR 1,000. The bond matures in 3 years. The Group has concluded cross-currency interest rate swap agreements to translate debt and interest payments to dollars (Note 12).

	2018	2017
Balance at 1 January	**1,661,191**	**584,907**
Issuance of bonds	389,056	1,070,181
Redemption of bonds	(581,900)	-
Interest accrued	96,723	44,125
Interest paid	(95,424)	(32,480)
Recognition of syndication fees and other financial charges	(678)	(745)
Amortisation of syndication fees	472	604
Foreign exchange loss / (gain), net	196,957	(31,019)
Effect of translation to presentation currency	(270,527)	25,618
Balance at 31 December	**1,395,870**	**1,661,191**

	31 December 2018	31 December 2017
Short-term bonds		
Short-term bonds quoted on Irish Stock Exchange	-	585 329
Short-term bonds quoted on Moscow Stock Exchange	820 627	15 908
Total short-term bonds	**820,627**	**601,237**
Long-term bonds		
Long-term bonds quoted on Moscow Stock Exchange	575 243	1,059,954
Total long-term bonds	**575,243**	**1,059,954**
Total bonds	**1,395,870**	**1,661,191**

(in thousands of US dollars, unless otherwise stated)

17 Provisions

	Note	Filling cavities	Asset retirement obligations	Resettle-ment	Mine flooding	Restruc-turing	Legal	Total
Balance at 1 January 2017		**98,182**	**64,290**	**10,822**	**9,223**	**6,287**	**19,006**	**207,810**
Changes in estimates added to property, plant and equipment	7	77,675	(19,952)	-	-	-	-	57,723
Changes in estimates charged to profit or loss		-	-	(817)	(3,152)	(32)	-	(4,001)
Accrual of provision		-	613	10,084	-	-	6,084	16,781
Utilisation of provision		(18,079)	-	(3,397)	(896)	(140)	(66)	(22,578)
Reversal of provision		-	-	-	-	-	(21,476)	(21,476)
Unwinding of the present value discount		8,522	5,724	54	799	555	808	16,462
Effect of translation to presentation currency		6,100	3,234	652	447	339	817	11,589
Current liabilities		**23,314**	**-**	**11,179**	**1,033**	**297**	**5,173**	**40,996**
Non-current liabilities		**149,086**	**53,909**	**6,219**	**5,388**	**6,712**	**-**	**221,314**
Balance at 31 December 2017		**172,400**	**53,909**	**17,398**	**6,421**	**7,009**	**5,173**	**262,310**
Changes in estimates added to property, plant and equipment	7	150,413	72,447	-	-	-	-	222,860
Changes in estimates charged to profit or loss		-	-	137	6,343	702	-	7,182
Accrual of provision		-	-	-	-	-	362	362
Reversal of provision		-	-	-	-	-	(123)	(123)
Utilisation of provision		(23,366)	(518)	(10,268)	(1,564)	(159)	(4,691)	(40,566)
Unwinding of the present value discount		10,483	4,475	378	389	426	-	16,151
Effect of translation to presentation currency		(42,844)	(16,649)	(2,023)	(1,600)	(1,292)	(451)	(64,859)
Current liabilities		**58,264**	**-**	**2,316**	**1,641**	**329**	**270**	**62,820**
Non-current liabilities		**208,822**	**113,664**	**3,306**	**8,348**	**6,357**	**-**	**340,497**
Balance at 31 December 2018		**267,086**	**113,664**	**5,622**	**9,989**	**6,686**	**270**	**403,317**

Due to changes in 2018 (Note 4.2 Provision for filling cavities) the provision for filling cavities, provision for asset retirement obligations and mine flooding provision increased by US$ 136 million, US$ 49 million and US$ 6 million, respectively as at 31 December 2018.

In the first half of 2018, the Group revised methodology of mines flooding protection due to changes in regulatory requirements. The above changes in the regulatory requirements caused the mining period revision, which is resulted in change in the provision for asset retirement obligations to the amount of by US$ 27 million.

