

Consolidated financial statements of
Public Joint Stock Company "KuibyshevAzot"
and its subsidiaries

for the year ended 31 December 2016

with independent auditor's report

**Consolidated financial statements of
Public Joint Stock Company "KuibyshevAzot"
and its subsidiaries**

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Independent auditor's report

To the Shareholders of Public Joint Stock Company "KuibyshevAzot"

We have audited the accompanying consolidated financial statements Public Joint Stock Company "KuibyshevAzot" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Public Joint Stock Company "KuibyshevAzot" and its subsidiaries as at 31 December 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on supplementary information

Our audit was conducted for the purpose of expressing an opinion on the consolidated financial statements of Public Joint Stock Company "KuibyshevAzot" and its subsidiaries taken as a whole. The information on the translation of the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows into US dollars accompanying the consolidated financial statements, which has been disclosed as supplementary financial information on pages 5 to 8, is presented for purposes of additional analysis and is not within the scope of IFRS. Such supplementary financial information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, has been properly prepared, in all material respects, in accordance with the basis described in Note 2.3 to the consolidated financial statements.

A.A. Shlenkin
Partner
Ernst & Young LLC



28 April 2017

Details of the audited entity

Name: Public Joint Stock Company "KuibyshevAzot" (PJSC "KuibyshevAzot")
Record made in the State Register of Legal Entities on 17 January 2003, State Registration Number 1036300992793.
Address: Russia 445007, Togliatti, ul. Novozavodskaya, 6.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.



KuibyshevAzot Group

Consolidated statement of financial position

for the year ended 31 December 2016

(in millions of Russian Roubles, unless otherwise stated)

	Note	At 31 December		Supplementary information USD million (Note 2.3)	
		2016	2015	At 31 December 2016	2015
Assets					
Current assets					
Cash and cash equivalents	8	1,264	1,982	21	27
Receivables and prepayments	9	5,329	5,391	88	74
Inventories	10	7,575	7,497	125	103
Current income tax receivable		59	-	1	-
Other financial assets	13	984	1,732	16	24
Total current assets		15,211	16,602	251	228
Non-current assets					
Property, plant and equipment	11	26,801	22,548	442	309
Intangible assets		55	50	1	1
Prepayments for property, plant and equipment and intangibles		1,943	1,058	32	14
Investments in associates and joint ventures	12	4,996	396	82	5
Financial assets	13	4,013	5,679	66	78
Total non-current assets		37,808	29,731	623	407
Total assets		53,019	46,333	874	635
Liabilities					
Current liabilities					
Trade payables		1,650	1,388	27	19
Income tax liability		18	-	-	-
Other than income taxes payable	16	149	144	2	2
Short-term borrowings	14	5,568	5,719	92	78
Advances received and other current liabilities	15	2,280	2,510	38	34
Total current liabilities		9,665	9,761	159	133
Non-current liabilities					
Long-term borrowings	14	18,311	15,650	303	215
Deferred tax liability	27	1,041	967	17	13
Retirement benefit obligations	17	378	309	6	4
Total non-current liabilities		19,730	16,926	326	232
Total liabilities		29,395	26,687	485	365
Equity					
Capital and reserves attributable to equity holders of the Company					
Share capital	18	634	642	10	9
Additional share capital		919	919	15	13
Treasury shares	18	(2,225)	(2,225)	(37)	(31)
Foreign currency translation reserve		470	819	8	11
Retained earnings		23,582	19,196	389	263
		23,380	19,351	385	265
Non-controlling interests		244	295	4	5
Total equity		23,624	19,646	389	270
Total liabilities and equity		53,019	46,333	874	635

Approved for issue and signed on behalf of Board of Directors on
28 April 2017

A.V. Gerasimenko
General Director

V.N. Kudashev
Chief Accountant

The accompanying notes are an integral part of these consolidated financial statements.



KuibyshevAzot Group

Consolidated statement of comprehensive income

for the year ended 31 December 2016

(in millions of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December		Supplementary information USD million (Note 2.3) Year ended 31 December	
		2016	2015	2016	2015
Sales	19	42,500	42,458	634	697
Cost of sales	20	(31,672)	(27,411)	(472)	(450)
Gross profit		10,828	15,047	162	247
Distribution costs	21	(4,220)	(3,642)	(63)	(60)
General and administrative expenses	22	(2,399)	(2,204)	(36)	(36)
Other operating income	23	904	608	13	10
Other operating expenses	24	(738)	(373)	(11)	(7)
Operating profit		4,375	9,436	65	154
Finance income	25	1,033	522	15	9
Finance costs	26	(924)	(2,374)	(14)	(39)
Share of profit/(loss) of associates and joint ventures	12	2,175	(1,234)	32	(20)
Profit before income tax		6,659	6,350	98	104
Income tax expense	27	(1,073)	(2,167)	(16)	(35)
Profit for the year		5,586	4,183	82	69
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Foreign currency translation reserve		(349)	279	(5)	5
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(349)	279	(5)	5
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods					
Re-measurement income/(losses) on defined benefit plan		(23)	(6)	-	-
Income tax effect	27	5	1	-	-
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		(18)	(5)	-	-
Other comprehensive income for the year, net of taxes		(367)	274	(5)	5
Total comprehensive income for the year, net of taxes		5,219	4,457	77	74
Profit attributable to:					
Equity holders of the Company	28	5,602	4,142	82	68
Non-controlling interests		(16)	41	-	1
Total comprehensive income attributable to:		5,586	4,183	82	69
Equity holders of the Company		5,235	4,416	77	73
Non-controlling interests		(16)	41	-	1
Earnings per share, basic/diluted (in Russian Roubles and USD per share):					
- for profit attributable to the equity holders of the Company	28	28.87	20.97	0.43	0.34

The accompanying notes are an integral part of these consolidated financial statements.



KuibyshevAzot Group

Consolidated statement of changes in equity

for the year ended 31 December 2016

(in millions of Russian Roubles, unless otherwise stated)

	Attributable to equity holders of the Company							Non-controlling interests	Total equity
	Share capital	Additional share capital	Treasury shares (Note 18)	Foreign currency translation reserve	Retained earnings	Total			
Balance at 31 December 2014	642	919	(1,362)	540	15,777	16,516	293	16,809	
Profit for the year	-	-	-	-	4,142	4,142	41	4,183	
Other comprehensive income/(loss)	-	-	-	279	(5)	274	-	274	
Total comprehensive income for 2015	-	-	-	279	4,137	4,416	41	4,457	
Purchase of treasury shares (Note 18)	-	-	(863)	-	-	(863)	-	(863)	
Dividends declared by subsidiary to NCI	-	-	-	-	-	-	(39)	(39)	
Dividends declared	-	-	-	-	(718)	(718)	-	(718)	
Balance at 31 December 2015	642	919	(2,225)	819	19,196	19,351	295	19,646	
Profit for the year	-	-	-	-	5,602	5,602	(16)	5,586	
Other comprehensive income	-	-	-	(349)	(18)	(367)	-	(367)	
Total comprehensive income for 2016	-	-	-	(349)	5,584	5,235	(16)	5,219	
Purchased and cancelled ordinary shares (Note 18)	(8)	-	-	-	(253)	(261)	-	(261)	
Dividends declared by subsidiary to NCI	-	-	-	-	-	-	(35)	(35)	
Dividends declared (Note 18)	-	-	-	-	(945)	(945)	-	(945)	
Balance at 31 December 2016	634	919	(2,225)	470	23,582	23,380	244	23,624	
Supplementary information USD million (Note 2.3)									
Balances as of 31 December 2015	9	13	(31)	11	263	265	5	270	
Balances as of 31 December 2016	10	15	(37)	8	393	389	4	393	

The accompanying notes are an integral part of these consolidated financial statements.



