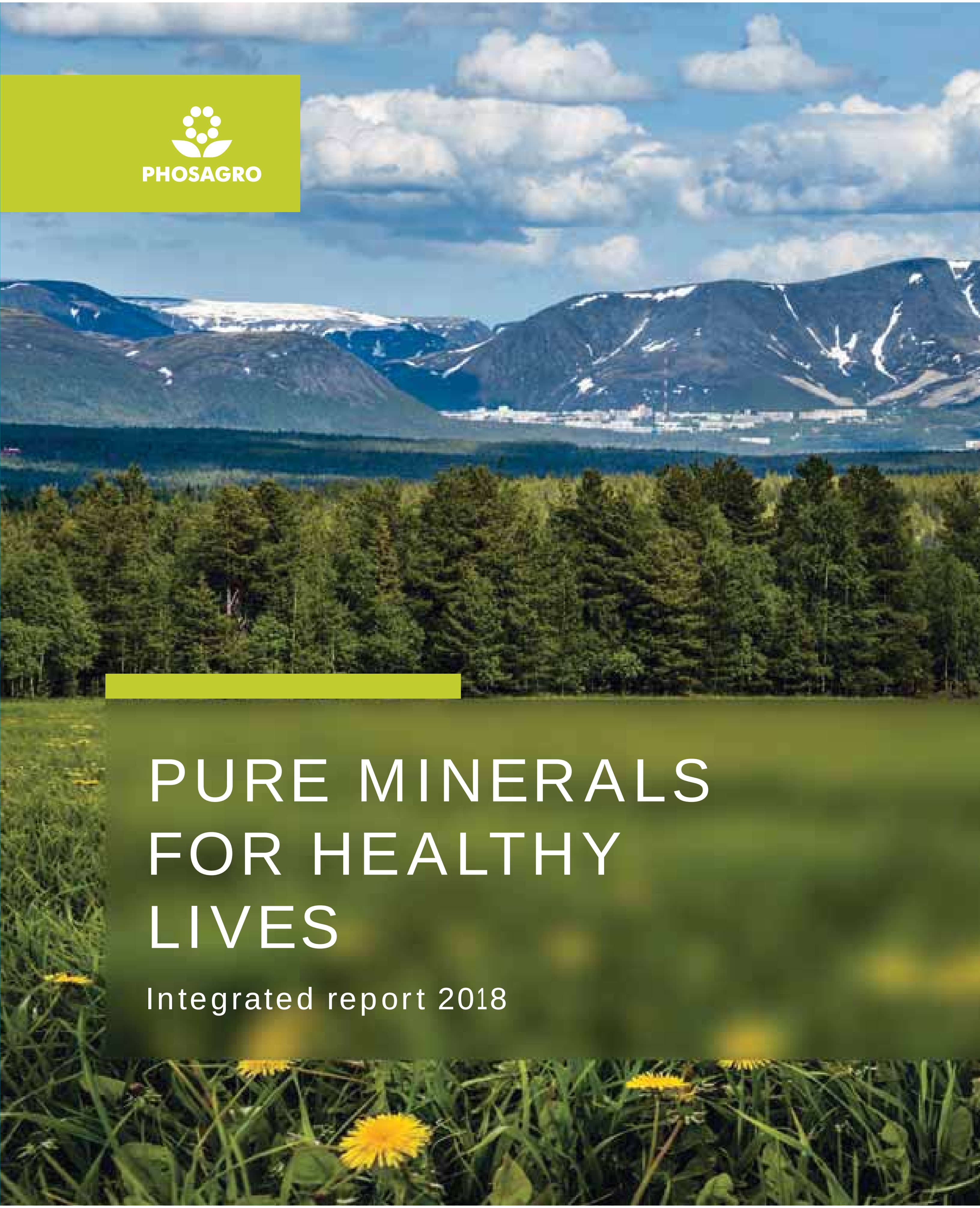
Exhibit III-1



PHOSAGRO

PURE MINERALS FOR HEALTHY LIVES

Integrated report 2018

CONTENTS

ABOUT THIS REPORT

Our integrated Annual Report combines financial and sustainability reporting and aims to inform readers about all of the significant factors that may have an impact on PhosAgro's activities. The report explains how these factors affect our strategy, operations, financial performance, the long-term sustainability of the Company and the value we create for our customers, employees, shareholders, business partners, neighbours and the wider public.

Sustainable development has always been a key priority and an important aspect of our business. As a result, it is important for us to show not only our business results for 2018 but also PhosAgro's contribution towards achieving the Sustainable Development Goals set out by the Global Reporting Initiative (GRI) and the United Nations Global Compact. With this in mind, and with the goal of providing a fully integrated report, we will focus on six key issues on the following pages, namely:

- What is the Company doing on a global scale, and what steps is it taking to address the Sustainable Development Goals?
  See pages 6–7
- What is the Company's business model, and how does this create value for all stakeholders?
  See pages 16–19
- What are the Company's key strategic goals, and how have the 2018 results contributed to their achievement?
  See pages 36–39
- What are the key challenges and uncertainties that the Company is likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
  See pages 38–39
- What is included in the Company's approach towards sustainable development governance, and what targets does PhosAgro set for itself?
  See pages 64–71
- Why does the Company consider it important to adhere to high standards of corporate governance?
  See pages 138–139

01

ABOUT PHOSAGRO

BY IMPROVING SOIL FERTILITY, WE ARE HELPING LIFE ON EARTH PROSPER

39 GRADES

OF FERTILIZERS AND OTHER FINISHED PRODUCTS ARE PRODUCED BY PHOSAGRO

COMPANY PROFILE

PhosAgro is a vertically integrated mineral fertilizer producer based in Russia. We are one of the world's most efficient producers of phosphate-based fertilizers and one of the only companies to produce high-grade phosphate rock with a P_2O_5 content of 39% or higher.

THE LIFE CYCLE OF PHOSPHATE-BASED FERTILIZERS AT PHOSAGRO

As a vertically intergrated company, PhosAgro's operations include upstream and downstream enterprises, as well as distribution and logistics, and R&D. PJSC PhosAgro is the parent company, with control over 100% of the shares of its main operating subsidiaries. For more details, see Our Business Model on pages 16–19.

	MINING AND BENEFICIATION	DOWNSTREAM PRODUCTION	LOGISTICS	SALES
Description	The life cycle of phosphate-based fertilizers begins at PhosAgro's Apatit mines on the Kola Peninsula, where high-quality phosphate ore is mined and processed into phosphate rock. We are one of several global producers whose phosphate ore is virtually free of cadmium and other potentially harmful impurities.	The fertilizers produced from PhosAgro's phosphate rock are among the purest in the world and are used for the cultivation of agricultural products that end up on the plates of consumers all over the globe. Our flexible and efficient production and sales models enable PhosAgro to produce 39 grades of fertilizers and other finished products to meet demand from customers in more than 100 countries.	PhosAgro's logistics infrastructure includes warehouses, mineral hoppers and two port terminals. These assets support our operations and help us to achieve savings compared to third-party services. We constantly monitor the changing business environment in order to maintain streamlined and efficient logistics operations.	The Company has its own sales network in Russia, as well as trading offices in priority export markets in Latin America and Europe. PhosAgro strives to move closer to its end customer through the further expansion of its sales network, warehouse capacities and infrastructure, as well as automation of production and measures to increase efficiency.
Our guiding principles	The high quality of the apatitenepheline ore that we mine is central to our ability to efficiently produce high-quality fertilizers that are naturally free of potentially harmful impurities that could end up in agricultural soils or even our food.	After completing a large-scale investment programme in 2017, the full impact of PhosAgro's new production capacities was achieved in 2018: the Company's production capacity increased significantly, with 9 million tonnes of fertilizer produced in FY 2018.	We maintain a continuous focus on improving all aspects of our logistics, striving to provide the most efficient, reliable and highest-quality service to our customers and build long-term relationships with them.	We strive to be as close as possible to our final consumer through the implementation of a verified strategy to strengthen existing trade links and a balanced approach to entering new markets.
Our goals	By producing mineral fertilizers, which are vital for increasing the yield, quality and nutritional value of crops, we are contributing to ensuring food security throughout the world and to more environmentally sustainable agricultural practices.	PhosAgro aims to further expand its production capacities, with a particular focus on key inputs like sulphuric and nitric acids, as well as ammonium sulphate. PhosAgro also plans to continue to expand the number of fertilizer grades it produces, continuing the trend of the past five years, during which the number grew from 19 to 39.	We plan to further increase our fleet to reduce costs incurred by contracting cars from third-party operators.	We believe that implementing a strategy aimed at further developing and strengthening our fundamental advantages allows us to build a business that best meets the interests of the residents of the regions where we operate, farmers who use our products, as well as our investors and other stakeholders.

Numbers to know

>39 % P_2O_5
nutrient content of high-grade phosphate rock produced at Apatit

93%
Recovery rate achieved at ANOF-3 following upgrades completed in 2018

39 GRADES
of fertilizers and other finished products are produced by PhosAgro

6,268 RAILCARS
own fleet of various configurations

1.9 MLN TONNES
export cargo volumes handled via own port terminals

USD 2 PER TONNE
savings on export shipments via own port terminals

>100 COUNTRIES
currently use PhosAgro products

10 TRADING OFFICES WORLDWIDE

THE COMPANY'S POSITION IN THE GLOBAL INDUSTRY

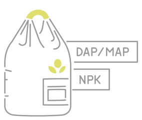
No 1
Producer of high-grade phosphate rock
Source: IFA, PhosAgro

No 1
Fertilizer supplier in Russia
One in every three tonnes of fertilizer sold in Russia is sold by PhosAgro

TOP 5
(One of the top 5) DAP/MAP producers by capacity
Source: IFA, CRU (excluding Chinese producers)

No 2
NPK producer in Europe
Source: PhosAgro

OUR KEY ADVANTAGES



WORLD-CLASS INTEGRATED PHOSPHATE PRODUCER WITH TRACK RECORD OF VALUE CREATION

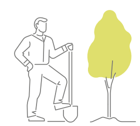
- Vertically integrated producer of fertilizers and premium phosphate rock with P_2O_5 content over 39%
- Strong market position in the premium European market and fast-growing Latin America market
- Largest supplier of DAP/MAP and NPK fertilizers to Russia
- Demonstrated ability to create value through project execution and capital allocation under the Company's Strategy to 2020

STRONG FINANCIAL PROFILE

- Strong profitability and one of the highest gross margins in the phosphate segment
- Investment-grade corporate ratings: BBB-/Baa3/BBB-
- The lowest leverage among global and domestic peers with a net debt/EBITDA ratio of 1.8
- Successfully completed our investment cycle under the Strategy to 2020 to return capex to its normal level

ONE OF THE LOWEST CASH-COST PRODUCERS IN THE WORLD

- Developing a unique and extensive resource base with a mine life of around 60 years
- Self-sufficient in major inputs: 100% in phosphate rock, about 90% in ammonia
- One of the lowest DAP cash-cost producers globally and in the first quartile for urea production
- Strict cost control and operational efficiency rollout to drive lower costs going forward



ADHERING TO HIGHEST STANDARDS OF SUSTAINABLE DEVELOPMENT

- Contributing to the UN Sustainable Development Goals
- Material investments into environmental programmes (RUB 7.6 billion over five years)
- The technologies used at the Company's production sites meet the standards of best available technologies
- Annual expenditures on charitable and social projects amount to more than RUB 1.5 billion
- One of the largest taxpayers in the regions where it operates, paying RUB 12 billion in taxes in 2018

FLEXIBLE PRODUCTION AND SALES PLATFORM

- Depending on the market situation, 46% of phosphate production can be switched from DAP/MAP to NPK
- Netback-driven sales model with a global presence
- PhosAgro's special focus on value-added NPKs secures extra margins compared to a basket of individual nutrients
- Developed domestic sales network and trading offices in all key export markets

TRANSPARENT AND EFFECTIVE CORPORATE GOVERNANCE

- Transparent ownership structure with 27.6% of shares in free float
- Seven independent non-executive directors on the Board of Directors
- Dual listing on LSE and MOEX since 2011 and included in the MSCI Russia Index

2018 PERFORMANCE HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Revenue, RUB bln

233.4 ↑ 29%

2018	233.4
2017	181.4
2016	187.7

EBITDA, RUB bln

74.9 ↑ 47%

2018	74.9
2017	50.8
2016	72.4

EBITDA margin

32% ↑ 4 P.P.