(in thousands of US dollars, unless otherwise stated)

18 Trade and other payables

	31 December 2018	31 December 2017
Financial payables		
Trade payables	49,813	66,334
Accrued liabilities	72,581	90,552
Salary payable and related accruals	39,498	53,798
Other payables	24,618	37,716
Total financial payables	**186,510**	**248,400**
Non-financial payables		
Other taxes payable	23,676	19,342
Other non-financial payables	7,559	5,176
Total non-financial payables	**31,235**	**24,518**
Total trade and other payables	**217,745**	**272,918**

As at 31 December 2018, trade and other payables of US$ 12,889 (31 December 2017: US$ 42,716) were denominated in foreign currencies: 67% of this balance was denominated in US$ (31 December 2017: 38%) and 31% was denominated in Euro (31 December 2017: 54%).

19 Revenues

	Note	2018	2017
Potassium chloride		1,580,990	1,710,530
Potassium chloride (granular)		896,629	959,164
Revenue from rendering transportation services	3	190,174	-
Other revenues		85,784	91,180
Total revenues		**2,753,577**	**2,760,874**

20 Cost of sales

	Note	2018	2017
Depreciation	7	176,565	169,512
Employee benefits		168,110	168,708
Materials and components		115,310	123,929
Fuel and energy		101,865	108,085
Repairs and maintenance		64,703	43,526
Amortisation of licences	9	54,274	45,327
Transportation between mines by railway		12,636	12,228
Change in work in progress, finished goods and goods in transit		(41,156)	36,951
Other costs		50,560	30,810
Total cost of sales		**702,867**	**739,076**

(in thousands of US dollars, unless otherwise stated)

21 Distribution costs

	Note	2018	2017
Railway tariff and rent of wagons		242,806	301,033
Freight		208,477	248,343
Transport repairs and maintenance		29,806	31,892
Commissions and marketing expenses		23,813	23,003
Transshipment		21,212	28,817
Employee benefits		17,244	10,855
Depreciation	7	8,176	8,567
Other costs		81,389	95,294
Total distribution costs		**632,923**	**747,804**

Depreciation of property, plant and equipment in the amount of US$ 2,978 is included into Transport repairs and maintenance and Transshipment costs (2017: US $3,280).

22 General and administrative expenses

	Note	2018	2017
Employee benefits		95,600	89,953
Depreciation	7	9,738	7,862
Consulting, audit and legal services		7,227	4,349
Mine rescue crew		5,924	6,134
Security		5,783	6,475
Materials and fuel		5,167	5,182
Communication and information system services		4,480	4,413
Amortisation of intangible assets	9	3,829	3,264
Repairs and maintenance		3,546	3,167
Other expenses		33,358	26,591
Total general and administrative expenses		**174,652**	**157,390**

23 Other operating income and expenses

		2018	2017
Loss on disposals of property, plant and equipment and intangible assets		6,241	8,318
Change in legal provision	17	239	(15,392)
Social cost and charity		6,784	6,242
Other operating expenses / (income), net		4,566	(5,572)
Total other operating expenses / (income), net		**17,830**	**(6,404)**

(in thousands of US dollars, unless otherwise stated)

24 Finance income and expenses

		2018		2017	
	Note	**Income**	**Expenses**	**Income**	**Expenses**
Foreign exchange (loss) / gain		-	(737,676)	271,908	-
Interest income / (expenses)		40,149	(287,252)	25,600	(286,767)
Fair value (loss) / gain on derivative financial instruments, net	12	-	(106,246)	51,662	-
Loss from unwinding and effect of changes in effective interest rate, net		-	(43,070)	-	(14,590)
Fair value losses on investments		-	(33,850)	-	-
Syndication fees and other financial charges		-	(19,660)	-	(50,243)
Letters of credit fees		-	(10,710)	-	(4,349)
Loss from associate		-	(1,071)	-	(1,463)
Finance lease expense		-	(850)	-	(915)
Other finance income / (loss)		6,032	(549)	966	(94)
Total finance income / (loss)		**46,181**	**(1,240,934)**	**350,136**	**(358,421)**
Total finance expenses, net		**-**	**(1,194,753)**	**-**	**(8,285)**

The syndication fees and other financial charges in 2017 include the write-off of the prepaid commission in the amount of US$ 16,641 related to a US$ 1.5 billion credit line from Sberbank. The credit line was available till 3 March 2017. This credit line has not been used due to it being more costly as compared to other available funding options.

