

**PUBLIC JOINT STOCK COMPANY
“DOROGOBUZH”**

**Consolidated Condensed Interim
Financial Information for the three months ended
31 March 2018**



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Public Joint Stock Company "Dorogobuzh"
Consolidated Condensed Interim Statement of Financial Position at 31 March 2018
(unaudited)
(in millions of Russian Roubles)



	Note	31 March 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	11	5,214	5,001
Investment in equity accounted investees	12	4,238	4,131
Available-for-sale investments	13	4,420	4,128
Long-term loans receivable	9	8,362	8,160
Other non-current assets		296	183
Total non-current assets		22,530	21,603
Current assets			
Inventories	10	2,197	2,501
Short-term loans receivable	9	21,591	21,595
Accounts receivable	8	3,757	3,870
Trading investments		401	407
Cash and cash equivalents	7	4,741	3,317
Other current assets		41	44
Total current assets		32,728	31,734
TOTAL ASSETS		55,258	53,337
EQUITY			
Share capital		1,419	1,419
Share premium		94	94
Retained earnings		48,557	46,583
Revaluation reserve		1,035	812
Other reserve		-	(96)
Share capital attributable to the Company's owners		51,105	48,812
TOTAL EQUITY		51,105	48,812
LIABILITIES			
Non-current liabilities			
Other long-term liabilities		102	102
Deferred tax liability		825	779
Total non-current liabilities		927	881
Current liabilities			
Accounts payable	14	1,076	1,516
Income tax payable		213	43
Short-term borrowings	15	860	865
Advances received		1,077	1,220
Total current liabilities		3,226	3,644
TOTAL LIABILITIES		4,153	4,525
TOTAL LIABILITIES AND EQUITY		55,258	53,337

Consolidated Condensed Interim Financial Information is approved on 28 May 2018.

V. Y. Kunitskiy
President



A.V. Milenkov
Finance Director

Public Joint Stock Company “Dorogobuzh”
Consolidated Condensed Interim Statement of Profit or Loss and Other Comprehensive Income
for the three months ended 31 March 2018 (unaudited)
(in millions of Russian Roubles, except for per share amounts)



	Note	Three months ended	
		31 March 2018	31 March 2017
Revenue	5	6,728	6,089
Cost of sales		(4,196)	(3,724)
Gross profit		2,532	2,365
Transportation expenses		(523)	(453)
Selling, general and administrative expenses		(496)	(451)
Other operating expenses, net	17	(224)	(240)
Operating profit		1,289	1,221
Finance income, net	16	1,057	1,216
Interest expense		(1)	(216)
(Loss) / gain on disposal of investment		(6)	5
Share of profit of equity accounted investees	12	33	49
Profit before taxation		2,372	2,275
Income tax expense	19	(458)	(468)
Profit for the period		1,914	1,807
Other comprehensive income/(loss) on items that are or may be reclassified to profit or loss			
Available-for-sale investments:			
- Gain / (loss) arising during the period		279	(167)
- Income tax recorded directly in other comprehensive income		(56)	33
Equity-accounted investees – share of other comprehensive income / (loss), net of tax		60	(105)
Other comprehensive income / (loss) for the period		283	(239)
Total comprehensive income for the period		2,197	1,568
Earnings per share, basic and diluted (expressed in RUB per share)	18	2.19	2.07

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

Public Joint Stock Company “Dorogobuzh”
Consolidated Condensed Interim Statement of Cash Flows for the three months
ended 31 March 2018 (unaudited)
(in millions of Russian Roubles)