2018	32%
2017	28%
2016	39%

Net profit, RUB bln Adjusted for FX

41.8 ↑ 97%

2018	41.8
2017	21.2
2016	42.9

Cash flow from operating activities, RUB bln

59.7 ↑ 99%

2018	59.7
2017	30.0
2016	50.4

Net debt, RUB bln

135.3 ↑ 13%

2018	135.3
2017	120.0
2016	105.1

Net debt/ EBITDA

1.8 ↑ -0.6

2018	1.8
2017	2.36
2016	1.45

Invested in environmental programmes, RUB bln

3.5 ↑ 169%

2018	3.5
2017	1.3
2016	0.8

Dividends declared, RUB bln

24.9 ↑ 137%

2018	24.9
2017	10.5
2016	21.4

Dividend yield

7.3% ↑ 121%

2018	7.3%
2017	3.3%
2016	6.0%

The Company has implemented a series of successive steps in recent years aimed at consolidating its leading global positions as a producer of phosphorus-based fertilizers with very low production costs. From 2014 to 2018, PhosAgro invested more than 50% of EBITDA in the development of existing and the construction of new facilities, applying the best available technologies in doing so. The successful completion of our large-scale capital investment cycle has created a solid foundation for further sustainable growth. This contributed to significant growth in our FY 2018 financial performance.

In 2018, PhosAgro placed emphasis on organic growth projects aimed at increasing efficiency and improving raw material self-sufficiency and not requiring significant capital expenditures.

The 47% increase in EBITDA and 97% increase in net profit allowed the Company to strictly follow its approved dividend policy – for the 2018 fiscal year, accrued dividends amounted to 60% of adjusted net profit. The total amount of dividends declared in 2018 and in 2019 will amount to RUB 24.9 billion, pending AGM approval of the dividends recommended by the Board of Directors on 19 March 2019.

Along with ensuring profitability for shareholders, the Company devotes significant resources to issues related to sustainable development. PhosAgro takes a very responsible approach to issues of environmental protection and is constantly investing in improving its efficiency and reducing the impact of the Company's activities on the natural environment. In 2018, the Company spent about RUB 8 billion on projects aimed at reducing its impact on the environment (including investment and current environmental costs). As of today, all of the Company's production sites meet the latest environmental requirements.

See additional information on pages 58–61

OPERATIONAL HIGHLIGHTS

Total fertilizer production, kt

8,975 ↑ 8%

2018	8,975
2017	8,338
2016	7,425

Phosphate rock production, kt

10,067 ↑ 5.5%

2018	10,067
2017	9,540
2016	8,530

Phosphate-based fertilizers and MCP production, kt

6,852 ↑ 4%

2018	6,852
2017	6,604
2016	5,904

Nitrogen fertilizers production, kt

2,123 ↑ 22%

2018	2,123
2017	1,735
2016	1,495

PhosAgro reports its highest-ever production in 2018, at 9 million tonnes. The successful implementation of the Strategy to 2020 made this record-setting result possible. The main driver of this growth in fertilizer output was the commissioning of two key strategic projects: the new ammonia and granulated urea production facilities at the Cherepovets site. The expansion of capacity and the increase in raw material self-sufficiency have strengthened our position as a leader in our industry throughout the world. By the end of the year, the production of phosphate-based fertilizers had risen by 3.8% year-on-year to 6,852 thousand tonnes, while the production of nitrogen-based fertilizers was up by 22.4% year-on-year to 2,123 thousand tonnes.

Another important achievement in the past year was the increase in the output of apatite concentrate to 10,067 million tonnes, which is a record in the industry over the past 25 years, which was made possible thanks to ongoing work aimed at expanding our enrichment capacities.

In 2018, the Company continued to develop its own sales network in its priority market of Russia, as well as in foreign markets. The volume of sales of PhosAgro products in Russia increased over five years by a factor of 50% and in 2018 amounted to 9 million tonnes of primary material.

PhosAgro's share of the Russian market is about 80%, making the Company the leading supplier in that market.

See additional information on pages 52–57

SUSTAINABILITY

Emissions into the air per unit of production, kg/t

1.6 ↑ 6%

2018	1.6
2017	1.7
2016	1.8

Lost time injury frequency rate (LTIFR), per 1 mln hours worked

0.22 ↑ 35%

2018	0.22
2017	0.34
2016	0.52

PhosAgro takes a serious approach to sustainability and continues to invest in measures to mitigate its impact on the environment and to implement best practices in the field of occupational safety and industrial safety. Over the course of five years, the Company has invested around RUB 7.6 billion into environmental programmes. PhosAgro's programme for increasing energy efficiency deserves special attention. The technologies used at the Company's production sites meet the standards of best available technologies.

See additional information on pages 64–134

WHERE WE OPERATE

EXPORT MARKETS

OUR FLEXIBLE PRODUCTION AND SALES MODELS ENABLE US TO SUPPLY THE TAILORED FERTILIZERS THAT FARMERS USE TO GROW BETTER CROPS IN OVER 100 COUNTRIES ON EVERY INHABITED CONTINENT

PhosAgro's long-term strategy for production and sales is aimed at maximising profit margins, and it allows us to adjust flexibly to changing demand in a particular market and to respond quickly to market fluctuations.

Trading companies created by PhosAgro in Brazil, Switzerland, Germany, Poland, France, Singapore and last year also in Serbia provide the Company with a presence in all of its priority export markets. The share of direct sales in 2018 exceeded 90%.

In 2018, we exported 6.4 million tonnes of fertilizers. Volumes of supplies to priority export markets in Europe and Latin America increased year-on-year by 10.5% (to 2 million tonnes) and 23.9% (to 2 million tonnes), respectively, compared to the previous year. Shipments of fertilizers to the CIS decreased by 56.1% compared to the previous year due to the cessation of deliveries to the Ukrainian market.

A good example of successful interaction and constructive dialogue between countries, in this case Russia and Argentina, is the abolition of the 6% duty on high-quality diammonium phosphate from Russia. The decision, adopted in 2017, allowed Russian producers and, in particular, PhosAgro to supply environmentally friendly phosphate-based fertilizers without harmful impurities to meet the growing needs of Argentinean agricultural producers.

>90 %

SHARE OF DIRECT SALES IN 2018

Sales in North America and Latin America, kt

39 %

2018	3,119
2017	2,245

Sales in Europe, kt

10.5 %

2018	2,050
2017	1,855

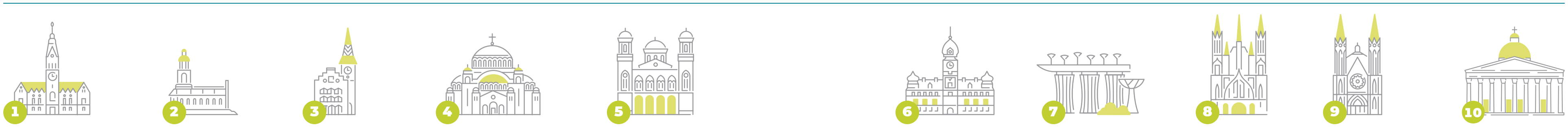
Sales in CIS, kt

56 %

2018	330
2017	752

Due to the cessation of deliveries to the Ukrainian market.

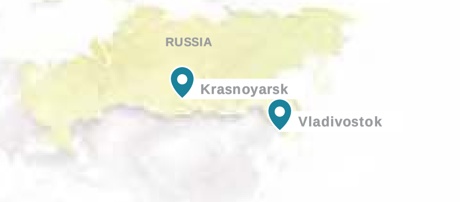
TRADING OFFICES



1 Hamburg, Germany
2 Bayonne, France
3 Zug, Switzerland
4 Belgrade, Serbia
5 Limassol, Cyprus
6 Warsaw, Poland
7 Singapore, Singapore
8 Vilnius, Lithuania
9 São Paulo, Brazil
10 Buenos Aires, Argentina

WHERE WE OPERATE
continued

RUSSIA



TODAY, PHOSAGRO IS IN A FAVOURABLE POSITION, WHICH ALLOWS IT TO OBTAIN SIGNIFICANT BENEFITS FROM THE CURRENT SITUATION AND INCREASE THE VOLUME OF EXPORTS OF ITS OWN PRODUCTS.

Russia's 2018 grain harvest reached 112.9 million tonnes, including more than 72 million tonnes of wheat. This made 2018 the third-best year in terms of the grain harvest in recent Russian history, indicating a sustained positive trend in the agricultural market and the ability to meet domestic market demand from the milling, feed and baking industries. The total volume of wheat shipments also increased by 10.8 million tonnes (32%) year-on-year, amounting to 44.1 million tonnes, thereby confirming Russia's leading position in global wheat exports for the second year running. Further development of the Russian agricultural market is expected over the coming years as a result of demand from importers of Russian products, as well as due to active state support for the sector.

One of the important drivers of Russian economic growth in recent years has been a focus on import substitution in a wide range of areas, in particular in the agro-industrial sector. Domestic needs are currently being met to a large extent by domestic production. The development of the country's export potential, in particular non-oil exports, is determined by the further development of the Russian economy. A number of measures are being taken to increase the proportion of food products in exports, which, according to the Federal Customs Service, currently stands at 5.5%.

The zeroing of rail tariffs for transport is among the measures already implemented by the government to support agricultural exports. This measure has significantly increased exports of agricultural products from Siberia and the Russian Rar East regions. In addition to this, the government is actively working to expand the geography of supply of Russian agricultural products. Thus, the Ministry of Agriculture of the Russian Federation announced that by 2021 it intends to send 50 agricultural industry representatives abroad to increase awareness of Russian agricultural products with the goal of increasing demand for Russian goods. One of the most promising importers of Russian agricultural products is China. In 2018, the export of Russian food products and agricultural raw materials to China amounted to USD 2.5 billion, a more than 300% year-on-year increase.

The Presidential Decree on National Goals and Objectives for the Period to 2024, published in May 2018, set a benchmark for agricultural exports at USD 45 billion per year, signalling a serious commitment on behalf of the government to expanding the industry's export volume. The Ministry of Agriculture forecasts that by 2024, the total export value of Russian wheat will grow by 50% to USD 11.4 billion, and that the total export value of oilseeds and oilseed products will nearly triple to USD 8.5 billion. The government plans to allocate around RUB 350 billion towards the development of agricultural production within a six-year period. Most of the funds – over RUB 290 billion – will be allocated for the creation of new production volumes through the development of concessional lending to enterprises and land reclamation. There will also be an expansion of crop acreage: the territories of Siberia and the Far East will be cultivated, requiring additional mineral fertilizer to ensure the production of high-quality grains and oilseeds.

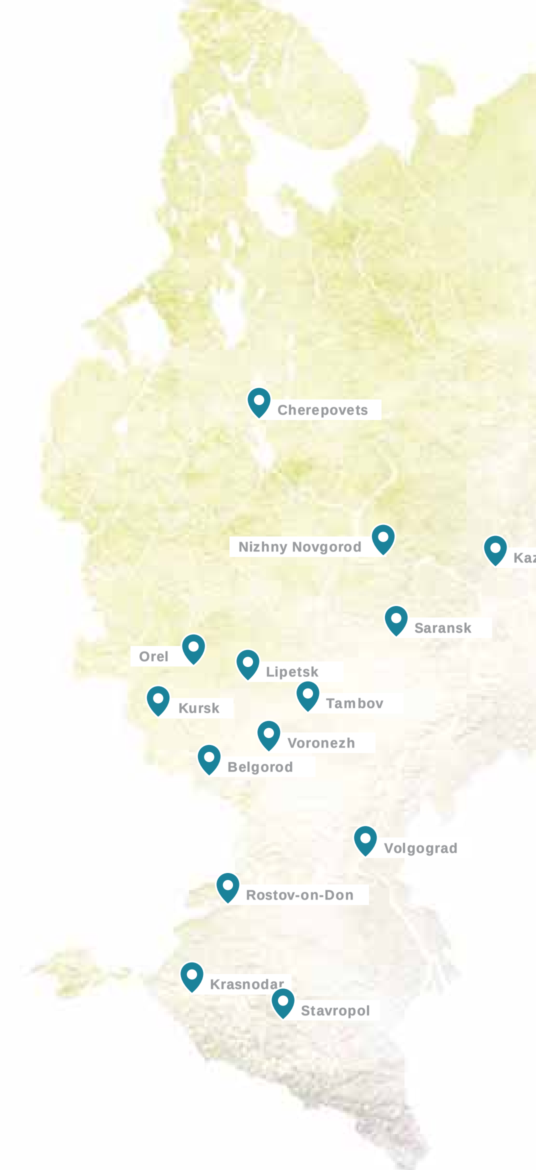
112.9 MLN T

RUSSIA'S GRAIN HARVEST IN 2018

The plan is to turn a total of 4.41 million hectares into agricultural land between 2019 and 2024. The government also plans to chalk 19 million hectares of acidic soil in order to increase the fertility of Russian soil within the same period.

The use of highly efficient, pure and safe mineral fertilizers will play an important role in improving soil fertility and ensuring production growth and exports by Russian agribusiness. In 2018, agricultural producers purchased about 3.1 million tonnes of mineral fertilizers (by nutrient content). To achieve the intended production and export goals, Russia's agribusiness must ensure that by 2024 agricultural producers purchase at least 11.3 million tonnes of mineral fertilizers (by nutrient content).