25 Income tax expense

	2018	**2017**
Current income tax expense	9,976	156,527
Adjustments recognised in the period for current income tax of prior periods	(107)	(6,187)
Deferred income tax (benefit) / expense	94,871	68,049
Income tax expense	**104,740**	**218,389**

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

	2018	**2017**
Profit before income tax	**(7,734)**	**(1,093,017)**
Theoretical tax charge at a rate of 16.5%	1,276	180,348
Corrections of profit tax for prior years	(107)	(6,187)
Tax effect of expenses which are not deductible, net	3,541	14,567
Effect of different tax rates in countries and regions	(1,720)	(3,565)
Effect of changes in tax rate	106,625	457
Write-off of deferred tax asset	2,392	27,779
Effect of previously unrecognised tax losses for disposed entities	-	5,501
Other	(7,267)	(511)
Income tax expense	**104,740**	**218,389**

As at 31 December 2018, most companies of the Group were registered in the Russian Federation, Perm region and were taxed at a rate from 16.5% to 20%, however, the main income tax temporary differences relate to the Company, which was taxed at a preferential tax rate of 16.5% in 2018.

In August 2018, the Legislative Assembly of the Perm region enacted a law, among others, imposing a limitation on minimal income tax rates and cancelling the preferential tax rate application from 2021. However as in 2016 the Company concluded a regional special investment contract valid until 2022, the Company is able to apply the minimum income tax rate of 16.5% until 31 December 2022. Starting from 2023, the Company will apply the general income tax rate of 20%.

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 thousands of US dollars, unless otherwise stated)

25 Income tax expense (continued)

Due to changes in legislation, the Group revised the impact of 20% income tax rate on the temporary differences that are expected to be realised after 2022, the corresponding difference is recognised in profit or loss.

In 2018 and 2017, foreign subsidiaries were taxed applying respective national income tax rates.

The tax effect of the movements in the temporary differences for the year ended 31 December 2018 was the following:

	31 December 2017	Recognised in profit or loss	Adjustment, IFRS 9	Effect of translation to presentation currency	31 December 2018
Tax effects of taxable and deductible temporary differences					
Property, plant and equipment	(189,436)	(70,188)	-	39,201	(220,423)
Intangible assets	(490,480)	(77,785)	-	91,380	(476,885)
Inventories	2,242	(1,518)	-	(235)	489
Borrowings	(6,572)	(604)	-	1,182	(5,994)
Trade and other receivables	4,448	6,253	102	(1,384)	9,419
Prepaid transaction costs on bank facilities	(11,623)	(8,324)	-	2,803	(17,144)
Derivative financial instruments	16,278	5,231	-	(3,291)	18,218
Trade and other payables	(461)	1,758	-	(92)	1,205
Tax loss carry-forward	1,762	7,048	-	(987)	7,823
Provisions	45,173	43,408	-	(11,945)	76,636
Other	(321)	(150)	-	70	(401)
Total net deferred tax liability	**(628,990)**	**(94,871)**	**102**	**116,702**	**(607,057)**

The tax effect of the movements in the temporary differences for the year ended 31 December 2017 was the following:

	31 December 2016	Recognised in profit or loss	Effect of translation to presentation currency	31 December 2017
Tax effects of taxable and deductible temporary differences				
Property, plant and equipment	(153,573)	(27,356)	(8,507)	(189,436)
Intangible assets	(473,305)	7,840	(25,015)	(490,480)
Inventories	6,029	(4,054)	267	2,242
Borrowings	(6,290)	51	(333)	(6,572)
Trade and other receivables	(2,027)	6,489	(14)	4,448
Prepaid transaction costs on bank facilities	(13,432)	2,498	(689)	(11,623)
Derivative financial instruments	45,726	(31,463)	2,015	16,278
Trade and other payables	1,510	(2,025)	54	(461)
Tax loss carry-forward	19,651	(18,687)	798	1,762
Provisions	34,294	8,942	1,937	45,173
Other	9,588	(10,284)	375	(321)
Total net deferred tax liability	**(531,829)**	**(68,049)**	**(29,112)**	**(628,990)**

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

	31 December 2018	31 December 2017
Deferred income tax asset	24,278	16,615
Deferred income tax liability	(631,335)	(645,605)
Deferred income tax liability, net	**(607,057)**	**(628,990)**

As at 31 December 2018, 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$ 187,832 (31 December 2017: US$ 177,482). The Group controls the timing of the reversal of these temporary differences and does not expect their reversal in the foreseeable future.