	Note	Three months ended	
		31 March 2018	31 March 2017
Cash flows from operating activities			
Profit before taxation		2,372	2,275
<i>Adjustments for:</i>			
Depreciation	11	187	189
Reversal of impairment provision for inventory obsolescence		(11)	(2)
Share of profit of equity accounted investees		(33)	(49)
Loss on disposal of property, plant and equipment		3	-
Interest expense		1	216
Interest income		(568)	(984)
Dividend income		(94)	-
Loss / (gain) on disposal of investments		6	(5)
Foreign exchange effect		(212)	(214)
Operating cash flows before working capital changes		1,651	1,426
Decrease in gross trade receivables		154	22
Decrease in advances to suppliers		304	290
(Increase) / decrease in other receivables		(149)	54
Decrease in inventories		315	3
Decrease in other current assets		3	-
Increase / (decrease) in trade payables		37	(456)
(Decrease) / increase in other payables		(470)	288
(Decrease) / increase in advances from customers		(143)	165
Cash generated from operations		1,702	1,792
Income taxes paid		(316)	(505)
Interest paid		(5)	(228)
Net cash generated from operating activities		1,381	1,059
Cash flows from investing activities			
Purchase of property, plant and equipment		(403)	(139)
Loans provided		(7)	(1,133)
Proceeds from loans repaid		12	5,365
Interest received		372	887
Dividends received		94	-
Purchase of trading investments		-	(305)
Purchase of available-for-sale investments		(13)	-
Net change in other non-current assets and liabilities		(113)	-
Net cash (used in) / generated from investing activities		(58)	4,675
Cash flows from financing activities			
Repayment of borrowings	15	-	(8,690)
Sale of treasury shares		96	-
Net cash generated from / (used in) financing activities		96	(8,690)
Net increase / (decrease) in cash and cash equivalents		1,419	(2,956)
Effect of exchange rate changes on cash and cash equivalents		5	(176)
Cash and cash equivalents at the beginning of the period	7	3,317	4,581
Cash and cash equivalents at the end of the period	7	4,741	1,449

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

Public Joint Stock Company “Dorogobuzh”
Consolidated Condensed Interim Statement of Changes in Equity for the three months ended 31 March 2018 (unaudited)
(in millions of Russian Roubles)



	Capital and reserves attributable to the Company's owners					Total equity
	Share capital	Share premium	Retained earnings	Revaluation reserve	Other reserves	
Balance at 1 January 2017	1,419	94	40,955	451	-	42,919
Total comprehensive income						
Profit for the period	-	-	1,807	-	-	1,807
<i>Other comprehensive loss</i>						
Fair value losses on available-for-sale investments	-	-	-	(167)	-	(167)
Equity-accounted investees – share of other comprehensive loss, net of tax	-	-	(105)	-	-	(105)
Income tax recorded in other comprehensive income	-	-	-	33	-	33
Total other comprehensive loss	-	-	(105)	(134)	-	(239)
Total comprehensive income	-	-	1,702	(134)	-	1,568
Balance at 31 March 2017	1,419	94	42,657	317	-	44,487
Balance at 1 January 2018						
Total comprehensive income	1,419	94	46,583	812	(96)	48,812
Profit for the period	-	-	1,914	-	-	1,914
<i>Other comprehensive income</i>						
Fair value gains on available-for-sale investments	-	-	-	279	-	279
Equity-accounted investees – share of other comprehensive income, net of tax	-	-	60	-	-	60
Income tax recorded in other comprehensive income	-	-	-	(56)	-	(56)
Total other comprehensive income	-	-	60	223	-	283
Total comprehensive income	-	-	1,974	223	-	2,197
Sale of treasury shares	-	-	-	-	96	96
Balance at 31 March 2018	1,419	94	48,557	1,035	-	51,105

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



1 Dorogobuzh Group and its Operations

This unaudited consolidated condensed interim financial information for the three months ended 31 March 2018 comprises Public Joint Stock Company “Dorogobuzh” (the “Company” and “Dorogobuzh”) and its subsidiaries (together referred to as the “Group” or “Dorogobuzh Group”). Until 1 March 2018, shares of the Company were traded on the Moscow Stock Exchange.

The Group’s principal activities include the manufacture, distribution and sales of chemical fertilisers and related by-products. The Group’s manufacturing facilities are primarily based in the Smolensk region of Russia.

The Company’s registered office is at 6 Mira Street, Dorogobuzh, Dorogobuzh district, Smolensk region, 215713, Russia.

The Group’s parent company is PJSC Acron (Russian Federation). Effective 9 June 2017, the Group’s ultimate parent is Terasta Enterprises Limited (The Republic of Cyprus). During the reporting and comparable periods the Group is ultimately controlled by Mr. Viatcheslav Kantor.

2 Basis of Preparation

2.1 Statement of compliance

This consolidated condensed interim financial information has been prepared in accordance with IAS 34, Interim Financial Reporting. It does not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2017.

2.2 Judgements and estimates

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

In preparing this consolidated condensed interim financial information, significant judgments made by Management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

3 Seasonality

The Group is subject to certain seasonal fluctuations in fertiliser demand due to the timing of fertiliser application and, as a result, fertiliser purchases by farmers. However, the effect of seasonality on the Group’s revenue is partially offset by the facts that the Group sells its fertilisers globally and fertiliser application and purchases vary by region. The seasonality does not significantly influence production, and inventory levels are adjusted for movements in demand. Seasonality does not impact the revenue or cost recognition policies of the Group.