Thanks to stable growth in demand for agriculture products and government initiatives aimed at developing the agribusiness sector and exports, particularly through the creation of a unified and sustainable brand that guarantees high-quality products, a positive environment is being created for further growth of the fertilizer market and of production capacities.



2.5 BLN USD

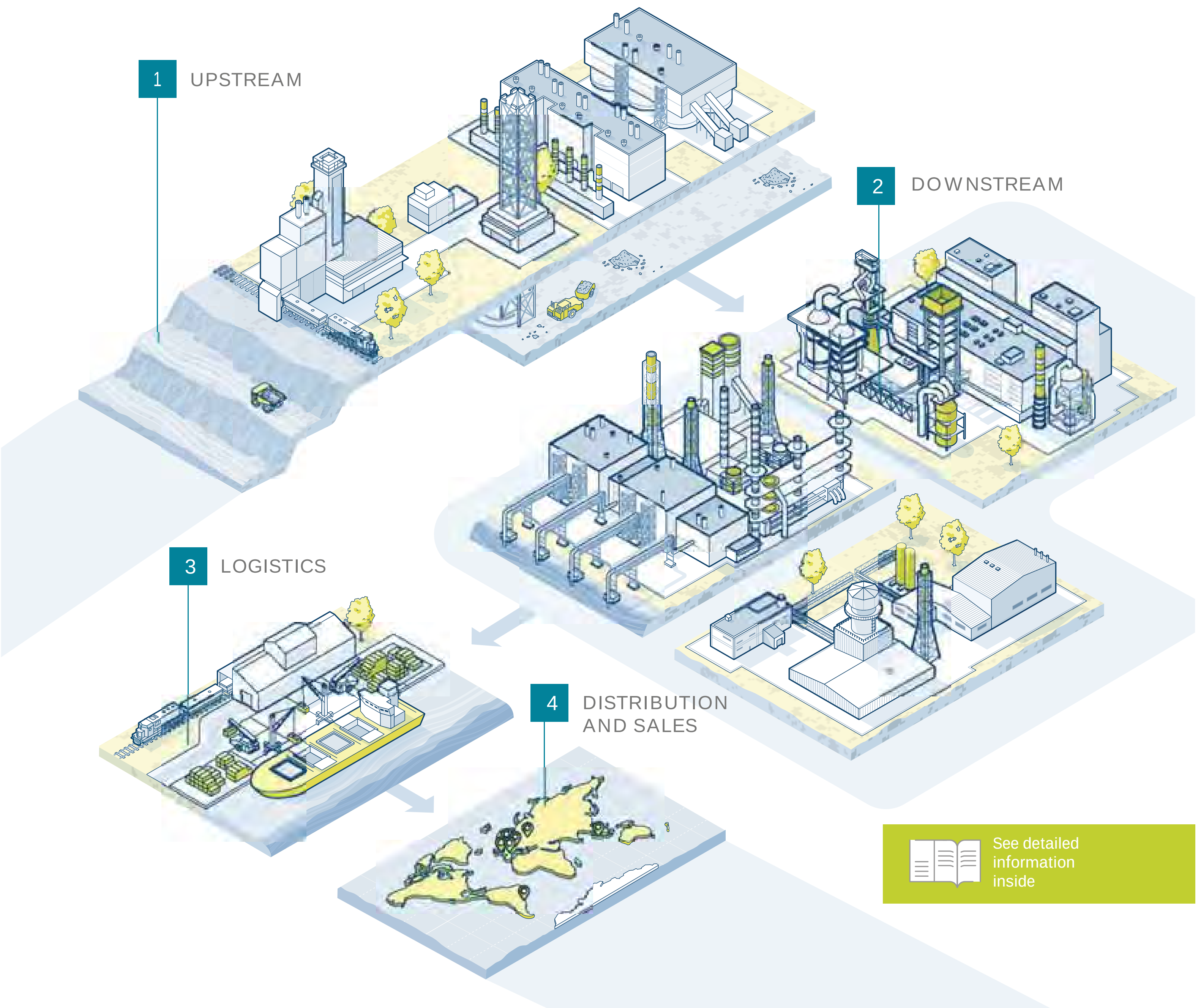
EXPORTS OF RUSSIAN FOOD PRODUCTS AND AGRICULTURAL RAW MATERIALS TO CHINA

3.1 MLN T

OF MINERAL FERTILIZERS PURCHASED BY AGRICULTURAL PRODUCERS IN 2018

BUSINESS MODEL PHOSAGRO

PhosAgro's business model spans the entire fertilizer value chain: from the mining of unique, high-quality phosphate ore that contains virtually no harmful impurities, to downstream processing at Company's modern facilities in Cherepovets, Balakovo and Volkhov, then on to our well-developed logistics infrastructure and distribution network. The high quality of our products, our position as one of the lowest cash cost producers in the industry and our strict adherence to the principles of sustainable development are what make PhosAgro unique. This efficient business model makes it possible for PhosAgro to deliver strong results and create value for a wide range of stakeholders.



See detailed information inside

OUR BUSINESS MODEL

KEY ASPECTS OF PHOSAGRO'S VALUE CHAIN

1 UPSTREAM

At Kirovsk, we mine a high-quality igneous phosphate resource base that, unlike many other producers' raw materials, contains almost no harmful impurities and can be processed into premium-quality phosphate rock. This reduces costs for processing ore, obtaining apatite concentrate and turning it into high-quality mineral fertilizers.

Mining and processing

PhosAgro has extensive mining operations, along with highly qualified in-house operational and technical know-how and capabilities. We make every effort to find the right balance between investments in underground mining and beneficiation capacities, and labour conditions and social security. This approach made it possible to turn the Kirovsk branch of JSC Apatit into a sustainable, world-class mining and phosphate rock production operation. PhosAgro is continuously seeking opportunities to make further improvements on the costs front. We have achieved a 93% recovery ratio for phosphate rock as a result of our upstream optimisation programme.

The upstream operations in our phosphate segment take place at Apatit, which mines apatite-nepheline ore from open-pit and underground mining. In 2018, PhosAgro extracted 35,326 thousand tonnes of apatite nepheline ore on the back of continued expansion of phosphate ore mining and measures to increase the rational use of natural resources.

Beneficiation

Ore is processed at two apatite-nepheline beneficiation plants. In 2018, PhosAgro successfully completed the modernisation of Beneficiation Plant No 3, which resulted in higher production volumes of both phosphate rock and nepheline concentrate and made possible a recovery ratio of more than 93%, the highest level ever achieved from at the plant.

2 DOWNSTREAM

Our fertilizer production assets enjoy domestic access to other key inputs like natural gas and sulphur. We increased ammonia output by 28% year-on-year after the launch of our new ammonia line in 2017, which made PhosAgro 89% self-sufficient in this input.

Manufacturing of fertilizers, feed and industrial phosphates

Our portfolio offers 39 grades of fertilizers, including grades containing secondary nutrients (sulphur) and micronutrients like zinc and boron, that are produced at our three downstream production sites in Russia.

JSC Apatit

With the successful completion of the construction of two major strategic investment projects at JSC Apatit in Cherepovets, PhosAgro showed an impressive example of how advanced technologies have enabled the Company to consolidate its industry-leading position, expand production and improve efficiency, ensure safe working conditions and minimise the Company's impact on the environment. The Company aims to increase total fertilizer output in 2019 by 5% compared to 2018.

Balakovo branch of Apatit

In 2017, we completed the construction of an ammonia pipeline at Balakovo with an annual capacity of 504 thousand tonnes, which secured a more efficient and reliable supply of this key input for the Balakovo branch of JSC Apatit. This was the foundation for the next step forward in further expanding fertilizer production capacities.

3 LOGISTICS

PhosAgro's logistics infrastructure includes warehouses, mineral hoppers and two port terminals. These assets support our operations and help us to achieve savings compared to third-party services. We constantly monitor the changing business environment in order to maintain streamlined and efficient logistics operations.

In-house logistics infrastructure

Having our own logistics infrastructure helps to significantly reduce costs and increase the reliability of production activities.

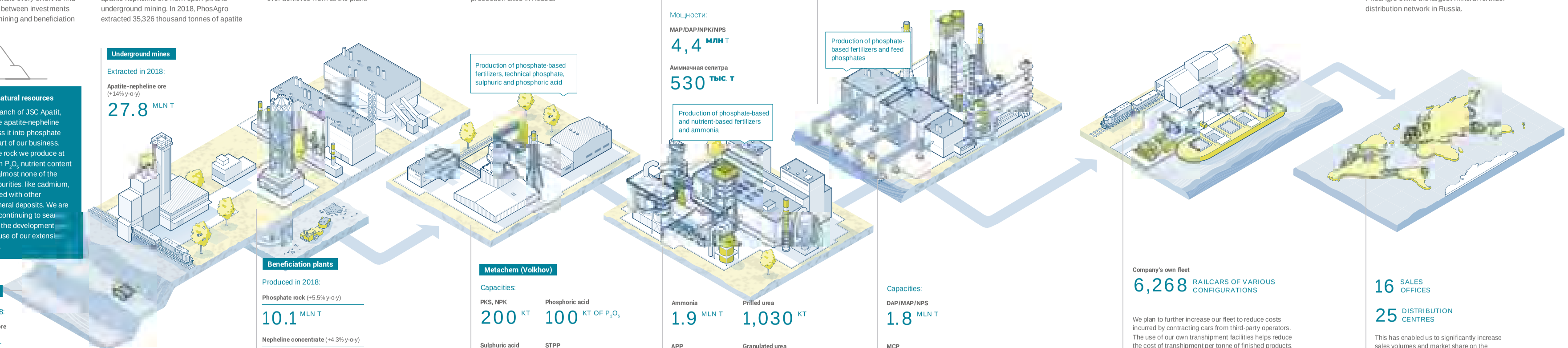
4 DISTRIBUTION AND SALES

Our distribution and sales operations serve farmers in all inhabited continents, providing our consumers with premium-quality phosphate-based products. In 2018, we shipped ca. 40% of downstream products' export volumes through our own port terminals.

The Company has continued to develop its sales network both in its priority market of Russia and abroad, aiming to be closer to our customers in priority markets.

Mineral fertilizer distribution network

PhosAgro owns the largest mineral fertilizer distribution network in Russia.



High-quality natural resources

The Kirovsk branch of JSC Apatit, where we mine apatite-nepheline ore and process it into phosphate rock, is the heart of our business. The phosphate rock we produce at Apatit is high in P_2O_5 nutrient content and contains almost none of the dangerous impurities, like cadmium, often associated with other phosphate mineral deposits. We are committed to continuing to search for options for the development and more rational use of our extensive resource base.

Open-pit mines

Extracted in 2018:

Apatite-nepheline ore (-6% y-o-y)
7.6 MLN T

Underground mines

Extracted in 2018:

Apatite-nepheline ore (+14% y-o-y)
27.8 MLN T

Beneficiation plants

Produced in 2018:

Phosphate rock (+5.5% y-o-y)
10.1 MLN T

Nepheline concentrate (+4.3% y-o-y)
986 KT

Metachem (Volkhov)

Capacities:

PKS, NPK
200 KT

Phosphoric acid
100 KT OF P_2O_5

Sulphuric acid
240 KT

STPP
105 KT

Мощности:

MAP/DAP/NPK/NPS
4,4 МЛН Т

Аммиачная селитра
530 ТЫС. Т

Ammonia
1.9 MLN T

Prilled urea
1,030 KT

APP
200 KT

Granulated urea
550 KT

Capacities:

DAP/MAP/NPS
1.8 MLN T

MCP
360 KT

Company's own fleet
6,268 RAILCARS OF VARIOUS CONFIGURATIONS

We plan to further increase our fleet to reduce costs incurred by contracting cars from third-party operators. The use of our own transhipment facilities helps reduce the cost of transhipment per tonne of finished products, which, among other things, allows us to increase our margins on export sales.

16 SALES OFFICES

25 DISTRIBUTION CENTRES

This has enabled us to significantly increase sales volumes and market share on the back of Russia's stellar agricultural sector performance.

02 STRATEGIC REPORT

FOCUS ON FURTHER GROWTH AND SUSTAINABILITY PRINCIPLES

NEW STRATEGY TO 2025 APPROVED BY BOARD OF DIRECTORS

CHAIRMAN'S STATEMENT

STRATEGIC PROJECTS PRODUCING RESULTS

I am pleased to report that 2018 marked the completion of PhosAgro's Strategy to 2020, which was announced in 2014, a full two years ahead of schedule. By achieving the strategic goals set out by the Board of Directors, PhosAgro has strengthened its low-cash-cost advantage, enhanced its natural hedge against market headwinds and become one of the most sustainably profitable companies in the industry. The financial and operating results we reported for FY 2018 are testimony to this.