KuibyshevAzot Group

Consolidated statement of cash flows
for the year ended 31 December 2016

(in millions of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December		Supplementary information USD million (Note 2.3) Year ended 31 December	
		2016	2015	2016	2015
Cash flows from operating activities					
Profit before income tax		6,659	6,350	98	104
Adjustments for:					
Depreciation of property, plant and equipment	11	1,768	1,664	26	27
Retirement benefit obligations	17	46	42	1	1
Impairment of receivables	22	-	(38)	-	(1)
Share of (profit)/loss of associates and joint ventures		(2,175)	1,234	(32)	20
Finance income	25	(356)	(522)	(5)	(9)
Finance costs	26	924	819	14	14
Foreign exchange effect on non-operating balances – net	25	(677)	1,543	(10)	26
Operating cash flows before working capital changes		6,189	11,092	92	182
(Increase)/decrease in accounts receivable and prepayments		(492)	143	(7)	2
(Increase)/decrease in inventories		(78)	61	(1)	1
Increase/(decrease) in accounts payable and other payables		(362)	786	(5)	13
Increase in other taxes payable		5	-	-	-
Cash generated from operations		5,262	12,082	79	198
Income taxes paid		(1,035)	(1,647)	(15)	(27)
Interest received		155	520	2	9
Interest paid		(1,252)	(1,271)	(19)	(21)
Net cash generated from operating activities		3,130	9,684	47	159
Cash flows from investing activities:					
Purchase of property, plant and equipment		(6,932)	(4,809)	(103)	(80)
Proceeds from the sale of property, plant and equipment		21	10	-	-
Purchases of intangible assets		(8)	-	-	-
Disposal of long-term financial assets		43	-	1	-
Purchase of long-term financial assets		(1,614)	(3,330)	(24)	(55)
Disposal of short-term financial assets		1,712	81	26	1
Purchase of short-term financial assets		(141)	(1,207)	(2)	(20)
Net cash used in investing activities		(6,919)	(9,255)	(102)	(154)
Cash flows from financing activities:					
Proceeds from short-term borrowings		2,280	2,875	34	47
Proceeds from long-term borrowings		8,909	5,215	133	86
Repayments of borrowings		(6,885)	(7,280)	(103)	(119)
Purchase of treasury shares	18	(261)	(863)	(4)	(14)
Dividends received from associates	12	27	28	-	1
Dividends paid to NCI		(35)	(39)	(1)	(1)
Dividends paid to equity holders of the parent	18	(964)	(707)	(14)	(12)
Net cash used in financing activities		3,071	(771)	45	(12)
Net decrease in cash and cash equivalents		(718)	(342)	(10)	(7)
Net foreign exchange difference		-	-	4	(7)
Cash and cash equivalents at the beginning of the year	8	1,982	2,324	27	41
Cash and cash equivalents at the end of the year	8	1,264	1,982	21	27

The accompanying notes are an integral part of these consolidated financial statements.



KuibyshevAzot Group

Notes to consolidated financial statements

as at 31 December 2016

(in millions of Russian Roubles, unless otherwise stated)

1 The Group and its operations

Public Joint Stock Company “KuibyshevAzot” (“the Company” or PJSC “KuibyshevAzot”) and its subsidiaries’ (“the Group”) principal activities include the manufacture, distribution and sales of caprolactam and its derivatives, nitrogen fertilisers and ammonia and other chemical products. The Group’s manufacturing facilities are primarily based in the Samarskaya oblast of Russia. Part of the Company’s shares is publicly traded on Moscow Exchange MICEX-RTS.

PJSC “KuibyshevAzot” was incorporated as a closed joint stock company in the Russian Federation on 24 December 1992. During privatisation in 1992 management of the Company and its employees received shares in accordance with the Law on Privatisation of State and Municipal organisations #1531-1 dated 3 July 1992. During 2006 the Company changed its legal form from “Closed Joint Stock Company” to “Open Joint Stock Company” based on the decision made on the annual shareholders meeting held on 21 April 2006.

In accordance with requirements of Federal Law N 99-FZ dated 5 May 2014 “On amending Chapter 4 of Part 1 of the Russian Civil Code and on declaring several Russian legislative provisions to be no longer in force” effective since 1 September 2014, the Company amended its articles of association and brought them into compliance with provisions of Chapter 4 in the Russian Civil Code. The Company accordingly changed its legal form from Open Joint-Stock Company (OJSC) to Public Joint-Stock Company (PJSC). The articles of association were amended upon decision of the General Shareholders Meeting on 5 August 2016 and registered in the State Register of Legal Entities on 25 November 2016, State Registration Number 7166313658757.

As at 31 December 2016 a blocking shareholding of 27% of total share capital of the Company (31 December 2015: 27%) is held by a limited liability company OOO “Kuibyshevazot Plus”, which was established in 2005 by the Company’s management who contributed their shares in the Company into share capital of OOO “Kuibyshevazot Plus”. 20% of total share capital of the Company (31 December 2015: 20%) is held by subsidiaries of the Group, as disclosed in Note 18. The remaining part of share capital of the Company is distributed among a number of individuals and legal entities. Therefore, the Company does not have an ultimate controlling party.

The registered office of the Company is Novozavodskaya ul., 6, Togliatti, 445007, Samarskaya oblast, Russian Federation.

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IASB) to ensure compliance with Federal Law of 27 July 2010 No. 208-FZ “Consolidated financial statements”. Most of the Group companies maintain their accounting records in Russian Rouble (“RUB”) and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation (Note 30). These consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. The consolidated financial statements are presented in Russian Roubles and all values are rounded to the nearest million except when otherwise indicated.

The consolidated financial statements have been prepared under the historical cost convention, except as stated in the accounting policies below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4, Adoption of New or Revised Standards).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.



KuibyshevAzot Group

Notes to consolidated financial statements

as at 31 December 2016

(in millions of Russian Roubles, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis for consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016.

Subsidiaries are fully consolidated from the date of acquisition (or the date of establishment), being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

(a) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.



KuibyshevAzot Group

Notes to consolidated financial statements

as at 31 December 2016

(in millions of Russian Roubles, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis for consolidation (continued)

(b) Investment in an associate and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associates and joint ventures is accounted for using the equity method.

Under the equity method, the investment in the associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate or joint venture. When there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate or joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount in the 'share of profit/(loss) of associates and joint ventures' in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.3 Foreign currency transaction

Functional and presentation currency

Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RUB").



KuibyshevAzot Group

Notes to consolidated financial statements

as at 31 December 2016

(in millions of Russian Roubles, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.3 Foreign currency transaction (continued)

Supplementary information

In addition to presenting these consolidated financial statements in Russian roubles, supplementary information in US dollars (USD) has been prepared for the convenience of users of these consolidated financial statements. The method used to determine the supplementary information is as follows:

- (i) all items in the consolidated statement of financial position, including all components of equity, are translated at the closing rate for each consolidated statement of financial position presented.
- (ii) income and expenses have been translated using the average rate of exchange for each year presented.