4 Significant Accounting Policies

The accounting policies and judgments applied by the Group in this consolidated condensed interim financial information are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2017, except changes connected with the introduction of new standards (IFRS 15 and IFRS 9). For the transition, a cumulative effect was applied. The application had no effect on retained earnings at the beginning of the period, but had an effect on revenue classification in the reporting period, as described in Note 5.

5 Segment Information

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

The development and approval of strategies, market situation analysis, the risk assessment, investment focus, technological process changes, goals and priorities are set and assessed in line with the current segment structure of the Group whereby “Dorogobuzh” is the only operating and reportable segment, representing manufacturing and distribution of chemical fertilisers by PJSC Dorogobuzh. “Other” does not represent a segment and relates to certain logistic, service and management operations.

“Dorogobuzh” as a segment is strategic business unit that focuses on different customers. It is managed as one business unit due to its significant business and risk profile.

Public Joint Stock Company "Dorogobuzh"
Notes to the Consolidated Condensed Interim Financial Information for the three months ended 31 March 2018 (unaudited)

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



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

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

Information for the reportable segments for the three months ended 31 March 2018 is set out below:

	Dorogobuzh	Other	Total
Segment sales	6,730	75	6,805
Intersegment sales	(6)	(71)	(77)
External sales	6,724	4	6,728
EBITDA	1,674	3	1,677

Information for the reportable segments for the three months ended 31 March 2017 is set out below:

	Dorogobuzh	Other	Total
Segment sales	6,082	76	6,158
Intersegment sales	(7)	(62)	(69)
External sales	6,075	14	6,089
EBITDA	1,592	11	1,603

Reconciliation of EBITDA to Profit Before Tax:

	Three months ended	
	31 March 2018	31 March 2017
Operating Profit	1,289	1,221
Depreciation	187	189
Net foreign currency loss on operating activities	198	193
Loss on disposal of property, plant and equipment	3	-
Total consolidated EBITDA	1,677	1,603

Information about geographical areas:

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

	Three months ended	
	31 March 2018	31 March 2017
Revenue		
Russia	2,968	2,452
European Union	689	392
Commonwealth of Independent States	2,750	2,889
USA and Canada	103	-
Latin America	208	345
Asia (excluding PRC)	10	11
Total	6 728	6,089

Revenue from sales of chemical fertilisers accounts for 93% of total revenues (for the three months ended 2017: 98%).

Under the terms of the contracts for the supply of a significant part of chemical fertilisers, the Group undertakes to deliver and delivery-related services after the transfer of control of the goods to the buyer. Under IFRS 15, these services represent a separate obligation to perform, the proceeds of which must be recognised during the delivery period as revenue from logistics activities.

For three months ended 31 March 2018, revenues from logistics activities amounted to RUB 249.

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



6 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, Related Party Disclosures. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 March 2018 and 31 December 2017 are detailed below.

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

i Balances with related parties

Statement of financial position caption	Notes	Relationship	31 March 2018	31 December 2017
Trade receivables, gross	8	Parent company	4	3
		Parties under common control	460	440
Interest receivable		Parent company	1,001	901
		Parties under common control	258	161
Investment in equity accounted investees	12	Parties under common control	4,238	4,131
Prepayments		Parties under common control	299	353
Loans receivable	9	Parent company	20,713	20,713
		Parties under common control	9,240	9 042
Trade payables		Parent company	(66)	(9)
		Parties under common control	(38)	(94)
Advances from customers, net of VAT		Parties under common control	(746)	(481)
Trading investment (bonds)		Parent company*	371	369
Available-for-sale investments	13	Parent company*	4,039	3,747
		Parties under common control	365	365

* Investments are disclosed at fair value.

ii Transactions with related parties

Statement of comprehensive income caption	Relationship	Three months ended	
		31 March 2018	31 March 2017
Sales of goods and services	Parent company	11	20
	Parties under common control	3,130	2,829
Share profit in equity accounted investees	Parties under common control	33	49
Purchases of raw materials	Parent company	(117)	(35)
	Parties under common control	(697)	(677)
Transportation services	Parties under common control	(85)	(71)
Interest received	Parent company	450	938
	Parties under common control	107	30

As at 31 March 2018, the Group issued guarantees in the amount of 957 roubles in relation to related parties (31 December 2017: RUB 957).