Since the Board of Directors approved the Strategy to 2020 in 2014, PhosAgro has worked hard to gain direct access to priority export markets, improve vertical entegration, upgrade existing capacities and build new ones, and enhance our domestic market direct sales infrastructure. The results are impressive: fertilizer output has increased to 9.1 million tonnes, and our product portfolio has expanded from 19 to 39 grades of crop nutrients in order to better meet demand from farmers all over the world.

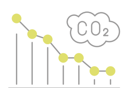
47%

EBITDA GROWTH COMPARED TO 2017

SUSTAINABILITY HIGHLIGHTS

Over RUB 1.5 billion invested in community support and charity programmes

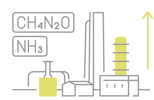
LTIFR decreased by **35% year-on-year to 0.22** (per 1 million hours)



Atmospheric emissions reduced by **6% year-on-year to 1.6 kg/t**

Over RUB 3.5 billion invested in environmental protection programmes

STRATEGY HIGHLIGHTS



New granulated urea and ammonia capacities contributed to significant, sustainable growth in PhosAgro's cash flows and EBITDA

Fertilizer production has risen **by 50% over last five years as a result** of investments in debottlenecking and modernisation of existing capacities, as well as new capacities

PhosAgro aims to invest around **50% of EBITDA into further expansion** and vertical integration in the years ahead

Expanding and strengthening the Board of Directors

As the Chairman of PhosAgro's Board of Directors, I am ultimately responsible for the quality and effectiveness of the Company's corporate governance system. All of the members of the Board of Directors share my commitment to ensuring that this key governance body acts in the interests of all of the Company's stakeholders and takes considered decisions.

In our ongoing efforts to further strengthen and improve the work of the Board of Directors, 2018 saw the number of independent directors increase to seven of the ten members after former LSE CEO Xavier Rolet joined the Board of Directors in May. I believe that the current Board makeup provides us with a diverse and highly qualified group of individuals, whose contributions have further enhanced our ability to provide PhosAgro with the strategic guidance and oversight it needs to continue its sustainable growth.

Fertilizers for future generations

Consumers and governments around the world are becoming increasingly aware of the quality and safety of our food supply. As this trend develops, we believe that PhosAgro stands to benefit, thanks to the unique quality of the phosphate raw materials that the Company uses to produce its fertilizers.

Unlike some of the world's largest producers, including several that supply the European market, PhosAgro's apatite-nepheline ore, which comes from igneous rock deposits, is virtually free of potentially harmful elements like cadmium and other heavy metals. While technologies exist to remove such hazardous materials from crop nutrients when they are manufactured, PhosAgro is one of a small number of producers whose fertilizers are naturally pure and free of these elements.

In order to support sustainable agriculture and protect the health of its population, the European Union took the important step of agreeing in 2018 to limit the amount of cadmium allowed in phosphate-based fertilizers. This is an important step in the right direction that, together with transparent and informative labelling for the fertilizers with the lowest levels of cadmium, will enable farmers and consumers to make more informed decisions about the food they grow and consume.

Preparing PhosAgro for the next stage of growth

With all of the key elements of PhosAgro's Strategy to 2020 already completed, the Board of Directors is now focused on finalising the next five-year plan for the Company. We have approached this process with the aim of further enhancing PhosAgro's low-cost advantage through modernisations and implementation of best available technologies across the Company. We believe that PhosAgro is one of the best-positioned companies in the world to continue growing its production capacities to supply high-quality and pure fetilizers to farmers all over the world, from our priority domestic market to priority export markets like Asia, Europe and Latin America.

At the same time, we will continue to prioritise safety and environmental protection as we plan PhosAgro's further development. The Company has spent over RUB 7 billion on environmental protection measures over the past five years and ca. RUB 2 billion on workplace health and safety. The results of these investments are just as impressive as our financial and production performance.

Once again, I want to thank every member of the PhosAgro team for their efficient and effective work on delivering on the strategic targets put before them by the Board of Directors. The Company's performance in 2018 has demonstrated that we chose the right strategic path and that the team has succeeded in delivering excellent results.

Sven Ombudstvedt
Chairman of the Board of Directors

CEO'S STATEMENT

DELIVERING SUSTAINABLE GROWTH IN OPERATING AND FINANCIAL RESULTS

> In 2018, PhosAgro and our stakeholders benefitted from our completion of all key goals under the Strategy to 2020 a full two years ahead of schedule. We delivered sustainable increases in both production and financial performance during the year and secured significant potential for continued growth.

The Strategy to 2020, first presented at our Capital Markets Day in 2014, focused on building new capacities, upgrades and debottlenecking at existing production sites, direct access to priority export markets and streamlining our corporate structure. Thanks to the commitment, hard work and discipline of our team, we are already able to see the results of the successful implementation of our strategy today.

We have unlocked value at every stage of our business, from mining to beneficiation to midstream and downstream production; in transport, logistics and sales, we have also delivered sustainable cost savings with new port and storage capacities, as well as foreign trading offices in South America, Europe and Asia.

As a result, PhosAgro reported fertilizer production of 9.0 million tonnes and achieved an industry-leading EBITDA margin of 32% for FY 2018.

We are pleased with these results, but we are also confident about the future: by implementing a comprehensive strategy to further secure our low cash-cost advantage, we are in an excellent position to continue growth while delivering value for all of our stakeholders. With the Strategy to 2020 already complete, the Board of Directors has approved PhosAgro's Strategy to 2025.

Investing in vertical integration and low cash-cost advantage

After finishing our major expansion projects under our Strategy to 2020, we continue to invest in our operations, from upgrades and expansions of our mining and beneficiation capacities to new, efficient feedstock production, as well as downstream and logistics. Even as we formulate our Strategy to 2025, the Company is seeking new ways to leverage its low-cost advantage, which starts with the uniquely high-quality and pure phosphate rock that we produce at Apatit, on to our cutting-edge production facilities, integrated logistics and port infrastructure, and sales offices in key priority markets.

PhosAgro stands out among Russian companies and its international peers, investing around 50% of its EBITDA annually into development projects, while maintaining investment-grade credit ratings, adhering to its dividend policy and implementing important social projects that address both local and global issues that are relevant to our stakeholders.

Taking on local and global sustainability issues

PhosAgro operates large-scale mining and chemical production facilities, is a major employer in Russia, including in single-industry towns like Apatity and Kirovsk, and is a global supplier of crop nutrients that are used in over 100 countries. We therefore play a significant role in supporting and creating value for a wide range of stakeholders. In the cities where we operate industrial facilities, we fulfil a wide range of obligations, ranging from ensuring the environmental impact of our operations is kept to a minimum to investing in sport, education, healthcare and even economic diversification for one-industry towns.

At a global level, we are also taking on issues relevant to our industry and key stakeholders. The Green Chemistry for Life project that we sponsor together with UNESCO and IUPAC aims to support talented young scientists engaged in applied research on projects that use green chemistry principles to improve our world. This programme was renewed in January 2019 after the completion of the first five years. We also agreed with the UN's Food and Agriculture Organization in 2018 to support a global programme to increase farmers' access to soil testing kits and laboratories in order to promote better understanding of the proper application of crop nutrients.

We worked hard in 2018 to promote PhosAgro's business reputation and image as a socially responsible company both in Russia and abroad. By joining the UN Global Compact, we took on a commitment to adhere to the Compact's 10 principles in the areas of human rights, labour, the environment and the fight against corruption. In doing so, we once again demonstrated our commitment to the 17 UN Sustainable Development Goals to 2030, the key driving force in terms of environmental accountability and preserving the planet for future generations.

Financial and operating performance

Having completed our last capex cycle, 2018 was the first full year in which our new ammonia and granulated urea lines were fully functional. The additional volumes made possible by these capacities, as well as upgrades to existing lines, enabled us to achieve year-on-year increases in fertilizer production and sales by 7.6% and 9% to 9 million tonnes and 8.8 million tonnes, respectively.

Higher production levels, which leveraged our low cash-cost advantage, helped PhosAgro achieve sustainable growth in revenue, cash flows and EBITDA. On the back of strengthening market prices, and with operating cash flow of RUB 59.7 billion for the full year, we were able to continue to invest in new capacities while paying out dividends that exceed our dividend policy.

Outlook

PhosAgro will continue to invest in enhancing its vertical integration, including in key feedstocks, and in strengthening its position as one of the world's lowest cash-cost producers of phosphate-based fertilizers. Together with increasing concern for sustainable agricultural practices and human health, we are optimistic about the outlook for PhosAgro. Our fertilizers, which are naturally pure and free of potentially harmful heavy metals, are a key factor not only in producing premium foods but also in ensuring that the crop nutrients used around the world contribute to long-term food security.

Once again this year, I want to thank all of our stakeholders, including our employees and contractors who helped PhosAgro to successfully complete its investment cycles and deliver the results we expected at the beginning of the process. Likewise, I would like to thank our shareholders, customers and all those who have contributed to our success.

Andrey A. Guryev
Chief Executive Officer and Chairman of the Management Board

2018 HIGHLIGHTS

9%
FERTILIZER SALES GROWTH

32%
STRONG EBITDA MARGIN

21 BLN RUB
HISTORICALLY HIGH FCF

7.3%
GENEROUS DIVIDEND YIELD

OVERVIEW OF THE FERTILIZER MARKET

NUTIRIENT DEMAND DRIVERS

THE GLOBAL ECONOMY

3 % Y-O-Y

ESTIMATED GLOBAL GDP GROWTH

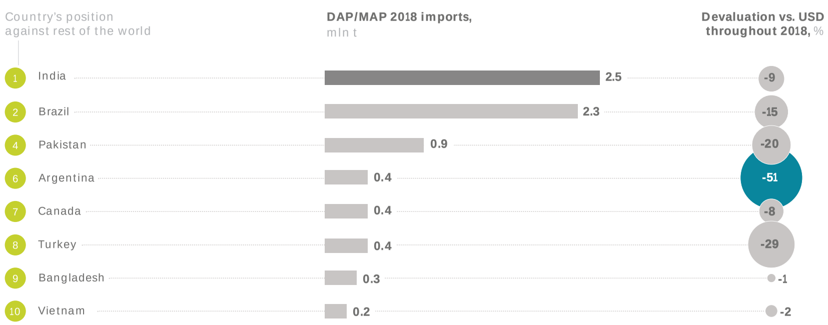
TRADE BARRIERS, THE PERSISTENT STRENGTH OF THE DOLLAR, GROWING GEOPOLITICAL TENSIONS AND VOLATILE OIL PRICES HAVE DAMPENED EXPECTATIONS OF GLOBAL GDP GROWTH

Following on from a robust 2017, global economic growth continued through much of 2018 before fading towards the end of the year. As recently as October 2018, the International Monetary Fund forecast global GDP growth of around 3.7% year-on-year. By December, however, estimates were closer to 3.0% year-on-year. Trade barriers, the persistent strength of the dollar, growing geopolitical tension, and volatile oil prices have all played a role.

One of the key areas of concern throughout 2018 was the escalation of trade barriers. This kicked off when the Trump administration imposed tariffs on imports of steel and aluminium from the EU, Canada, Mexico, and China in March. It subsequently grew when retaliatory measures were introduced on the United States by China, including a 25% tariff on US soy (more on this below), and a second round of US tariffs on Chinese product. Although both countries agreed to temporarily suspend further tariffs, their impact was felt across different sectors of the economy. This includes forex, where most currencies lost ground to the US dollar (which tends to be viewed as a safe-haven currency), prompting tighter policy measures.

Increased geopolitical tensions and oil price volatility also played a role. Sanctions were reimposed on Iran in early November, and although this initially helped to drive oil prices higher — Brent reached a high of USD 86/bbl — the subsequent introduction of waivers and increased production elsewhere (Saudi Arabia and Russia) saw prices fall below USD 60/bbl in December. At the same time, equities came under pressure with stock markets losing ground through much of December.

Performance of selected currencies of major phosphate importers



Source: CRU, IMF, Turkish Central Bank, fx-rate

AGRICULUTRAL MARKETS

25 %

TARIFF ON SOYA IMPORTED BY CHINA FROM USA

54.2 MLN T

ESTIMATED SOYA PRODUCTION IN ARGENTINA

1.1 BLN T

EXPECTED RECOVERY OF CEREAL PRODUCTION IN LATIN AMERICA IN 2019

Both grain and oilseed markets were subject to various externalities throughout 2018, many of which are set to drag on into 2019.