The Company has converted the financial information into USD by translating all items in the consolidated statement of financial position, including all components of equity, using the closing rate. Such conversion is not in accordance with IFRS as translation differences resulting from translating opening net assets using the prior year closing rate has not been presented separately within other comprehensive income.

The relevant exchange rates of the RUB to USD 1 as quoted by the Central Bank of the Russian Federation (CBR) were as follows:

	<u>RUB per USD</u>
Average for the year ended 31 December 2015	60.9579
31 December 2015	72.8827
Average for the year ended 31 December 2016	67.0349
31 December 2016	60.6569

The translation of RUB denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not indicate that the Group could or will in the future realize or settle in USD the translated values of these assets and liabilities.

Transactions and balances

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBR at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments.

Group companies

The assets and liabilities of foreign subsidiaries of the Company are translated into RUB at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of comprehensive income.

2.4 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments like bank promissory notes with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.



KuibyshevAzot Group

Notes to consolidated financial statements

as at 31 December 2016

(in millions of Russian Roubles, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.5 Accounts receivable

Accounts receivable are carried at amortised cost using the effective interest method. Accounts receivable are shown including VAT. An impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment is recognised in the consolidated statement of comprehensive income within 'general and administrative expenses'.

2.6 Value added tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis by deducting VAT on purchases, which have been occurred at the reporting date, from the VAT payable.

Value added tax payable

VAT is payable upon invoicing and delivery of goods, performing works or rendered services, as well as upon collection of prepayments from customers.

Where a provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Value added tax recoverable

The Group applies accrual method for VAT recognition. VAT on purchases, even not settled at the reporting date, is deducted from the amount of VAT payable.

VAT on construction in progress is recorded as VAT receivable and can be claimed at the end of each quarter.

VAT on purchases related to export sales can be reimbursed at the moment when export is confirmed by tax authorities.

2.7 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods 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 and administrative overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2.8 Financial assets

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: loans and receivables, held to maturity and available-for-sale.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held to maturity includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each reporting date. All other financial assets are included in the available-for-sale category.

Available-for-sale financial assets are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the accumulative gain or loss is removed from equity to profit or loss.



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2 Basis of preparation and significant accounting policies (continued)

2.8 Financial assets (continued)

Initial recognition of financial instruments. Financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and 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 purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading investments; and recognised in equity for assets classified as available for sale.

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

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

2.9 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, as follows:

	<u>Number of years</u>
Buildings	40 to 50
Plant and equipment	10 to 20
Other (office equipment and motor vehicles)	5 to 10



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2 Basis of preparation and significant accounting policies (continued)

2.9 Property, plant and equipment (continued)

The assets' useful lives are reviewed, and adjusted if appropriate, at each reporting date. The residual value of property, plant and equipment is annually assessed by management.

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 was 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 under construction and land owned by the Group are not depreciated.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated statement of comprehensive income. 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 or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.

2.10 Finance leases

The Group leases certain equipment. Leases of equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the consolidated statement of comprehensive income over the lease period using the effective interest method. The equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

2.11 Intangible assets

All of the Group's intangible assets, other than goodwill, have definite useful lives and primarily include capitalised computer software. They are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives.

2.12 Borrowings

Borrowings are recognised initially at their fair value (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest rate method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings using the effective interest method.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed. Accrued interest is recorded within the relevant borrowing in the consolidated statement of comprehensive income.



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2 Basis of preparation and significant accounting policies (continued)

2.13 Income taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2.14 Share capital and treasury shares

Ordinary and non-redeemable preference shares with discretionary dividends are classified as equity.

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from equity as treasury shares until they are sold or reissued. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are recorded at weighted average cost.

2.15 Dividend distribution

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 financial statements are authorised for issue.

2.16 Revenue recognition

Revenue from sales of chemical products is the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after elimination of sales within the Group.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.



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2 Basis of preparation and significant accounting policies (continued)

2.17 Employee benefits

Social costs

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

The Group incurs employee costs related to the provision of short-term non-monetary benefits such as health services and recreation facilities. These amounts principally represent an implicit cost of employees and, accordingly, have been charged to other operating expenses in the consolidated statement of comprehensive income.

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 when incurred.

The Group operates an unfunded defined benefit pension plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually using the projected unit credit method. The pension obligation is measured as the present value of the discounted estimated future pension payments. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the reporting date on high quality bonds. The currency and term of these bonds is consistent with the currency and estimated term of the post-employment benefit obligations.

Re-measurements, comprising of actuarial gains and losses are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'selling and distribution expenses' in the consolidated statement of comprehensive income (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources 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, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2.19 Earnings per share

Preference shares are considered to be participating shares as their dividend may not be less than that given with respect to ordinary shares. Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.



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3 Critical accounting estimates and judgements in applying accounting policies

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

Remaining useful life of property, plant and equipment. Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group.

Estimated impairment of property, plant and equipment. The Group assesses annually whether any indicators of impairment of the property, plant and equipment exist, in accordance with the accounting policy stated in Note 2.9. If there are indicators of impairment, the Group determines recoverable amounts of cash generating units, based on value-in-use calculations. These calculations require the use of estimates.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 29.2.

Retirement benefit obligations. Post-employment benefits are generally satisfied by plans which are classified and accounted for as defined benefit plans. The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. More details are provided in Note 17.

4 Adoption of new or revised standards

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following new standards and amendments, which are effective for annual periods beginning on or after 1 January 2016, do not have significant impact on the Group:

- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*
- Amendments to IAS 27 *Equity Method in Separate Financial Statements*
- IAS 34 *Interim Financial Reporting*
- Amendments to IAS 1 *Disclosure Initiative*
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*
- *Annual Improvements 2012-2014 Cycle*



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5 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- IFRS 9 *Financial Instruments: Classification and Measurement* (tentatively effective for annual periods beginning on or after 1 January 2018).
- IFRS 15 *Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 12: *Recognition of Deferred Tax Assets for Unrealised Losses* (effective for annual periods beginning on or after 1 January 2017).
- IFRS 16 *Leases* (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (the effective date is postponed indefinitely pending the outcome of IASB's research project on the equity method of accounting).
- Amendments to IAS 7: *Disclosure Initiative* (effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2: *Classification and Measurement of Share based Payment Transactions* (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4: *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (effective for annual periods beginning on or after 1 January 2018).
- Annual improvements to IFRS standards 2014-2016 cycle (effective for annual periods beginning on or after 1 January 2017 and 2018).
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40: *Transfers of Investment Property* (effective for annual periods beginning on or after 1 January 2018).

The Group is currently assessing the potential effect of the above standards and amendments on its consolidation financial statements when they become effective.

6 Operating segment information

For management purposes, the Group is organised into business units based on their products lines, and has the following reportable operating segments:

- (1) Production and sale of caprolactam and derivatives;
- (2) Production and sale of ammonia and nitrogen fertilisers.

Unallocated activities includes activities of the Company that do not relate to chemical production and subsidiaries' activities. Group financing and income taxes are managed on a group basis and are not allocated to operating segments.

Management monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on management accounts, which in a number of respects, as explained in the table below, differs from the consolidated financial statements.

Transactions between the business segments are done on normal commercial terms and conditions.