7 Cash and Cash Equivalents

	31 March 2018	31 December 2017
Cash on hand and bank balances denominated in RUB	438	452
Bank balances denominated in USD	3,910	2,473
Bank balances denominated in EUR	393	392
Total cash and cash equivalents	4,741	3,317

Cash and cash equivalents include term deposits of RUB 3,609 (31 December 2017: RUB 1,983).



8 Accounts Receivable

	31 March 2018	31 December 2017
Trade accounts receivable	763	917
Notes receivable	165	76
Interest receivable	1,269	1,068
Less: impairment provision	(40)	(41)
Total financial assets	2,157	2,020
Advances to suppliers	532	836
Value-added tax recoverable	938	906
Other taxes receivable	139	116
Less: impairment provision	(9)	(8)
Total accounts receivable	3,757	3,870

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

As at 31 March 2018, the Group hold collateral as security for trade accounts receivable in the amount of RUB 213, included in other accounts payable (31 December 2017: RUB 685).

9 Loans Receivable

	31 March 2018	31 December 2017
Short-term loans receivable		
RUB		
Loans issued to related parties with interest rate from 7.50% to 10.25% (2017: from 7.75% to 10,5%) per annum (Note 6)	21,542	21,554
EUR		
Loans issued to related parties with interest rate EURIBOR 12M+4.1% per annum (Note 6)	49	41
	21,591	21,595
Long-term loans receivable		
EUR		
Loans issued to related parties with interest rate of EURIBOR 12M+4.1% per annum (Note 6)	8,362	8,160
	8,362	8,160

At 31 March 2018 and 31 December 2017, all of the loans were unsecured.

Loans receivable amounted to RUB 29,953 (31 December 2017: RUB 29,755) are issued to parent company and parties under common control of Acron Group (Note 6).

Based on management assessment the risk of default associated with these receivables is considered low as the parent company has long standing credit history in Russia and worldwide.

At 31 March 2018, the Group accrued interest income on loans receivable of RUB 556 (31 March 2017: RUB 968).

10 Inventories

	31 March 2018	31 December 2017
Raw materials and spare parts	1,770	1,879
Work in progress	43	50
Finished products	384	572
	2,197	2,501

Raw materials are shown net of obsolescence provision of RUB 61 (31 December 2017: RUB 72). No inventory was pledged as security at 31 March 2018 and 31 December 2017.

11 Property, Plant and Equipment

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

	2018	2017
Carrying amount at 1 January	5,001	4,916
Additions	403	139
Disposals	(3)	-
Depreciation charge for the period	(187)	(189)
Carrying amount at 31 March	5,214	4,866



12 Investment in Equity Accounted Investees

	2018	2017
Carrying amount at 1 January	4,131	3,695
Share of:		
– Profit from continuing operations	33	49
– OCI	74	(131)
Carrying amount at 31 March	4,238	3,613

At 31 March 2018, the Group's interest in its principal associate and its summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit	% interest held	Country of incorporation
LLC Balttrans	7,986	1,695	786	66	50%	Russia

At 31 March 2017, the Group's interest in its principal associate and its summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit	% interest held	Country of incorporation
LLC Balttrans	6,620	1,598	711	98	50%	Russia

13 Available-for-Sale Investments

	2018	2017
Balance at 1 January	4,128	2,340
Additions	13	-
Gain / (loss) arising from fair value revaluation and recognised in other comprehensive income	279	(167)
Balance at 31 March	4,420	2,173

The Group has investments in the following companies:

Name	Activity	Country of registration	31 March 2018	31 December 2017
Non-current				
PJSC Acron	Fertilisers production	Russia	4,039	3,747
JSC Acronit		Russia	365	365
Other		Russia	16	16
Total non-current			4,420	4,128

At 31 March 2018 and 31 December 2017, the investment in PJSC Acron was classified as non-current. Fair value of investment was determined by reference to the current market value at the close of business on the date of a transaction or on 31 March 2018. At 31 March 2018 the share price quoted at Moscow Stock Exchange for PJSC Acron amounted to 4,158 roubles for 1 share (31 December 2017: 3,870 roubles for 1 share).