26 Contingencies, commitments and operating risks

26.1 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, 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.

26.2 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 does not increase the taxable profits of the Company due to application of appropriate norms of tax legislation of the Russian Federation. 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, 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.

Since 1 January 2019, the VAT rate in Russia has increased from 18% to 20%. In Russia, VAT rate of 20% has been applied prospectively since 1 January 2019 (2018: 18%).

26.3 Insurance

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 4.

26.4 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 4. 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.

26.5 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.

(in thousands of US dollars, unless otherwise stated)

26 Contingencies, commitments and operating risks (continued)

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

26.6 Capital expenditure commitments

As at 31 December 2018, the Group had contractual commitments for the purchase of property, plant and equipment and intangible assets for US$ 442,986 (31 December 2017: US$ 485,160) from third parties. As at 31 December 2018 and 31 December 2017, the Group had no contractual commitments for the purchase of property, plant and equipment from related parties.

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.

26.7 Operating lease commitments

As at 31 December 2018 and 31 December 2017, the Group leased property, plant and equipment, mainly land plots. The future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2018	31 December 2017
Not later than 1 year	3,285	3,139
Later than 1 year and not later than 5 years	8,945	8,724
Later than 5 years	31,187	9,355
Total future minimum lease payments	**43,417**	**21,218**

27 Financial risk management

27.1 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.

27.2 Categories of financial instruments

	Note	31 December 2018	31 December 2017
Financial assets			
Loan receivable (including interests receivable)	5	400,615	379,232
Trade and other receivables	11	306,367	482,462
Derivative financial assets	12	30,599	22,830
Other financial assets		15	1,927
Cash and cash equivalents	13	1,013,015	1,072,609
Financial liabilities			
Borrowings and finance lease	15	4,504,017	4,782,541
Bonds	16	1,395,870	1,661,191
Derivative financial liabilities	12	128,653	121,424
Trade and other payables	18	186,510	248,400

27 Financial risk management (continued)

27.3 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.

(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 significant part of potash fertilizers sales. 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 2018, if during the year the foreign currencies had strengthened by 10% against the RR with all other variables held constant, the net profit for the year would have been US$ 404,559 (31 December 2017: US$ 386,626) lower, including US$ 409,391 (31 December 2017: US$ 391,905) lower due to US$ appreciation and 4,832 (31 December 2017: US$ 5,279) higher due to other currencies appreciation, if during the year the foreign currencies had weakened by 10% against the RR with all other variables held constant, the net profit for the year would have been US$ 397,718 (31 December 2017: US$ 392,556) higher, including US$ 402,550 (31 December 2017: US$ 397,835) higher due to US$ depreciation and 4,832 (31 December 2017: US$ 5,279) lower due to other currencies depreciation, mainly as a result of foreign exchange gains/losses on the translation of assets and liabilities denominated in foreign currencies and changes in 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 15, 16). The Group uses cross-currency interest rate and interest rate swaps to reduce interest payments (Note 12). 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 2018, if LIBOR rate on US$ denominated borrowings had been 200 basis points higher/lower with all other variables held constant, net profit for the year would have been US$ 68,783 lower/higher (year ended 31 December 2017: if LIBOR and ISDA rates on US$ denominated borrowings had been 200 basis points higher/lower with all other variables held constant net profit for the year would have been US$ 98,430 lower/higher).

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.

27 Financial risk management (continued)

(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 in counterparties.

Financial assets, which potentially subject Group entities to credit risk, consist primarily of loan issued, trade receivables, cash and bank deposits.

As at 31 December 2018, the maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets of US$ 1,750,611 (31 December 2017: US$ 1,959,060).