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6 Operating segment information (continued)

The following tables present revenue, profit, assets and liabilities information regarding the Group's operating segments:

Year ended 31 December	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Sales	26,354	23,803	12,893	14,521	3,253	4,134	42,500	42,458
Segment operating profit for the period	1,199	2,728	3,336	6,733	366	553	4,901	10,014
IFRS adjustments								
Difference in depreciation of property, plant and equipment							(318)	(429)
Provision for retirement benefit obligations							(46)	(42)
Others							(162)	(107)
IFRS operating profit for the period							4,375	9,436

Difference in depreciation of property, plant and equipment relates to different useful life period of property, plant and equipment in management accounts and in IFRS consolidated financial statements.

Unallocated amount relates mainly to activities of non-core subsidiaries.

At 31 December	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Segment assets	27,122	22,345	5,320	5,782	20,478	17,969	52,920	46,096
IFRS adjustments:								
Difference in depreciation of property, plant and equipment							452	518
Impairment of the Group's assets							(228)	(142)
Others							(125)	(139)
IFRS total assets							53,019	46,333

At 31 December	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Segment liabilities	800	626	1,146	1,578	27,032	23,928	28,978	26,132
IFRS adjustments:								
Retirement benefit obligations							378	309
Deferred tax							39	230
Others							-	16
IFRS total liabilities							29,395	26,687

Unallocated amounts relate mainly to borrowings of RUB 23,879 (2015: RUB 21,355) and liabilities of non-core subsidiaries.



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6 Operating segment information (continued)

Geographic information

Sales are allocated based on the region in which the customer is located:

	2016	2015
Russia	20,264	20,784
Asia	12,418	10,193
Europe	5,796	7,279
Other	4,022	4,202
Total	42,500	42,458

Assets of the Group are mainly located in the Russian Federation.

7 Balances and transactions with related parties

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 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 for the years ended 31 December 2016 and 2015, or had significant balances outstanding at 31 December 2016 and 2015 is detailed below.

The income and expenses items with related parties for the years 2016 and 2015 were as follows:

Sales of goods and services

	2016	2015
Sales of finished goods	1,788	1,404
Sale of electric power	69	-
Rental services	37	42
Interest income on loans issued to related parties	216	171
Total	2,110	1,617

Purchase of goods and services

	2016	2015
Purchase of goods	310	47
Total	310	47

At 31 December 2016 and 2015, the outstanding balances with related parties were as follows:

	2016	2015
Receivables from related parties	406	218
Payables to related parties	201	-
Loans issued	4,449	5,328
Promissory notes	4	-
Lease payable	1	14
Borrowings from related parties	106	106



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7 Balances and transactions with related parties (continued)

As at 31 December 2016 loans issued to related parties relate to euro-denominated loan including interest capitalised in the amount of RUB 4,424 issued to OOO Linde Azot Togliatti at the interest rate of 4% (2015: RUB 5,260, interest rate of 4%), RUB 2 of loans issued to OOO Techno-Polimer at the interest rate of 18% (2015: RUB 37, interest rate of 18%), RUB 23 of loan issued to OOO Volgaplast Compounding Limited at the interest rate of MOSPRIME 3 + 1.8% (2015: RUB 23, interest rate of MOSPRIME 3 + 1.8%) and RUB 0 of loans issued to OOO Prominvest (2015: RUB 8, interest rate of 9%). OOO Prominvest is considered as a related party as it is owned by a member of key management personnel.

As at 31 December 2016 borrowings from related parties include an interest-free loan amounting to RUB 106 (2015: RUB 106) obtained from OAO Benzol.

Finance lease payable to OOO Prominvest amounting to RUB 1 and RUB 14 for 2016 and 2015, respectively, has a fixed rate of 13% (2015: 13%).

Key management compensation

The remuneration of 20 key management personnel amounted to RUB 85 and RUB 68 in 2016 and 2015, respectively. It comprised salaries, discretionary bonuses and other short-term benefits. Statutory social payments made in respect of key management personnel remuneration amounted of RUB 16 (2015: RUB 12). Dividends paid to key management personnel amounted to RUB 146 (2015: RUB 115).

8 Cash and cash equivalents

	2016	2015
Short-term promissory notes, deposits	596	1,303
RUB-denominated cash on hand and balances with banks	481	266
Foreign currency denominated balances with banks	187	413
	1,264	1,982

Cash deposits of RUB 596 (31 December 2015: RUB 1,291) bear interest of 7.1%-10.25% (2015: 10.3%-11.5%).

Balances with bank are not interest-bearing.

Foreign currency denominated balances with banks consist of the following:

Currency	2016	2015
Yuan	91	191
US Dollar	45	87
Euro	39	122
Serbian Dinar	12	13



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9 Receivables and prepayments

	2016	2015
Trade receivables	2,109	2,272
Less: impairment	(51)	(51)
	2,058	2,221
Other receivables	769	857
Less: impairment	-	(1)
	769	856
Prepayments	906	914
	906	914
VAT recoverable	1,596	1,400
	5,329	5,391

Foreign currency denominated balances of net trade receivables consist of the following:

Currency	2016	2015
US Dollar	460	511
Yuan	412	347
Euro	270	458
Serbian Dinar	13	21
	1,155	1,337

Trade receivables are non-interest bearing and are generally on 60-90 days terms.

Movements in the provision for impairment of receivables were as follows:

	2016	2015
Opening balance	52	34
Charge for the year	-	38
Utilised	(1)	(20)
Closing balance	51	52

There is no concentration of credit risk with respect to trade and other receivables, as the Group has a large number of customers, internationally dispersed. The aging analysis of trade and other receivables is as follows:

	Below 30 days	31-180 days	Above 181 days	Total
2015	2,172	775	130	3,077
2016	1,996	684	147	2,827

10 Inventories

	2016	2015
Raw materials	3,274	2,947
Work in progress	1,364	1,313
Finished products	2,937	3,237
	7,575	7,497

During 2016 RUB 110 (2015: RUB 90) was recognised in the cost of sales as an expense for slow-moving inventories and write-down to net realisable value.



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11 Property, plant and equipment

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
Balance at 1 January 2015	7,203	23,876	520	7,702	39,301
Additions	-	-	-	5,099	5,099
Disposals	(13)	(60)	(1)	-	(74)
Transfers from construction in progress	504	2,661	322	(3,487)	-
Exchange differences	75	97	8	-	180
Balance at 31 December 2015	7,769	26,574	849	9,314	44,506
Additions	-	-	-	6,521	6,521
Disposals	(378)	(869)	-	-	(1,247)
Transfers from construction in progress	2,088	6,866	125	(9,079)	-
Exchange differences	(55)	(64)	(66)	-	(185)
Balance at 31 December 2016	9,424	32,507	908	6,756	49,595
Accumulated depreciation					
Balance at 1 January 2015	(3,489)	(16,539)	(231)	-	(20,259)
Depreciation expense for 2015	(292)	(1,241)	(131)	-	(1,664)
Disposals	-	50	1	-	51
Exchange differences	(14)	(57)	(15)	-	(86)
Balance at 31 December 2015	(3,795)	(17,787)	(376)	-	(21,958)
Depreciation expense for 2016	(314)	(1,309)	(145)	-	(1,768)
Disposals	158	679	-	-	837
Exchange differences	26	62	7	-	95
Balance at 31 December 2016	(3,925)	(18,355)	(514)	-	(22,794)
Net book value					
Balance at 31 December 2015	3,974	8,787	473	9,314	22,548
Balance at 31 December 2016	5,499	14,152	394	6,756	26,801

At 31 December 2016 property, plant and equipment carried at RUB 5,815 (31 December 2015: RUB 5,617) have been pledged to third parties as collateral for bank borrowings and other loans (Note 14).