14 Accounts Payable

	31 March 2018	31 December 2017
Trade accounts payable	521	484
Dividend payable	16	16
Total financial payables	537	500
Payables to employees	292	280
Taxes payable	29	49
Accrued liabilities and other creditors	218	687
Total accounts payable and accrued expenses	1,076	1,516



15 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	31 March 2018	31 December 2017
Term loans	860	865
	860	865

The Group's borrowings mature as follows:

	31 March 2018	31 December 2017
Borrowings due:		
- within 1 year	860	865
	860	865

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

	31 March 2018	31 December 2017
Borrowings denominated in:		
- USD	860	865
	860	865

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

At 31 March 2018, unused credit lines available under the long-term loan facilities were RUB 15,000 (31 December 2017: 15,000). The terms and conditions of unused credit lines are consistent with other borrowings.

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

	31 March 2018	31 December 2017
Short-term borrowings		
USD		
Loans with fixed interest rate of 2.48% per annum	860	865
Total long-term borrowings	860	865

Loan agreements contain certain covenants including those, which require the Company and Acron Group to maintain a certain level of net debt/EBITDA ratio and include restrictions on significant transactions with assets without bank approval. The loan agreements provide for the borrower's obligation to maintain the required level of inflows through the accounts opened with the lending banks. Lending banks have the right to accelerate repayment in the case of the borrower's failure to fulfil its obligations under the loan agreements, also, the covenants permit the respective banks to directly debit the accounts opened by the debtors with the banks to ensure repayment of the loans.

16 Finance Income, net

	Three months ended	
	31 March 2018	31 March 2017
Interest income on loans provided and term deposits	568	984
Commissions expense	(3)	(55)
Dividend income	94	-
Other financial expenses	(16)	-
Foreign exchange gain, net	414	287
	1,057	1,216

17 Other Operating Expenses, net

	Three months ended	
	31 March 2018	31 March 2017
Other loss	(23)	(47)
Loss on disposal property, plant and equipment	(3)	-
Foreign exchange loss, net	(198)	(193)
	(224)	(240)



18 Earnings per Share and Dividend Declared

Earnings per share are calculated by dividing the net income attributable to participating shareholders by the weighted average number of ordinary and preference shares outstanding during the period, excluding the weighted average number of ordinary shares purchased by the Company or its subsidiaries and held as treasury shares.

	Three months ended	
	31 March 2018	31 March 2017
Weighted average number of ordinary shares outstanding	874,957,829	874,837,640
Profit for the period	1,914	1,807
Basic and diluted earnings per share (expressed in Russian Roubles) attributable to the equity holders of the Company	2.19	2.07

In May 2017, the Group declared dividend in respect of 2016 for amount of 2.5 roubles per ordinary share.

In April 2018, subsequent to the reporting period, the Board of Directors of the Company recommended the annual general meeting of shareholders to declare dividend on the outstanding common shares in respect of 2017 in cash in the amount of 2.5 roubles per share.

19 Income Taxes

	Three months ended	
	31 March 2018	31 March 2017
Income tax expense – current	483	440
Deferred tax charge – origination and reversal of temporary differences	(25)	28
Income tax charge	458	468

20 Contingencies, Commitments and Operating Risks

i Legal proceedings

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

ii Operating environment of the Group

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

iii Taxation contingencies in the Russian Federation

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

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

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major



modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

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

The transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on these consolidated financial statements.

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

In addition, a number of new laws introducing changes to the Russian tax legislation have been adopted in the fourth quarter 2014 and are effective 1 January 2015. In particular, those changes are aimed at regulating transactions with offshore companies and their activities which may potentially impact the Group's tax position and create additional tax risks going forward.

Management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, at 31 March 2018, no provision for potential tax liabilities had been recorded (2017: no provision).

Management estimates that the Group has no possible obligations from exposure to other than remote tax risks.

iv Environmental matters

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

21 Fair Value of Financial Instruments

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

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

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

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

Level 1: quoted price in an active market;

Level 2: valuation technique with inputs observable in markets;

Level 3: valuation technique with significant non-observable inputs.

All available-for-sale and trading financial instruments of the Group were included in level 1 category in the amount of RUB 4,639 (31 December 2017: RUB 4,535).

There are no other financial instruments which fair value was determined based on inputs other than level 1 category.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.



Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables and loans receivable approximate fair values.

Liabilities carried at amortised cost. The fair value of floating rate liabilities is normally their carrying amount. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair value of payables and borrowings do not differ significantly from their carrying amounts.

22 Subsequent Events

In April 2018, the Board of Directors of the Company recommended the annual general meeting of shareholders to declare dividend on the outstanding common shares in respect of 2017 in cash in the amount of 2.5 roubles per share.