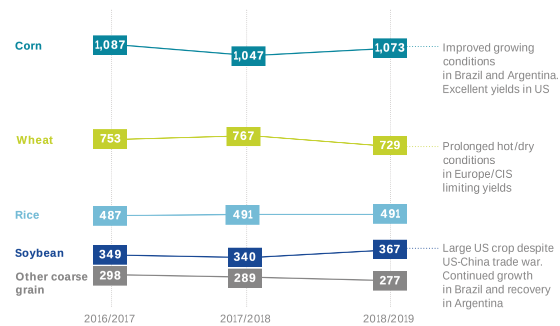
Whereas the year started on a positive note, with Argentina committing to reduce soybean tariffs by 0.5%/month during the year, sentiment soon soured as the United States and China became embroiled in a trade war. China is today the world's largest importer of soya, accounting for two thirds of global trade. In July, it introduced a 25% tariff on soya imports from the United States, the world's largest producer and its main trading partner. While trade between the two countries continued throughout 2018, volumes have moderated, and China has been forced to source more product elsewhere (in particular, Brazil).

Meanwhile, Argentine soya output suffered throughout 2018. The IGC estimates that production was down by as much as a third due to the poor growing conditions in the beginning of the year. Moreover, the country's tariff position had to be reassessed in September due to a lack of government revenues and the associated loss of confidence in the peso. Subsequently, the government reinstated tariffs on soya (and grains). While this may, at first glance, appear negative for the 2018/19 crop, the fact that Argentina exports most of its agricultural output and incurs much of its cost on a peso basis means that farming margins may well improve year-on-year, boosting prospects for the 2018/19 crop. At the time of writing, the IGC estimated production to recover to 54.2 million tonnes.

Cereal production also suffered in 2017/18, largely as result of lower corn output (estimated between 3-5% lower year-on-year by the IGC, USDA, and FAO/AMIS). This is linked to lower acreage in the United States, persistently hot and dry conditions through the Safrinha in Brazil, and untimely rain that had a negative impact on yields in the south cone of Latin America. However, a recovery to 1,073.4 million tonnes is expected for the 2018/19 crop. Better production is expected year-on-year in Brazil and Argentina due to good rainfall and beneficial field conditions, Ukraine (despite a dry start to the season) and China. Although US production is estimated flat year-on-year for 2018/19, this is on less acreage, implying exceptional yields.

In contrast, wheat output peaked in 2017/18 on the back of bumper yields in the EU, Russia, China, and India. The trend for 2018/19 is less encouraging though, with production estimated 4–5% lower year-on-year. Yields in Europe and Russia are both sharply down due to persistent heat and dryness through much of summer. Elsewhere, contractions are also expected in Australia and China.

Global agricultural production, mln t



Source: IGC

OVERVIEW OF THE FERTILIZER MARKET
continued

HIGH-LEVEL NUTRIENT DEMAND REVIEW

1.3 % Y-O-Y

NUTRIENT DEMAND GROWTH

The implications of the above on fertilizer demand have been estimated by the International Fertilizer Industry Association (IFA).

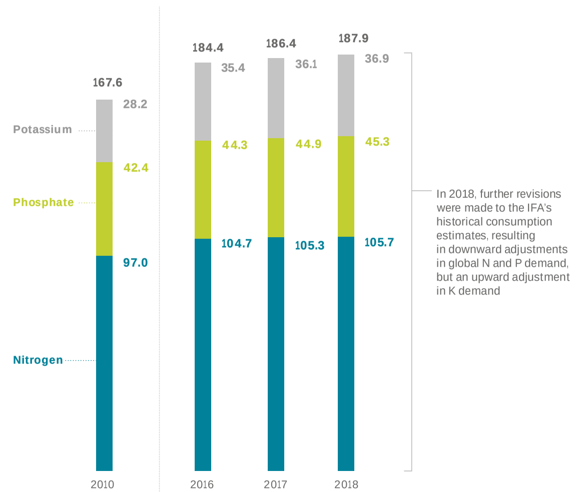
The preliminary estimate of nitrogen (N), phosphate (P) and potassium (K) fertilizer demand stands at 186.9 million tonnes of nutrient for the 2017/18 season. This represents growth of 1.3% year-on-year, which is in line with recent trends. Changes to policy led to greater consumption in India (where the introduction of a soil health card helped to promote more balanced application) and Nigeria (where a presidential initiative boosted fertilizer usage) but a reduction in China (environmental focus). Meanwhile, relative changes to FX and an expansion of area also had an impact (e.g. Ukraine, Brazil, Canada, etc.). Nutrient use again increased across the board, with N demand up 0.8% year-on-year, P demand 2.0% higher year-on-year and K demand 1.7% higher.

Moving to 2018/19, demand for N, P and K is estimated at 188.3 million tonnes of nutrient. This represents more modest growth of 0.7% year-on-year due to macroeconomic weakness, the impact of tariffs and poor weather conditions. For a second year running, Africa is set to enjoy the strongest growth (3.9% year-on-year), as efforts to improve fertilizing habits across the continent continue to intensify. In Latin America, demand in Argentina and Brazil has been driven by improved farming profitability (due to the strength of the US dollar) and China's shift away from US soybean (US-China trade war).

Whereas European demand is set to recover (with the anticipated strengthening of the euro and improved weather conditions), Asian consumption is set to remain flat year-on-year. Nutrient use growth is estimated at 0.3%, 0.8% and 1.8% for N, P and K, respectively.

The aforementioned estimates were converted to calendar year estimates by the IFA. N, P and K demand was assessed at 186.3 million and 187.9 million tonnes of nutrient in 2017 and 2018, respectively. In this instance, N demand is estimated up 0.4% year-on-year and K 2.2% higher. P use was 1.0% higher at 45.3 million tonnes of nutrient.[1] The IFA assessed demand for non-fertilizer uses at 61 million tonnes in 2018.

N, P and K fertilizer demand developments, mln t



Source: IFA

HIGH-LEVEL NUTRIENT SUPPLY REVIEW

Preliminary IFA estimates reflect a 1.2% year-on-year increase in global N, P and K production in 2018 – for both fertilizer and non-fertilizer use – at 251 million tonnes of nutrient. Fertilizer sales accounted for 75% of global N, P and K output, similar to the previous year.

Looking at the different nutrients, there was a net 1.6% increase in global urea production in 2018, bringing the total to 188 million tonnes. Even so, new capacities continued to be commissioned throughout the year, driving the total up to 214 million tonnes.

Ammoniated phosphate (DAP/MAP) production in 2018 declined 3% year-on-year to 59.7 million tonnes of product, according to CRU. New capacity in Saudi Arabia and Morocco failed to offset declining output driven by industry consolidation in the United States and China, particularly for MAP, in the former to capture higher margins for premium products. Indian DAP production also faltered due to high phosphoric acid prices and the substitution effect from NPK grades with lower P_2O_5 content.

Potash markets enjoyed another record year in 2018, with global production estimated at 67.0 million tonnes by CRU.

188 MLN T
GLOBAL UREA PRODUCTION IN 2018

59.7 MLN T
DAP/MAP PRODUCTION IN 2018

67 MLN T
GLOBAL POTASH PRODUCTION IN 2018

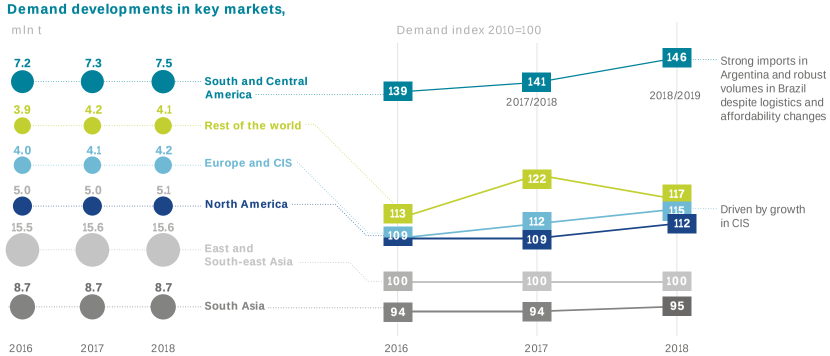
[1] This represents a considerable change compared to previous estimates, with nitrogen use being revised lower and phosphate higher for China during the period 2010–2015.

OVERVIEW OF THE FERTILIZER MARKET
continued

NUTIRIENT DEMAND DRIVERS

FOCUS ON PHOSPHATE FERTILIZER MARKETS IN 2018

Demand developments in key markets,
mln t



Source: IFA

The IFA's preliminary assessment shows that phosphate fertilizer demand stood at 45.2 million tonnes of P_2O_5 in 2018, registering 1.0% growth year-on-year, following the 1.2% growth recorded in 2017.

Whereas European phosphate deliveries were robust in early 2018, demand ground to a halt in the latter part of the year. This corresponded with a sharp increase in ammoniated phosphate pricing, a weak euro, and a prolonged period of heat/dryness through the summer months that severely impacted harvests and transportation (i.e. through the Danube and Rhine rivers). Germany was among those affected, with the IFA assessing its demand 2.5% lower year-on-year, as it was also impacted by regulation limiting nutrient surpluses.

In Latin America, Brazilian deliveries were impacted by transportation and affordability issues in 2018. The truck drivers' strike in late May/June temporarily paralysed the inland transportation network. With around 90% of the country's fertilizer deliveries made by truck, the strike action saw coastal warehouses quickly filled, delaying imports and raising the cost for the final customer. In H2, affordability again became problematic, as MAP prices moved out of step with crop prices (see the barter ratio diagram on the next page). This slowed deliveries through Q4, as end-user demand withdrew.

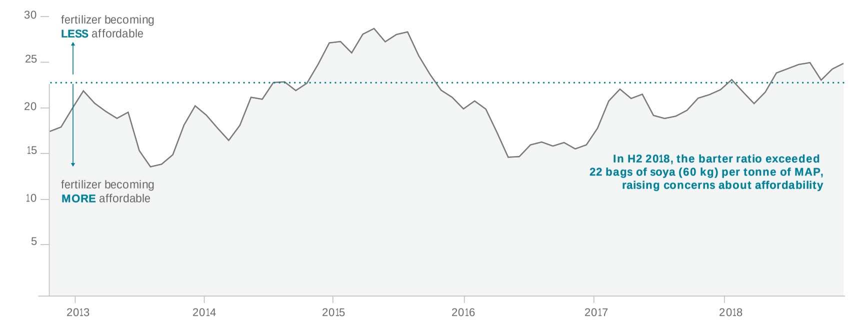
Argentina also had a challenging 2018, with drought conditions followed by an economic crisis and the subsequent reintroduction of crop export tariffs.

Phosphate demand was assessed as stable in the United States during 2018 but higher in Canada due to the expansion of wheat area and also higher application rates. The growth in Canada is in line with long-term trends, with the country boasting one of the more robust growth rates in recent decades.

Elsewhere, Indian phosphate demand is estimated marginally higher year-on-year by the IFA at 6.9 million tonnes of P_2O_5 despite a 10% deficit of rainfall through the monsoon season compared with long-term averages. Good reservoir levels along with an increase of minimum support prices in October on all rabi crops (including wheat, barley and rapeseed) helped to support fertilizer sales during H2. Notably, a much larger amount of DAP was imported during 2018 (6.2 million tonnes) relative to 2017 (4.1 million tonnes) due to the high cost of production using imported phosphoric acid. Much of this stemmed from China (2.9 million tonnes) and Saudi Arabia (2.0 million tonnes).

Africa has enjoyed some strong growth in recent years. The IFA has assessed its consumption a further 5.6% higher in 2018, following the 13.1% growth recorded for 2017, as efforts to improve product accessibility and technical support/expertise continue to gain traction. In Sub-Saharan Africa, welcome rains in the Cape (South Africa) helped to ease the impact of drought, but this was offset by fears of an El Niño event impacting the south-east of the continent in 2018/19.

Brazilian barter ratio,
60 kg bags of soya/tonne of MAP

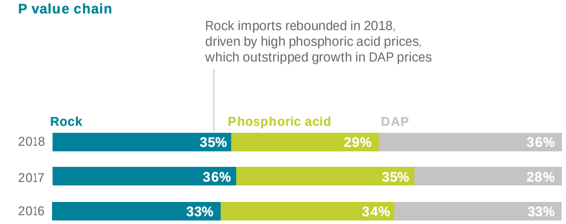


Source: Agrolink, Fertilizer Week

On the supply side of the phosphate industry, CRU estimated a (prorated) 2% year-on-year increase in global phosphoric acid capacity at 59.8 million tonnes of nutrient in 2018. New integrated projects concentrated in Saudi Arabia and Morocco accounted for almost all of this growth in phosphoric acid capacity, which offset the idling of 1.0 million tonnes of nutrient supply in the United States.

In addition to reduced output from the United States, new integrated phosphoric acid capacity ramped up slower than expected, and global production declined by 1% year-on-year to an estimated 44.4 million tonnes of nutrient in 2018. This resulted mainly from accelerated phosphoric acid price growth relative to downstream products. High raw material costs also resulted in lower domestic phosphoric acid production from India, which DAP and NPK imports replaced. Furthermore, where possible, non-integrated phosphate fertilizer producers, located mostly across India, moved away from high P_2O_5 concentrates to lower-analysis NPK formulations, further reducing phosphoric acid requirements.