At 31 December 2016 the cost of the land on which the Group's principle production facilities are located, amounted to RUB 190 (31 December 2015: RUB 153).

Borrowing costs capitalised amounted to RUB 391 (2015: RUB 462). A capitalisation rate of 6% (2015: 6%) was used, representing the borrowing costs of the loans used to finance the investment projects.

As at 31 December 2016 and 31 December 2015, the gross book value of fully depreciated property, plant and equipment was RUB 13,450 and RUB 12,826, respectively.

Equipment includes the following amounts where the Group is a lessee under a finance lease:

	2016	2015
Cost of capitalized finance leases	119	119
Accumulated depreciation	(118)	(110)
Net book amount	1	9



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12 Investments in associates and joint ventures

	2016					2015			
	OOO Praxair Azot Togliatti	Other associates	OOO Linde Azot Togliatti	Other joint ventures	Total	Associates	OOO Linde Azot Togliatti	Other joint venture	Total
At 1 January	-	212	183	1	396	189	206	-	395
Addition	955	-	1,440	57	2,452	22	1,251	2	1,275
Gain on acquisition	837	-	-	-	837	-	-	-	-
Share of profit/(loss)	(17)	50	1,308	(3)	1,338	41	(1,274)	(1)	(1,234)
Disposal	-	-	-	-	-	(12)	-	-	(12)
Dividends received	-	(27)	-	-	(27)	(28)	-	-	(28)
At 31 December	1,775	235	2,931	55	4,996	212	183	1	396

In November 2016 the Company acquired a 50% share in OOO Praxair Azot Togliatti. Another 50% belongs to Praxair Euroholding, S.L. The purchase consideration represented cash and own fixed assets with the total value of RUB 955 contributed to the associate's charter capital. The difference between the purchase consideration and the fair value of net assets acquired was reflected as the gain on acquisition of associate. The Group's interest in OOO Praxair Azot Togliatti is accounted for using the equity method in the consolidated financial statements.

OOO Praxair Azot Togliatti was established for production of industrial gases for the Group's own purposes. The start of operations is planned on 2017. OOO Praxair Azot Togliatti is located in Togliatti, the Samarskaya oblast of the Russian Federation.

Summarised financial information of OOO Praxair Azot Togliatti, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2016
Assets:	
Non-current assets	3,416
Current assets, including cash and cash equivalents of RUB 56	412
Liabilities:	
Non-current liabilities, including deferred tax liabilities RUB 1	(1)
Current liabilities	(277)
Net assets	3,550
Proportion of the Group's ownership	50%
Carrying amount of the investment	1,775
Summarised statement of profit or loss for the period from acquisition to reporting date	
Sales	115
Cost of sales	(76)
Other expenses	(66)
Income tax expense	(7)
Loss after income tax	(34)
Total comprehensive loss	(34)
Share of the Group in loss from the associate	(17)



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12 Investments in associates and joint ventures (continued)

As at 31 December 2016 the associate has capital commitments for the purchase of property, plant and equipment in the amount of RUB 52 and no contingent liabilities.

OOO Praxair Azot Togliatti cannot distribute its profits unless it obtains consent from the both shareholders.

In April 2013 the Company and Linde Group established a joint venture OOO Linde Azot Togliatti. OOO Linde Azot Togliatti is located in Togliatti, the Samarskaya oblast of the Russian Federation and was established for the production of ammonia and hydrogen for the Group's own use in production process. Linde Group and the Company have joint control of OOO Linde Azot Togliatti. The Group's interest in OOO Linde Azot Togliatti is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of OOO Linde Azot Togliatti, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2016	2015
Assets:		
Non-current assets	17,882	15,663
Current assets, including cash and cash equivalents of RUB 4 (2015: RUB 62)	1,703	1,082
Liabilities:		
Non-current liabilities, including deferred tax liabilities RUB 204 (2015: RUB 87) and euro-denominated long-term borrowings RUB 11,488 (2015: RUB 15,199)	(11,692)	(15,286)
Current liabilities, including euro-denominated short-term borrowings RUB 1,894 (2015: RUB 0)	(2,031)	(1,093)
Net assets	5,862	366
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	2,931	183
Summarised statement of profit or loss		
Cost of sales	(11)	(9)
Other expenses	(9)	(145)
Finance income/(expenses)	3,257	(2,908)
Income tax (expense)/benefit	(621)	514
Profit/(loss) after income tax	2,616	(2,548)
Total comprehensive income/(loss)	2,616	(2,548)
Share of the Group in profit/(loss) from joint venture	1,308	(1,274)

The joint venture has no contingent liabilities or capital commitments for the purchase of property, plant and equipment from third parties as at 31 December 2016 (2015: no contingent liabilities and RUB 2,126 of capital commitments).

OOO Linde Azot Togliatti cannot distribute its profits until it obtains the consent from the two venture partners.



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12 Investments in associates and joint ventures (continued)

The following amounts represent the Group's share in assets and liabilities, sales and financial results of other associates, which have been consolidated using the equity method:

	2016	2015
Assets:		
Non-current assets	94	104
Current assets	308	297
Liabilities:		
Non-current liabilities	(133)	(37)
Current liabilities	(34)	(152)
Net assets	235	212
Investments in associates	235	212
Revenue	1,130	990
Expenses	(1,080)	(949)
Profit after income tax	50	41
Total comprehensive income	50	41

The Group holds other joint ventures that are cumulatively immaterial.

13 Financial assets

Short-term financial assets include:

	2016	2015
Short-term portion of a loan issued to a joint venture (denominated in EURO): 4%	735	-
Short-term deposits: 7.59% (2015: 2.75%-3.90%)	116	1,597
Short-term portion of housing loans allowed to employees: 0%-15%	86	111
Other	47	24
	984	1,732

Long-term financial assets include:

	2016	2015
Long-term portion of a loan issued to a joint venture (denominated in EURO): 4%	3,689	5,260
Long-term portion of housing loans allowed to employees: 0%-15%	284	318
Loans issued to associates: 9%-MOSPRIME 3 + 1.8%	25	60
Other	15	41
	4,013	5,679

Long-term loans to employees have different maturity dates up to the year 2041 (2015: up to 2041).