The Group is not exposed to significant concentrations of credit risk. As at 31 December 2018, the Group had 62 counterparties (31 December 2017: 63 counterparties), each of them having receivables balances above US$ 1,000. The total aggregate amount of these balances was US$ 300,091 (31 December 2017: US$ 462,644) 92% of the total amount of financial trade and other receivables (31 December 2017: 98%). 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.

As at 31 December 2018, the Group has a loan issued to a related party which gives exposure to credit risk at the amount of US$ 400,615 (31 December 2017: US$ 379,232).

Loan to related parties and pledge agreements (Note 5) involve related parties without publicly available credit ratings. Management therefore prepared financial models to assess the credit risk associated with loans to related parties and pledged agreements which involved a number of judgements as described in Note 4. The impairment methodology on loans to related parties is described in Note 2.

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. 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 11). 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 11).

(in thousands of US dollars, unless otherwise stated)

27 Financial risk management (continued)

The table below shows the credit quality of cash, cash equivalents and deposits neither past due nor impaired on the reporting date, based on the credit ratings of independent agencies as at 31 December 2018 and 31 December 2017, if otherwise not stated in table below:

Rating - Moody's, Fitch, Standard&Poor's	31 December 2018	31 December 2017
From AAA / Aaa to A- / A3	207,823	172,577
From BBB+ / Baa1 to BBB- / Baa3	492,213	836,201
From BB+ / Ba1 to B- / B3	305,857	7,716
Unrated*	7,122	56,115
Total cash and cash equivalents, not past due nor impaired	**1,013,015**	**1,072,609**

* 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.

At 31 December 2018	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	18	186,510	-	-	**186,510**
Borrowings		1,467,802	3,350,206	123,061	**4,941,069**
Bonds		878,469	669,981	-	**1,548,450**
Finance lease liabilities		781	3,122	28,067	**31,970**
Derivative financial liabilities		-	40,218	-	**40,218**
Total		**2,533,562**	**4,063,527**	**151,128**	**6,748,217**

At 31 December 2017	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	18	248,400	-	-	**248,400**
Borrowings		1,485,196	3,631,248	60,509	**5,176,953**
Bonds		662,368	1,119,912		**1,782,280**
Finance lease liabilities		941	3,765	34,416	**39,122**
Derivative financial liabilities		106,987	1,851	-	**108,838**
Total		**2,503,892**	**4,756,776**	**94,925**	**7,355,593**

(in thousands of US dollars, unless otherwise stated)

28 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.

The table below discloses the Group's financial assets and financial liabilities stated at amortised cost within levels of the fair value hierarchy:

		31 December 2018		31 December 2017	
Financial assets	**Level**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Loan issued (including interests receivable)	3	400,615	382,970	379,232	383,413
Trade and other receivables	3	306,367	306,367	482,427	482,427
Other financial assets	3	15	15	1,912	1,912
Total		**706,997**	**689,352**	**863,571**	**867,752**

		31 December 2018		31 December 2017	
Financial liabilities	**Level**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Borrowings	3	4,504,017	4,492,803	4,782,541	4,771,134
Bonds	1	1,395,870	1,377,855	1,661,191	1,645,938
Trade and other payables	3	186,510	186,511	248,402	248,402
Total		**6,086,397**	**6,057,169**	**6,692,134**	**6,665,474**

29 Principal subsidiaries

The Group had the following principal subsidiaries as at 31 December 2018 and 31 December 2017:

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
JSC "VNII Galurgii"	Scientific institute	85.25%	85.25%	Russia
Uralkali Trading SIA	Trading	100.00%	100.00%	Latvia
Uralkali Trading Chicago	Trading	100.00%	100.00%	USA

30 Events after reporting date

On 15 February 2019, the Company repurchased 7,537,670 ordinary shares for a total amount of RR 666 million (US$ 9.6 million) (Note 14). The Company has no outstanding obligation related to this transaction.

In March 2019, the Company signed uncommitted credit facilities in the amount of up to 50 million Euro with ING Bank, which is available for 36 months and in the amount of up to 105 million Euro with Commerzbank, which is available for 18 months. As at issue date the ING Bank's credit line was fully utilised, the Commerzbank's credit line was utilised in the amount of 100 million Euro.