Indian imports across the P value chain

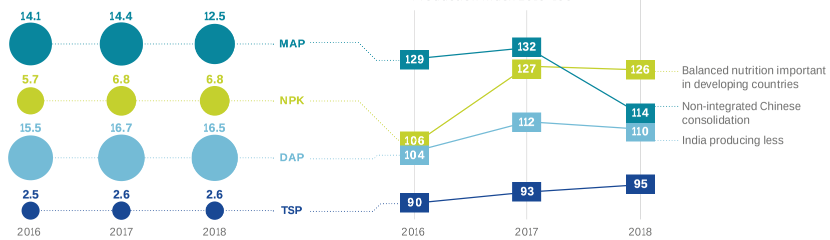


Source: CRU, IFA.

OVERVIEW OF THE FERTILIZER MARKET
continued

PHOSPHATE FERTILIZER MARKETS IN 2018

Global DAP, MAP, TSP and NPK production index



Source: CRU, Fertecon, IFA; Note: indices based on nutrient content – NPK formulation calculated based on 15% P_2O_5 assumption.

China benefited largely from the changing P_2O_5 trade flows to India. Robust DAP export demand — driven by high phosphoric acid prices — despite domestic consolidation supported marginal year-on-year growth in Chinese phosphoric acid production. China remains the largest phosphoric acid producer globally, with 15.9 million tonnes of nutrient production in 2018.

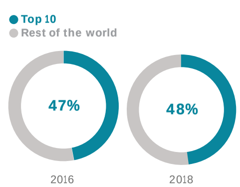
According to preliminary data from CRU, the ammoniated phosphates (DAP/MAP) market decreased 3% year-on-year to 59.7 million tonnes of product in 2018. Combined, DAP/MAP production fell by 1.5 million tonnes compared to the previous year.

Outside of China, DAP/MAP production fell marginally year-on-year to around 34.8 million tonnes. Both Saudi Arabia and Morocco notably lifted output following the commissioning of new capacity. However, the aforementioned reduced production from India and lower output from the United States resulted in lower DAP output. Notably, MAP production outside of China maintained its growth trajectory, owing in part to robust import demand in the United States, where capacity closed and where NP+S production is increasingly prevalent at the expense of DAP/MAP production.

36%

CHINA'S SHARE OF GLOBAL PHOSPHATE-BASED FERTILIZER PRODUCTION

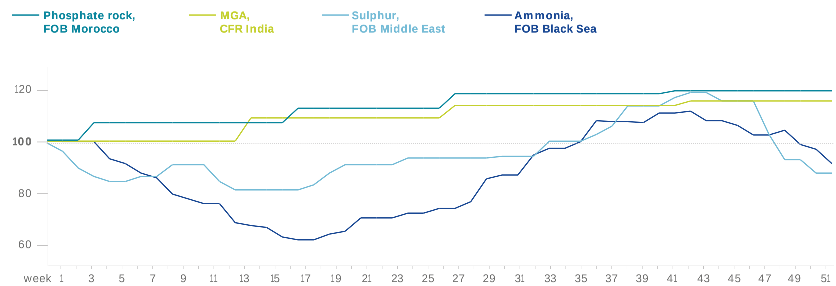
Phosphoric acid capacity by largest producer, mln t P_2O_5



In 2018, the top 10 producers (by capacity) accounted for 48% of the global total. The start-up of new operations and M&A saw OCP and Mosaic consolidate their positions as the industry's largest producers. Meanwhile, Nutrient claimed fifth spot following the merger between Agrium and Potash Corp.

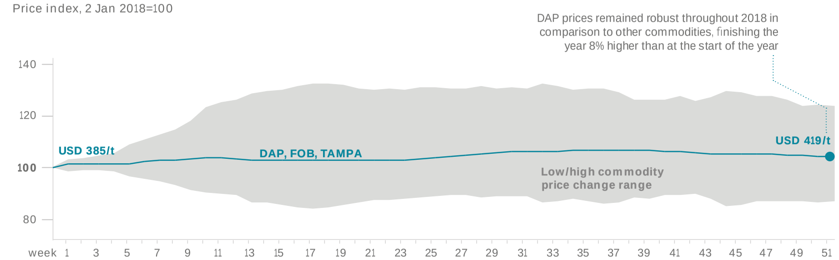
KEY PRICE DEVELOPMENTS DURING 2018

DAP's key price driver developments in 2018,
Price index, week 1 of 2018=100



Source: Fertilizer Week

DAP versus other commodities in 2018,
Price index, 2 Jan 2018=100



Source: CRU, Fertilizer Week

Note: First price point taken by Fertilizer Week in 2018 was 4 January, so the starting point refers to the last recorded price in 2017.

DAP prices peaked for a second straight year in September at USD 439/tonne on a FOB Tampa basis, recording a USD 46/tonne increase from the end of 2017. In contrast to 2017, when prices were boosted by tight raw materials markets, the upward trend in 2018 was driven by robust demand and tighter than expected supply.

OVERVIEW OF THE FERTILIZER MARKET
continued

PHOSPHATE ROCK MARKET REVIEW

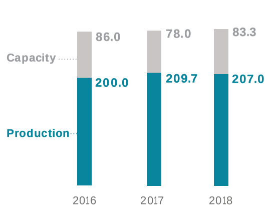
207 MLN T

GLOBAL PHOSPHATE ROCK PRODUCTION IN 2018

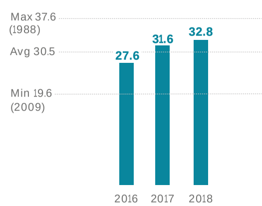
Marketable phosphate rock production totalled an estimated 207 million tonnes in 2018, derived from 38 countries, 15 of which supplied over 2.0 million tonnes. Following the largest merchant sales of this century in 2017, internationally traded phosphate rock volumes increased further to an estimated 32.8 million tonnes in 2018, stemming largely from improved rock demand in Mexico and for direct application in Indonesia. Most of the additional volumes originated from Peru, where production recovered from a force majeure situation in 2017, and Syria, which re-entered the market following a two-year hiatus. Mexico imported much more rock, exclusively from Morocco, helping to maintain exports from the latter above 11.0 million tonnes for the second consecutive year.

PHOSPHATE ROCK MARKET DEVELOPMENTS IN 2018

Global phosphate rock capacity and production, mln t



Global phosphate rock trade, mln t



Source: CRU, IFA.

OTHER FERTILIZERS

AMMONIA

The recovery in the ammonia market has been less pronounced than in the urea market. Ammonia's supply/demand fundamentals remained weak, and the addition of 1.4 million tonnes of new capacity in the USA and Indonesia kept the market somewhat oversupplied. However, high energy prices pushed up average prices for the year by USD 20/tonne over 2017 values at FOB Yuzhnyy and FOB Middle East.

Rising prices in the oil and seaborne LNG markets put upward pressure on Europe's gas markets throughout the year, pushing prices up from an average of USD 5.75/MMBtu in 2017 to almost USD 8.00/MMBtu in 2018. This level of pricing forced Ukraine to cease exporting ammonia and even some of the EU's nitrate producers to cease ammonia production and switch to upgrading imported merchant ammonia. This helped to offset the fall in US ammonia imports that resulted from the ongoing expansion of US ammonia production.

The US reduced ammonia imports by around 0.9–1.0 million tonnes in 2018, with the full, stable operation of the Dyno Nobel plant in Louisiana and the opening of the newly completed Yara/BASF plant in Texas. This ongoing reduction in ammonia imports from around 5.2 million tonnes in 2015 to 2.8 million tonnes in 2018 is forcing the US's main import supplier, Trinidad, to look further afield to Morocco and the Asia-Pacific region for new export opportunities, thus lowering Caribbean prices and increasingly challenging Black Sea exporters for business.

China's regulation-triggered capacity rationalisation is increasing the country's ammonia import requirement, which almost reached 1.0 million tonnes in 2018. Meanwhile, in Asia, higher oil prices helped drive a recovery in downstream petrochemical prices (including acrylonitrile and nylon), significantly boosting industrial ammonia demand from South Korea, Japan and Taiwan. At the same time, the ramp-up of an explosives plant in Western Australia constrained export availability from Australia.

POTASH

23%

GROWTH OF PRICES FOR POTASH IN BRAZIL

Global MOP deliveries in 2018 were estimated marginally higher year-on-year by CRU at around 67 million tonnes. Like in 2016 and 2017, Indian and Chinese MOP contract negotiations dragged on, this time through to the end of Q3 2018. Delayed contractual agreements, for China particularly, resulted from inventory carry-over from high contract volumes the previous year and increasing global spot prices, while domestic producers raised production and further unwound stocks. Brazilian spot prices reached a three-year high in nominal terms, increasing by nearly 23% from the beginning of the year to reach USD 353/tonne by the end of 2018 on a CFR basis.

Demand in Brazil remained robust, and soybean in particular benefited from the United States-China trade war, although it has so far had a limited impact on US MOP demand. Despite continued voluntary idling of established capacity in Canada, K+S Canada ramped up new export-oriented supply and benefited most from the contract delays in China. Combined, the country's producers reached record high output of 21 million tonnes. Slowing demand growth across South-east Asia towards the end of the year, reflecting a 10-year low in Malaysian palm oil prices, dry summer weather conditions in Europe and muted supply from new capacity in Russia and Turkmenistan helped balance the market.

UREA

50%

DECREASE IN UREA EXPORTS FROM CHINA

The global urea market is now two years into its recovery phase. Tighter market conditions in 2018 allowed the recovery to gain pace, with the Middle Eastern FOB benchmarks breaking USD 300/tonne for the first time since 2015. On average, the main FOB Middle East benchmark increased by USD 45/tonne last year and, factoring in the improvement in 2017, annual average prices are now USD 70/tonne above 2016 levels.

The rally in prices was driven mostly by the ongoing rationalisation of China's huge domestic urea industry. The strict enforcement of environmental regulations is significantly restricting Chinese operating rates and in doing so is reducing China's export availability. Full-year exports from China more than halved in 2018, falling from 4.6 million tonnes to 2.1 million tonnes.

China was not the only country to rationalise urea production. Kuwait's Petrochemical Industries closed its 1.1 million tonnes/year urea plant at Shuaiba, and Petrobras is in the process of closing two loss-making plants in Brazil with a combined capacity of 1.1 million tonnes/year. Together with the reduction of Chinese exports, these closures helped to offset the 3.0 million tonnes of new capacity that started production, including new plants in Azerbaijan, Turkmenistan, Malaysia and the USA.

The demand narrative was also positive in 2018. Consumption increased in India, the USA and Brazil, more than offsetting consumption declines in China and Turkey. India in particular was a major driver of pricing in H2 2018, with decent growing conditions driving an increase in tender activity. Limited Chinese availability and increased urea purchases from India and Brazil pushed the average H2 2018 Middle East benchmark to just over USD 300/tonne.

Energy markets also played a role in driving up prices. Tight oil and LNG markets pushed EU gas prices up to USD 10/MMBtu in Q3 2018, raising Europe's marginal cost of production and driving Ukrainian exporters out of the traded market. Ukrainian urea exports were reduced by around 1.0 million tonnes to just 450,000 tonnes in 2018.

The urea market faced headwinds as the year ended, triggering a sharp downwards adjustment. A collapse in the energy markets forced EU gas prices down to USD 7.00/MMBtu, lowering producer costs at the margin. Meanwhile, currency and credit crises in Turkey and dry weather conditions in Germany and France reduced Mediterranean buying significantly.

As the market moved into the new year, however, it found stability at USD 285/tonne. And with India coming back to the market for yet another tender and Chinese availability looking severely limited, sentiment remains positive for urea.

STRATEGY

GOALS OF THE STRATEGY TO 2020

PHOSAGRO INTRODUCED ITS STRATEGY TO 2020 IN 2015 AND UPDATED ITS GOALS IN 2017. IN ADDITION TO PROVIDING AN OVERVIEW OF THE LAST 12 MONTHS, WE WOULD ALSO LIKE TO PROVIDE MORE DETAILS ABOUT THE COMPANY'S CURRENT CONDITION

Some of our key strategic achievements include:

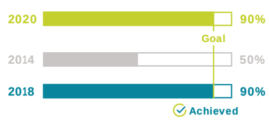
- Strengthened the Company's sustainable low cash-cost position by modernising existing facilities, enhancing vertical integration, optimising logistics and streamlining the corporate structure.
- Increased fertilizer production by 53% over five years to 9.0 million tonnes for FY 2018.
- Achieved the highest level of phosphate rock production in 25 years at Kirovsk branch of JSC Apatit.
- Expanded our product portfolio from 19 to 39 grades of fertilizers.
- Achieved a an industry-leading EBITDA margin of 32% for FY 2018.
- Delivered a record high cash flow of RUB 21.3 billion for FY 2018.
- Paid out 90 RUB billion in dividends for 2014–2018.