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14 Borrowings

Short-term borrowings

	Interest rate	Currency	2016	2015
Current portion of long-term borrowings				
International Finance Corporation	LIBOR 6 +3.75% - LIBOR 6 +4.125%	USD	1,536	1,868
Sberbank	9.9%-13%	RUB	1,056	1,308
Sberbank	0.7%-0.9% + EURIBOR 6 +1.1%-1.5%	EUR	588	587
Promsvyazbank	14.8%	RUB	500	-
Deutsche Bank AG	LIBOR 12 +0.2%-1.75%	CHF	222	290
Rosbank	EURIBOR 6 +2.2%-4.1%	EUR	100	39
Other			105	130
Total current portion of long-term borrowings			4,107	4,222
Short-term borrowings				
International Finance Corporation	12%	RUB	664	668
VTB Bank (Hong Kong branch)	3.15%	USD	244	-
Promsvyazbank	14.8%	RUB	80	-
Sberbank	0.7%-0.9% + EURIBOR 6 +1.1%-1.5%	EUR	77	175
Bank of China	3.56%	USD	74	160
VTB Bank	EURIBOR 6 +1.6%	EUR	62	167
Raiffeisenbank	1% + EURIBOR 6 +1.5%-1.6%	EUR	29	34
Other			149	254
Total short-term borrowings			1,379	1,458
Interest on loans and borrowings			82	39
			5,568	5,719

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

	2016	2015
Borrowings denominated in:		
- Russian Roubles	2,508	2,169
- US Dollars	1,870	2,028
- Euros	960	1,232
- Swiss francs	230	290
	5,568	5,719



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14 Borrowings (continued)

Long-term borrowings

	Interest rate	Maturity date	Currency	2016	2015
International Finance Corporation	LIBOR 6 +3.75% - LIBOR 6 +4.125%	2019-2023	USD	5,953	8,998
Sberbank	9.9%-13%	2018-2026	RUB	5,391	4,555
VTB Bank	10.45%	2019	RUB	1,992	-
Gazprombank	10.9%-11%	2018-2019		1,988	-
Sviaz-Bank	10%	2019	RUB	796	-
Rosbank	1.90%-4.1%	2018	EUR	583	250
Raiffeisenbank	10.37%	2019	RUB	576	-
Sberbank	0.7%-0.9% + EURIBOR +1.1%-1.5%	2018	EUR	330	525
FGAU "Russian Foundation for technological development"	5%	2019-2021	RUB	300	-
Deutsche Bank AG	0.2%-1.75% + LIBOR 12	2018	CHF	222	550
Sberbank	0.8% + EURIBOR 6 +1.5%	2018	EUR	100	94
Raiffeisenbank	1% + EURIBOR 6 +1.5%-1.6%	2018	EUR	56	153
VTB Bank	EURIBOR 6 +1.6%	2018	EUR	12	46
Promsvyazbank	10.54%-17.65%	2017	RUB	-	398
Other				12	81
				18,311	15,650

The maturity of long-term borrowings is as follows:

	2016	2015
Current	4,107	4,222
1 to 2 years	4,687	6,145
2 to 3 years	7,155	3,556
3 to 5 years	2,881	4,020
> 5 years	3,588	1,929
	22,418	19,872
Less: Current portion	(4,107)	(4,222)
	18,311	15,650

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

	2016	2015
Borrowings denominated in:		
- Russian Roubles	11,055	4,956
- US Dollars	5,953	8,998
- Euros	1,081	1,146
- Swiss francs	222	550
	18,311	15,650

Total amount of guarantee issued by the Group for long and short-term borrowings is RUB 5,815 (2015: RUB 5,617), including pledged equipment in the amount of RUB 5,815 (2015: RUB 5,617) (see Note 11).

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



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15 Advances received and other current liabilities

	2016	2015
Advances received	1,632	2,013
Salaries payable	539	352
Dividends payable	10	29
Other	99	116
	2,280	2,510

Advances received and other current liabilities are non-interest bearing and have an average term of two months.

16 Other than income taxes payable

	2016	2015
Property tax	44	62
Payments to the Pension Fund and other social taxes	18	28
Personal income tax	35	4
Other taxes	52	50
	149	144

The Group had no tax liabilities past due at 31 December 2016 and 2015.

17 Retirement benefit obligations

The Group provided post retirement benefits in the form of monthly cash payments to their retirees via the non-state pension fund "Titan". The amount of post retirement benefits in the form of monthly cash payments is dependent on one or more factors, such as age, years of service and compensation. The entitlement to benefits (cash payments) ceases 5 years after retirement date. To date it has been an unfunded plan, with no assets specifically allocated to cover the scheme liabilities. The scheme's retirement age is the official retirement age in Russia (55 for females and 60 for males). The actuarial valuation is performed once in 3 years, the last valuation was performed in December 2016.

Since the pension liability is adjusted to consumer price index, the pension plan is exposed to Russian's inflation, interest rate risk and changes in the life expectancy for pensioners.

The following tables summarise the components of net benefit expense recognised in the consolidated statement of comprehensive income and amounts recognised in the consolidated statement of financial position for the respective plans.

Net benefit expense recognised in profit or loss:

	31 December 2016	31 December 2015
Current service cost	32	26
Interest cost on benefit obligation	25	25
Net benefit expenses	57	51



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17 Retirement benefit obligations (continued)

Changes in the present value of the defined pension benefit obligation are as follows:

	Post-employment pension
Defined benefit obligation at 1 January 2015	261
Current service cost	26
Interest cost	25
Contributions by employer	(9)
Actuarial gain recorded in Other Comprehensive Income, including changes in financial assumptions	6
experience adjustment	24
	(18)
Defined benefit obligation at 31 December 2015	309
Current service cost	32
Interest cost	25
Contributions by employer	(11)
Actuarial loss recorded in Other Comprehensive Income, including changes in financial assumptions	23
experience adjustment	37
	(14)
Defined benefit obligation at 31 December 2016	378

The principal actuarial assumptions used were as follows:

	31 December 2016	31 December 2015
Discount rate	8.5%	9.9%
Salary increase	12.3%	12.7%
Mortality rate (RF statistics data for 2015)	80%	80%
Staff turnover up to the age 49 (males) and 44 (females)	5%	5%
Staff turnover from the age 49 (males) and 44 (females) up to the retirement	0%	0%

A quantitative sensitivity analysis for significant assumption as at 31 December 2016 is as shown below:

Assumptions Sensitivity level	Discount rate		Future salary increase	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on defined benefit obligation	(14)	14	13	(13)

Assumptions Sensitivity level	Life expectancy of male pensioners		Life expectancy of female pensioners	
	Increase by 1 year	Decrease by 1 year	Increase by 1 year	Decrease by 1 year
Impact on defined benefit obligation	6	(6)	1	(1)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result for reasonable changes in key assumptions occurring at the end of the reporting period.

The following payments are expected contributions to the defined benefit plan obligation in future years:

	31 December 2016	31 December 2015
Within the next 12 months (next annual reporting period)	141	126
Between 2 and 5 years	124	111
Between 5 and 10 years	172	156
Beyond 10 years	718	668
Total expected payments	1,155	1,061

The average duration of the defined benefit plan obligation at the end of the reporting period is 11 years (2015: 10 years).



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18 Share capital

	Number of issued shares (thousands)		Number of treasury shares (thousands)	Total number of outstanding shares (thousands)	Share capital (In Russian Roubles)	Treasury shares
	Preference	Ordinary	(thousands)	(thousands)	(In Russian Roubles)	
At 1 January 2015	3,697	237,043	(40,018)	200,722	642	(1,362)
Treasury shares purchased	-	-	(9,595)	(9,595)	-	(863)
Treasury shares disposed	-	-	-	-	-	-
At 31 December 2015	3,697	237,043	(49,613)	191,127	642	(2,225)
Ordinary shares purchased	-	(2,895)	-	(2,895)	(8)	-
Treasury shares purchased	-	-	-	-	-	-
Treasury shares disposed	-	-	-	-	-	-
At 31 December 2016	3,697	234,148	(49,613)	188,232	634	(2,225)

The total number of authorised ordinary shares is 549,148 thousand shares (31 December 2015: 552,043 thousand) and of preference shares is 138,897 thousand shares (31 December 2015: 138,897 thousand) with a nominal value of 1 rouble per share of both types.