1 DIRECT ACCESS TO PRIORITY MARKET

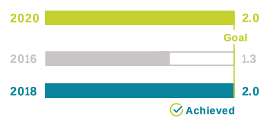
We have built an end-to-end distribution chain that captures value all the way to regional distributors and customers

Achieved

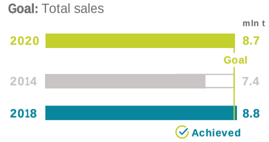
Goal: Increase share of direct sales in all PhosAgro sales



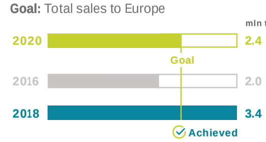
Goal: Growth in total sales to Latin America



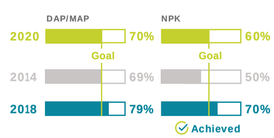
Goal: Total sales



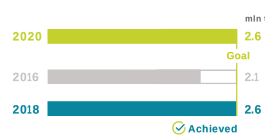
Goal: Total sales to Europe

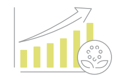


Goal: Domestic market share



Goal: Total sales to Russia





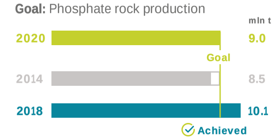
2 PRODUCTION CAPACITY GROWTH AND ENHANCED SELF-SUFFICIENCY

Upgrading mid-stream capacities, we were able to expand downstream output and become less vulnerable to feedstock price inflation

Achieved

Goal: Launch new 500 ths tonnes/year granulated urea line in 2017

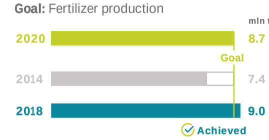
Goal: Phosphate rock production



Goal: Modernisation of Benefication Plant No 3

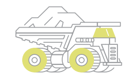
Goal: Increase PhosAgro self-sufficiency in ammonia to 100% at JSC Apatit in 2020

Goal: Fertilizer production



On track

Goal: Increase PhosAgro self-sufficiency in ammonium sulphate to 100% at JSC Apatit in 2020

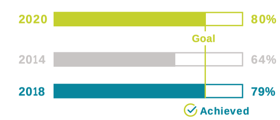


3 INCREASING OPERATING EFFICIENCY

The key to our competitive advantage and ability to provide pure nutrients is maintaining low production costs

Achieved

Goal: Reduce mining cash cost by increasing share of underground mining up to 80%

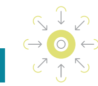


Goal: Capex/EBITDA target ratio of 50%

Achieved

Goal: One of the lowest cash costs in the industry

Achieved



4 CONSOLIDATION

Merging our production subsidiaries into a single entity gives us greater control over the assets and the ability to deliver the greatest value to our shareholders.

On track

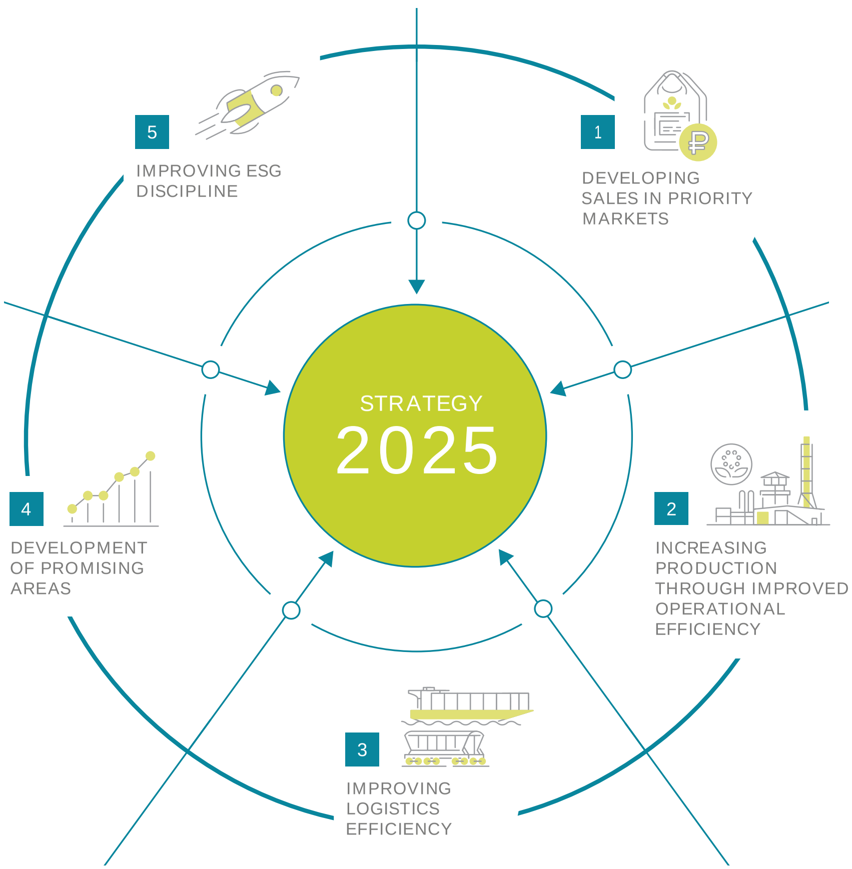
Goal: Merge all of our production facilities into a single legal entity

UNDER OUR STRATEGY TO 2020, WE INVESTED USD 500 MILLION ANNUALLY, OR ON AVERAGE 50–60% OF EBITDA FOR THE SAME PERIOD. WHILE ACHIEVING ALL KEY STRATEGIC MILESTONES, WE MAINTAINED A COMFORTABLE LEVERAGE RATIO WHILE PAYING OUT DIVIDENDS IN LINE WITH THE DIVIDEND POLICY

STRATEGY
continued

STRATEGY TO 2025

In 2018, PhosAgro completed all key milestones in its Strategy to 2020. The Management Board and the Board of Directors adopted a new Strategy to 2025 in March 2019.



THE STRATEGY TO 2025 AIMS TO FURTHER EXPAND PHOSAGRO'S PRESENCE IN ITS PRIORITY DOMESTIC AND PREMIUM EXPORT MARKETS WHILE STRENGTHENING ITS POSITION AS A PRODUCER OF PURE PHOSPHATE-BASED FERTILIZERS WITH LOW LEVELS OF POTENTIALLY HARMFUL HEAVY METALS AND ONE OF THE LOWEST CASH COSTS OF PRODUCTION

Developing sales in priority markets
The Company will continue to develop its own distribution network both in Russia and in export markets.

Starting from 2020, the Company plans to implement end-to-end digitalisation of logistics and to introduce elements of precision farming technology, which will enable Russian farmers to achieve an even greater impact from the use of plant mineral nutrition systems.

PhosAgro will continue to expand its presence in the premium markets of Europe and Latin America, as well as other markets where the Company can achieve the best netback prices, while also increasing customer awareness about the safety of the phosphate-based fertilizers produced by PhosAgro.

Increasing production through improved operational efficiency
As part of its Strategy to 2025, the Company will focus on work in three priority areas: expanding capacity, improving operational efficiency and increasing self-sufficiency in key inputs.

As part of a programme to modernise existing and build new production capacities using BATs, as well as innovative and digital solutions, PhosAgro plans to increase the production of high-quality fertilizers and feed phosphates that stand out for their naturally low levels of potentially harmful heavy metals from 9 million tonnes in 2018 to 11.5 million tonnes by 2025.

The number of fertilizer grades produced by PhosAgro is due to increase from 39 in 2018 to 50, including new high-performance grades with bio-additives.

PhosAgro already passed the peak of its investment cycle with the completion of its key capital-intensive project under its Strategy to 2020, i.e., the construction of high-tech ammonia and granulated urea facilities. The total investment in these facilities amounted to RUB 65 billion. These projects now generate a stable cash flow, allowing for a balanced payment of decent dividends, as well as implementation of investment, social and charitable programmes.

Improving logistics efficiency
Having a logistics system and sales infrastructure in place in priority markets will enable the Company to continue creating value throughout the entire supply chain all the way to end customers. To achieve this, the Company will focus on expanding the capacity of its own railway and port infrastructure, as well as increasing and upgrading its fleet of railcars, including through the use of new rolling stock management tools to reduce transport costs.

Development of promising areas
We are continuously searching for ways to expand and enhance our business in new directions with new technologies. This includes continued work by our in-house R&D team at the NIUIF, which is working on new grades of fertilizers and crop nutrients with bio-additives. PhosAgro is also considering potential additional new capacities, including further expansion of its ammonia production, purified phosphoric acid, water-soluble fertilizers and nepheline concentrate. These projects will be reviewed by the Board of Directors on the basis of their ability to create value for PhosAgro shareholders and other stakeholders, while also adhering to the Company's dividend policy and maintaining its solid financial position.

Improving ESG discipline
PhosAgro has already created significant value for shareholders and other stakeholders through successful investments in sustainable increases in efficiency and production capacity, while also maintaining a solid financial position, paying out competitive dividends and undertaking a wide range of social and environmental projects. We have also achieved significant progress in governance and transparency, thanks in large part to an optimal corporate structure and an expanded Board of Directors with a majority of independent directors.

The Strategy to 2025 that the Board of Directors approved aims to further strengthen PhosAgro's position as a producer of environmentally safe phosphate fertilizers with among the lowest costs in the industry, while continuing to expand production capacities and ensure the long-term sustainability of our operations globally. The Board of Directors have full confidence that this is a strategy that will prepare PhosAgro for the future, and that it will create significant, sustainable value for the Company's shareholders as well as other stakeholders, from employees to the farmers that use our crop nutrients on their fields.

03 BUSINESS REVIEW

A YEAR OF INDUSTRY-LEADING PERFORMANCE

51% CAPEX TO EBITDA RATIO

OPERATIONAL REVIEW

Mikhail Rybnikov
First Deputy CEO of PhosAgro

> Looking back at 2018, PhosAgro saw the positive impact of the successful implementation of its major investment projects under its Strategy to 2020. Our new ammonia and granulated urea lines, combined with further debottlenecking and modernisation of existing capacities, helped PhosAgro to deliver yet another year of growth in fertilizer output, which rose by 7.6% year-on-year to 9 million tonnes.

8,975 KT
fertilizer produced in 2018

Fertilizer production,
kt

	kt
2018	8,975
2017	8,338
2016	7,399
2015	6,750
2014	5,998

7.6 %
INCREASE IN FERTILIZER PRODUCTION IN 2018 COMPARED TO 2017

39 GRADES
OF CROP NUTRIENTS PRODUCED BY PHOSAGRO

50 %
INCREASE IN FERTILIZER OUTPUT CAPACITY SINCE 2014

This represents an impressive 50% increase in our fertilizer output capacity compared to the 6.0 million tonnes produced in 2014. Moreover, we have significantly improved our ability to address demand from farmers growing a wide variety of crops in different soil and climatic conditions thanks to the 39 grades of crop nutrients that our facilities now produce.

We were able to achieve these impressive results thanks to the world-class assets that form the core of PhosAgro's business. At Apatit we mine apatite-nepheline ore that is unique for its high nutrient content and extremely low levels of potentially harmful heavy metals like cadmium. Thanks to investments in the efficiency of our upstream operations, we were able to deliver sustainable cost savings on mining and processing, and our vertical integration means that PhosAgro's downstream production facilities can efficiently produce fertilizers that are naturally free of heavy metals and other contaminants.

Looking ahead, we plan to continue to invest in further strengthening our low cash-cost position by investing in further debottlenecking and efficiency in our existing business. At the same time, we are building new mid-stream capacities that will improve PhosAgro's self-sufficiency in key inputs with modern and efficient production units for sulphuric and nitric acid. This in turn will enable us to continue to ramp up production of our fertilizer end products, offering shareholders further sustainable growth in cash flows and profitability, and farmers around the world greater access to our pure and high-quality crop nutrients.

OPERATIONAL REVIEW
continued

PHOSPHATE SEGMENT — UPSTREAM

The Kirovsk branch of Apatit mines apatite-nepheline ore that is processed into phosphate rock and nepheline concentrate.

The downstream operations in our phosphate segment take place at Apatit (formerly PhosAgro Cherepovets), the Balakovo branch of Apatit (formerly Balakovo Mineral Fertilizers) and Metachem. Apatit and the Balakovo branch of Apatit produce phosphate-based fertilizers, and the Balakovo branch of Apatit also produces feed phosphate (MCP). Metachem produces PKS and industrial phosphates such as sodium tripolyphosphate (STPP).

Upstream
We extracted 35.3 million tonnes of apatite-nepheline ore in 2018 and produced 10.1 million tonnes of phosphate rock, up by 5.5% from 9.5 million tonnes in 2017. This marks the highest annual phosphate rock production output in the last 25 years for the Kirovsk branch of Apatit.