In October 2016 the Company repurchased 2,895 thousand ordinary shares for RUB 261. These shares were subsequently cancelled.

Shares that were purchased before 31 December 2015 from shareholders and that were not cancelled are held as 'treasury shares'. At 31 December 2016 OOO Togliattichinvest, OOO Kuibyshevazot-invest and OOO Activinvest held 48,132 thousand ordinary and 1,482 thousand preference shares of the Company. (31 December 2015: 48,132 thousand ordinary and 1,482 thousand preference shares).

Preference shares are non-redeemable, non-cumulative and give the holders the right to participate in the general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. The non-cumulative preference shares give holders the right to receive dividends per share of not less than 1% of their nominal value and, in case of liquidation of the Company, they give holders the right to receive liquidation value in the amount of their nominal value. If the Company fails to pay dividends, the preferred shareholders have the right to vote in the general shareholders' meeting, which ceases when dividends on preference shares are paid in full.

The Company cannot declare and pay dividends on ordinary shares if dividends on preference shares are not declared in full.

Dividends declared and paid during the year on ordinary and preference shares were as follows:

	2016	2015
Dividends payable at 1 January	29	18
Dividends declared during the year	945	718
Dividends paid during the year	(964)	(707)
Dividends payable at 31 December	10	29
Dividends per share declared during the year, RUB	4.8	3.7

In 2016 the Company declared 2 rouble of interim dividends for 2016 per share for both ordinary and preference shares and final dividends for 2015 of 2.8 roubles per share for both ordinary and preference shares (2015: 1.7 rouble of interim dividends, 2 roubles of final dividends for 2014).



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19 Sales

	2016	2015
Caprolactam and derivatives	26,354	23,803
Ammonia and nitrogen fertilisers	12,893	14,521
Other products	3,253	4,134
	42,500	42,458

20 Cost of sales

	2016	2015
Raw materials	21,200	18,323
Heat energy and electricity	4,055	3,655
Labour costs	3,687	3,416
Depreciation	1,653	1,549
Other	828	907
Change in finished goods and work in progress	249	(439)
	31,672	27,411

21 Distribution costs

	2016	2015
Transportation	3,251	2,855
Labour costs	438	370
Materials	169	154
Depreciation	54	46
Other	308	217
	4,220	3,642

22 General and administrative expenses

	2016	2015
Labour costs	1,328	1,106
Services of third parties	382	373
Taxes, other than income tax	182	262
Insurance	119	94
Consultancy services	112	122
Materials	70	47
Depreciation	61	69
Fines and penalties	33	28
Impairment of receivables	-	38
Other	112	65
	2,399	2,204

23 Other operating income

	2016	2015
Compensation received from federal budget	690	261
Disposal of inventory	183	211
Foreign exchange gains on operating activities	-	134
Other	31	2
	904	608



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24 Other operating expenses

	2016	2015
Social expenses	550	322
Foreign exchange loss on operating activities	91	-
Other	97	51
	738	373

25 Finance income

	2016	2015
Foreign exchange gain on financing activities	677	-
Interest income	356	522
	1,033	522

26 Finance costs

	2016	2015
Interest expense	1,288	1,281
Foreign exchange loss on financing activities	-	1,543
Less capitalised borrowing costs	(391)	(462)
Other	27	12
	924	2,374

27 Income taxes

	2016	2015
Current income tax expense	999	1,706
Deferred tax benefit related to profit or loss	74	461
Income tax expense recognized in profit or loss	1,073	2,167
Deferred tax (income)/expenses related to items recognized in OCI	(5)	(1)
Income tax expense/(benefit) recognised on OCI	(5)	(1)
Income tax expense for the year	1,068	2,166

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2016	2015
Income before taxation	6,659	6,350
Theoretical tax charge at statutory rate of 20%	1,259	1,245
Theoretical tax charge/(benefit) at statutory rate of 25% applicable to Chinese subsidiaries	74	20
Theoretical tax charge/(benefit) at statutory rate of 16.5% applicable to Hong Kong subsidiary	11	7
Share of (profit)/loss of associates and joint ventures	(426)	247
Recalculation of current income tax of prior periods	(19)	(82)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Social expenses	48	68
Other non-deductible expenses	121	661
Income tax expense	1,068	2,166



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27 Income taxes (continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2015: 20%).

	1 January 2015	Origination/ (reversal) of temporary difference	31 December 2015	Origination/ (reversal) of temporary difference	31 December 2016
Tax effects of temporary differences:					
Accounts receivable and prepayments	6	4	10	7	17
Finance lease and other liabilities	61	48	109	29	138
Financial assets	280	(278)	2	(2)	-
Property, plant and equipment	(785)	(85)	(870)	(97)	(967)
Inventories	(202)	(21)	(223)	(13)	(236)
Other	134	(129)	5	2	7
Net deferred tax liabilities, including:	(506)	(461)	(967)	(74)	(1,041)
Deferred tax assets	201		136		162
Deferred tax liabilities	(707)		(1,103)		(1,203)

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

Deferred tax assets will be realised in different periods than deferred tax liabilities will be settled. Management believes that there will be sufficient taxable profits available at the time the temporary differences reverse to utilise the deferred tax assets.

The Group has not recorded a deferred tax liability in respect of taxable temporary differences of RUB 4,065 (2015: RUB 4,147) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

28 Earnings per share

The earnings per share were calculated by dividing profit or loss attributable to all equity holders by the weighted average number of all shares outstanding during the period, excluding shares purchased by the Group and held as treasury shares.

	2016	2015
Weighted average number of ordinary shares outstanding (thousands)	234,148	237,043
Weighted average number of preference shares outstanding (thousands)	3,697	3,697
Adjusted for weighted average number of treasury shares outstanding (thousands)	(43,815)	(43,209)
Weighted average number of ordinary and preference shares outstanding (thousands)	194,030	197,531
Profit attributable to equity holders of the Company	5,602	4,142
Earnings per share (in Roubles):		
-basic/diluted, for profit for the period attributable to ordinary/preference equity holders of the Company	28.87	20.97

There are no dilution factors, therefore basic earnings per share equals diluted earnings per share.



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29 Contingencies, commitments and operating risks

29.1 Contractual commitments and guarantees

As at 31 December 2016 and 31 December 2015 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RUB 396 and RUB 247 respectively, designated for construction of new and modernisation of existing production facilities.

29.2 Taxation

Russian tax and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

In 2016 mechanisms effective from 2015 were further implemented to counter the use of low tax jurisdictions and aggressive tax planning structures. In addition, in 2016 significant changes occurred to procedures to determine thin capitalization.

These changes and recent trends in applying and interpreting certain provisions of Russian tax law indicate that the tax authorities may take a tougher stance in interpreting legislation and reviewing tax returns. It is therefore possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant taxes, penalties and fines may be accrued. It is not possible to determine the amounts of constructive claims or evaluate the probability of a negative outcome. Fiscal periods remain open to review for a period of three calendar years immediately preceding the year of review. Under certain circumstances, the tax authorities may review earlier tax periods.

Management believes that at 31 December 2016 its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax burden of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

The Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions.

For domestic transactions the transfer pricing rules apply only if the amount of all transactions with related party exceeds RUB 1 billion in 2016. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.



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29 Contingencies, commitments and operating risks (continued)

29.2 Taxation (continued)

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. Special transfer pricing rules apply to transactions with securities and derivatives.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the “controlled” transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the “controlled” transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

29.3 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. As obligations are determined, they are recognised immediately. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalised. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation or regulation cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant unrecorded liabilities for environmental damage.

29.4 Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group.

29.5 Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The ruble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

The management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances and offset expected further negative effects by the anti-crisis plan containing a series of measures to optimize production costs, restructure the supply base and support sales in and outside Russia.



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30 Principal subsidiaries

The Group's principal subsidiaries consolidated within the Group and the degree of control exercised by the Company are as follows:

Name	Country of incorporation	Activity	2016		2015	
			% ownership	% voting	% ownership	% voting
OAD Port Togliatti	Russian Federation	Transportation of goods	66%	79%	66%	79%
OOO Togliattichinvest	Russian Federation	Trading of construction materials	100%	100%	100%	100%
OOO Kuibyshevazot-invest	Russian Federation	Investing	100%	100%	100%	100%
OOO Engineering – Plastic company KuibyshevAzot	China	Engineering plastics production	90%	90%	90%	90%
TH Kuibyshevazot Shanghai	China	Trading company	50%	50%	50%	50%
KuibyshevAzot Trading Co Ltd	Hong Kong	Trading company	100%	100%	100%	100%
OOO Activinvest	Russian Federation	Investing	100%	100%	100%	100%
OOO Azotremstroj	Russian Federation	Capital construction	100%	100%	100%	100%
OOO Kurskchimvolokno	Russian Federation	Production of synthetic fiber	100%	100%	100%	100%
OOO Moskovskiye Volokna	Russian Federation	Rental services	100%	100%	100%	100%
OOO Baltex	Russian Federation	Production of synthetic fabric	100%	100%	100%	100%
OOO Srednevolzhskaya energosbytovaya kompaniya	Russian Federation	Sale of electric power	74%	74%	74%	74%

The Group has control over the Chinese subsidiary Trading House Kuibyshevazot Shanghai because the Company has the right to appoint a majority in the Board of directors.

31 Financial risks management

The Group's principal financial liabilities comprise bank loans, non-convertible bonds, trade and other payables. The main purpose of these financial liabilities is to provide financing for the Group's operations. The Group has various financial assets such as trade receivables, loans issued, cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.



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31 Financial risks management (continued)

31.1 Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the impairment already recorded.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial investments including loans issued, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. However, management monitors that cash is placed in financial institutions or invested in financial assets of entities, which are considered to have minimal risk of default.

31.2 Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

31.3 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest bearing short-term and long-term borrowings. The Group has no significant interest-bearing assets.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with floating interest rates linked to EURIBOR, LIBOR and CHF LIBOR indices. At 31 December 2016 approximately 35% of the Group's borrowings are at a fixed rate of interest (2015: 43%).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

		Increase/decrease in basis points	Effect on profit before tax
2016			
LIBOR	High	0.60%	42
EURIBOR	High	0.12%	1
CHF LIBOR	High	0.07%	-
LIBOR	Low	-0.08%	(6)
EURIBOR	Low	-0.08%	(1)
CHF LIBOR	Low	-0.20%	(1)
2015			
LIBOR	High	0.50%	51
EURIBOR	High	0.25%	3
CHF LIBOR	High	0.85%	7
LIBOR	Low	-0.12%	(12)
EURIBOR	Low	-0.25%	(3)
CHF LIBOR	Low	-0.25%	(2)



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31 Financial risks management (continued)

31.4 Foreign exchange risk

The Group exports production to Asian, American and European countries and therefore, it is exposed to foreign exchange risk. Foreign currency denominated assets (Note 8 and 9) and liabilities (Notes 14) give rise to foreign exchange exposure. Approximately 52% of the Group's sales are denominated in currencies other than RUB - the functional currency of the Company, whilst almost 95% of costs are denominated in RUB. Hence, the Group is exposed to the related foreign exchange risk primarily with respect to the USD. However, management believes that foreign exchange risk is not significant.

The following table demonstrates the sensitivity to a reasonably possible change in the USD, EURO and CHF exchange rate, with all other variables held constant, of the Group's profit before tax, due to changes in the fair value of monetary assets and liabilities. There is no impact on the Group's equity.

		Increase/decrease in basis points	Effect on profit before tax
2016			
EURO	High	20.00%	403
USD	High	20.00%	(1,623)
CHF	High	21.00%	(93)
CNY	High	18.00%	84
EURO	Low	-20.00%	(403)
USD	Low	-20.00%	1,623
CHF	Low	-21.00%	93
CNY	Low	-18.00%	(84)
2015			
EURO	High	43.00%	965
USD	High	40.00%	(3,350)
CHF	High	47.50%	(399)
CNY	High	27.00%	63
EURO	Low	-15.00%	(337)
USD	Low	-13.00%	1,089
CHF	Low	-21.00%	176
CNY	Low	-27.00%	(63)

31.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (31 December 2016: RUB 10,130; 31 December 2015: RUB 3,235) and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group's Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016 based on contractual undiscounted payments.

Year ended 31 December 2016	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans and borrowings	2,380	4,824	18,006	4,314	29,524
Trade and other payables	2,298	-	-	-	2,298
Finance lease liability	1	-	-	-	1
	4,679	4,824	18,006	4,314	31,823



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31 Financial risks management (continued)

31.5 Liquidity risk (continued)

Year ended 31 December 2015	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans and borrowings	1,460	5,291	15,249	2,090	24,090
Non-convertible bonds	5	-	-	-	5
Trade and other payables	1,885	-	-	-	1,885
Finance lease liability	4	9	1	-	14
	3,354	5,300	15,250	2,090	25,994

31.6 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or sell treasury shares held by subsidiaries. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

31.7 Fair values

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, judgment is necessarily required to interpret market data to determine the estimated fair value. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

At 31 December 2016 and 2015, the fair value of financial instruments, which is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity, approximates their carrying value.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.



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31 Financial risks management (continued)

31.7 Fair values (continued)

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the consolidated financial statements:

	Carrying amount		Assets and liabilities for which fair values are disclosed (Level 2)	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
FINANCIAL ASSETS:				
Cash and cash equivalents	1,264	1,982	1,264	1,982
Financial assets – current	984	1,732	984	1,732
Financial assets – long-term	4,013	5,679	4,013	5,679
Trade receivables	2,058	2,221	2,058	2,221
FINANCIAL LIABILITIES:				
Short-term borrowings	5,567	5,702	5,567	5,702
Long-term borrowings	18,311	15,649	18,311	15,649
Finance lease liability	1	14	1	11
Non-convertible bonds	-	5	-	5
Trade payables	1,650	1,388	1,650	1,388

32 Events after the reporting period

On 12 March 2017 one of the five oxidation plants of a cyclohexanone plant was damaged by fire. However, this fact had no effect on production process and the Company has been able to fulfill all its contract obligations in 2017. The repair works are planned to be finalized in May 2017.

On 28 April 2017 the Annual Shareholders' Meeting approved 2016 dividend payment amounting to 3 roubles per ordinary and preference share, including 2 roubles of interim dividends (Note 18) and 1 rouble of final dividends per ordinary and preference share. Total amount of dividends declared in respect of 2016 was RUB 568.