Intra-Group sales of phosphate rock amounted to 70.5% (7.1 million tonnes) in 2018, compared to 71.3% (6.8 million tonnes) in 2017.

We sold 11.3% of the phosphate rock we produced to domestic external customers and 18.0% to international customers, compared with 9.8% and 18.8%, respectively, in 2017. Prayon (Belgium) and Yara (Norway) accounted for most of the exports.

In 2018, nepheline concentrate production and sales decreased by 1.2% and 7.4% year-on-year, respectively.

PhosAgro's upstream subsidiary, the Kirovsk branch of Apatit, holds five mining licences and two licences for geological exploration, exploration and production, which allow it to conduct exploration and mining activities at six apatite-nepheline ore mines and to conduct exploration activities at two deposits.

5.5 %
INCREASE IN PHOSPHATE ROCK PRODUCTION IN 2018 COMPARED TO 2017

10.1 MLN T
OF PHOSPHATE ROCK PRODUCED SET 25-YEAR RECORD

PRODUCTION AND SALES VOLUMES — APATIT MINE AND BENEFICIATION PLANT

	Production volume, kt			Sales volume,* kt		
	2018	2017	Change, y/y	2018	2017	Change, y/y
Phospate rock	**10,067**	9,540	5.5%	**2,964**	2,732	8.5%
Nepheline concentrate	**986**	998	(1.2%)	**983**	998	(1.5%)

* Not including Intra-Group sales.

PHOSAGRO ORE RESERVES AS OF 1 JANUARY 2019

Deposit	Resources, kt (Categories A+B+C1)	Average P_2O_5 content
Kukisvumchorr	386,855	14.20%
Yukspor	484,791	14.11%
Apatitovy Cirque	100,641	14.11%
Rasvumchorr Plateau	314,157	13.03%
including the Plot Plateau	1,061	17.06%
Koashva	590,008	16.88%
Njorkparhk	54,703	13.35%
Iyolitovy otrog	134	19.4%
Total	**1,931,289**	**14.78%**

LICENCES

MINING LICENCE

Kirovsky mine
(Kukisvumchorr and Yukspor deposits)
31 December 2025

Vostochny mine
(Koashva deposit)
31 December 2019

Vostochny mine
(Njorkparhk deposit)
31 December 2063

Rasvumchorrsky mine
(Apatitovy Cirque and Rasvumchorr Plateau deposits)
1 January 2024

Tsentralny mine
(Rasvumchorr Plateau deposit)
31 December 2020

GEOLOGICAL SURVEY, EXPLORATION AND PRODUCTION LICENCES

Plot Plateau
14 December 2040

Iyolitovy otrog deposit
1 February 2024

OPERATIONAL REVIEW
continued

PHOSPHATE SEGMENT — DOWNSTREAM

Performance
In 2018, PhosAgro's output of phosphate-based products was up by 3.8% year-on-year to 6.9 million tonnes, primarily driven by higher NPK production (up by 24% year-on-year), which was made possible by the successful modernisation of mid-stream capacities (both phosphoric and sulphuric acid) in Balakovo.

Sales of phosphate fertilizers rose by 2.3% year-on-year to 6.6 million tonnes in FY 2018. The strongest growth was in North America, where sales rose by 62% year-on-year to 0.8 million tonnes due to a deficit of phosphates following the closure of capacities in Florida. Shipments to Latin America increased by 6% year-on-year to 1.2 million tonnes in FY 2018 thanks to our close work with end customers. Sales to Europe and Russia rose by 1% year-on-year in each region to 1.6 million and 1.9 million tonnes, respectively, driven by our strategic approach to move deeper into the distribution chain and expand our on-the-ground presence with new local offices.

Outlook
We expect to benefit from the completion of several major investment projects that helped us to achieve sustainable cost savings in our upstream operations, including a new conveyer system for removing ore from open pit mines and the overhaul of Beneficiation Plant No 3. We are likewise on track to finish upgrades to Beneficiation Plant No 2 that will enable us to start processing off-balance-sheet ore that previously had too low nutrient content to be processed profitably.

PhosAgro is also committed to expanding overall fertilizer production capacity and self-sufficiency in key inputs like sulphuric and nitric acid, which we believe will enable PhosAgro to continue its sustainable growth, while strengthening our cost leadership among global peers.

3.8%
YEAR-ON-YEAR INCREASE IN PRODUCTION OF PHOSPHATE-BASED FERTILIZERS

9.1%
INCREASE IN NPK PRODUCTION IN 2018 COMPARED TO 2017

PRODUCTION AND SALES VOLUMES — PHOSPHATE-BASED FERTILIZERS AND MCP

	Production volume, kt			Sales volume, kt		
	2018	2017	Change, y/y	2018	2017	Change, y/y
DAP/MAP	2,995.0	3,004.0	-0.3%	2,912.6	2,963.9	-1.7%
NPK	2,799.0	2,566.5	9.1%	2,664.6	2,488.8	7.1%
NPS	419.0	423.4	-1.0%	423.5	409.8	3.3%
APP	216.0	155.4	39.0%	209.4	170.7	22.7%
MCP	356.0	354.4	0.5%	347.2	350.4	-0.9%
PKS	67.0	99.8	-32.9%	77.6	101.2	-23.3%

NITROGEN SEGMENT

Our nitrogen segment includes the assets of the JSC Apatit, which produces ammonia, ammonium nitrate and both granulated and prilled urea.

Highlights
- Nitrogen fertilizer production increased 22.4% year-on-year to 2.1 million tonnes
- Nitrogen fertilizer sales were up 35.9% and reached 2.2 million tonnes
- 2018 was the first full year in which our new ammonia and granulated urea lines were fully functional

Performance
Urea production increased by 28.4% year-on-year to 1,590 kt in 2018 on the back of the new urea plant commissioned in 2017, while sales increased by 40.4% year-on-year to 1,600 kt.

The majority of our urea sales were in the spot market. We believe that this balance ensures a significant degree of stability in our urea sales volumes and prices, while at the same time enabling us to benefit from the flexibility that spot sales provide.

The ammonia we produce is used internally for the production of phosphate-based and nitrogen fertilizers. In 2018, ammonia production increased by 28.2% compared to 2017, as our new ammonia plant was fully functional. This brought our self-sufficiency in ammonia from 78% in 2017 to 89% in 2018. Most of the ammonia we produced was consumed within the Group to support increased production of phosphate-based fertilizers, urea and ammonium nitrate in 2018.

In 2018, production of ammonium nitrate (AN) increased by 7.4%, while sales were up 25%.

22.4%
YEAR-ON-YEAR INCREASE IN PRODUCTION OF NITROGEN-BASED FERTILIZERS

40.4%
INCREASE IN UREA SALES VOLUME IN 2018 COMPARED TO 2017

PRODUCTION AND SALES VOLUMES — NITROGEN-BASED FERTILIZERS

	Production volume, kt			Sales volume, kt		
	2018	2017	Change, y/y	2018	2017	Change, y/y
Urea	1,590.0	1,238.2	28.4%	1,600.3	1,139.8	40.4%
Ammonium nitrate	533.0	496.4	7.4%	595.3	476.0	25.1%

FINANCIAL PERFORMANCE

> In line with our Strategy to 2020, PhosAgro completed crucial investment projects in 2018 and delivered significant growth across all key financial metrics. Revenue rose by 29% year-on-year to RUB 233.4 billion, while EBITDA increased by 47% year-on-year to RUB 74.9 billion. The EBITDA margin remained at 32%, which is one of the highest levels in our industry.

Alexander Sharabaiko,
CFO

32 %

EBITDA MARGIN

With FX-denominated export sales accounting for 70% of revenue while the majority of operating costs are in RUB, PhosAgro's profitability benefited directly from the recovery in the global fertilizer market and the depreciation of the rouble against the US dollar. In addition, measures taken to control costs and timely upgrades to our mid-stream capacities enabled the Company to restrict cost of sales growth to 22% year-on-year amid volatility in prices for raw materials.

The completion of a major investment cycle in 2017 and the additional cash flows that our new capacities generated in 2018 drove free cash flow to a record high RUB 21.3 billion. As a consequence, our net debt/LTM EBITDA ratio as of 31 December 2018 declined to a comfortable 1.8x, compared to 2.4x a year earlier. In addition, our full-year adjusted net income almost doubled year-on-year to RUB 42 billion. As an indication of our confidence in the Company's financial position over the long term, the Board of Directors has recommended a final dividend that brings the total annual payout ratio to a generous 56.8% of 2018 IFRS net profit.

We believe that the boost to EBITDA and cash flow from our new production capacities is sustainable in 2019. We are continuing to invest in modernisation and upgrades at our production units to further strengthen our cash-cost advantage, while maintaining attractive dividends for our shareholders and investing in important social programmes for the local communities where we operate. With phosphate-based fertilizer markets showing signs of recovery in 2019, we are optimistic about our ability to deliver value for our investors in the year ahead.

PhosAgro's 2018 revenue amounted to RUB 233.4 billion (USD 3.7 billion), increasing 29% year-on-year, driven by higher fertilizer sales volumes and a weaker rouble. Revenue from phosphate-based products amounted to RUB 187.0 billion, a 23% increase year-on-year. At the same time, both domestic and export revenue demonstrated strong growth of 15% and 27%, respectively, year-on-year. Revenue from the nitrogen fertilizers segment amounted to RUB 37 billion, a 65% year-on-year increase supported by both higher domestic and export sales.

233.4 RUB BLN

REVENUE IN 2018

The geographic revenue split was in line with PhosAgro's historic performance: our priority domestic market accounted for 30% of total sales, while export markets brought in the remaining 70%. PhosAgro's priority export markets, Europe and Latin America, accounted for approximately 35% and 27% of 2018 revenue, respectively. North America brought in 17% of 2018 revenue (10% in 2017), with revenue in monetary terms more than doubling year-on-year due to higher imports following the shuttering of key North American capacities. The remaining 21% of PhosAgro's 2018 revenue came from Asia (including India), the CIS, Africa and Australia.

Gross profit grew by 38% year-on-year to RUB 109.5 billion (USD 1.7 billion), and the gross margin rose by 3.0 p.p. year-on-year to 47%. Gross profit and margin performance for the phosphate-based and nitrogen-based segments were as follows:

- The phosphate-based segment saw a 25% year-on-year increase in gross profit to RUB 88.0 billion (USD 1.4 billion), with a gross margin of 47%, compared to 46% in 2017
- Gross profit for the nitrogen-based segment increased by 132% year-on-year to RUB 20.6 billion (USD 328 million). Gross margin for the segment increased by 17 p.p. year-on-year to 56%, driven by the first full year of operations of PhosAgro's new ammonia and urea units

REVENUE BREAKDOWN BY KEY PRODUCTS

RUB mln

	FY 2018	FY 2017	Change y/y
DAP/MAP	77.9	62.2	25.3%
NPK(S)	60.9	47.1	29.2%
Phosphate rock	22.1	21.2	4.4%
Nitrogen-based	37.0	22.5	64.5%

FY 2018 FINANCIAL AND OPERATIONAL HIGHLIGHTS

RUB mln or %

	FY 2018	FY 2017	Change y/y
Revenue	233,430	181,351	+ 29%
EBITDA	74,908	50,796	+47%
EBITDA margin	32%	28%	+4 p.p.
Net income	22,135	25,331	-13%
Net income adj	41,748	21,190	+97%

	31 December 2018	31 December 2017	
Net debt	135,330	119,985	
ND/LTM EBITDA	1.81x	2.36x	
Sales, kt	**FY 2018**	**FY 2017**	**Change y/y**
Phosphate-based	6,635	6,485	2.3%
Nitrogen-based	2,196	1,616	35.9%
Phosphate rock	2,964	2,732	8.5%

FINANCIAL PERFORMANCE
continued

PhosAgro's EBITDA in 2018 increased by 47% year-on-year to RUB 74.9 billion (USD 1.2 billion), while the EBITDA margin grew by 4 p.p. to 32%, compared to 28% in 2017. Net profit (adjusted for non-cash FX items) amounted to RUB 41.8 billion (USD 666 million) in 2018, a 97% increase compared to the year before.

During 2018, the rouble depreciated by nearly 7% year-on-year (the average RUB/USD foreign exchange rates for 2018 and 2017 were RUB 62.7 and RUB 58.4, respectively), which had a net positive impact on PhosAgro's financial results, as prices for most of the Company's products are denominated in USD, while costs are primarily RUB-based.

Cash flow from operating activities increased by almost 100% year-on-year to RUB 59.7 billion (USD 952 million), compared to RUB 30 billion (USD 514 million) in 2017.

Gross debt (including finance lease liabilities) as of 31 December 2018 increased by 18% to RUB 144 billion (USD 2.1 billion). Net debt as of 31 December 2018 stood at RUB 135 billion (USD 1.9 billion). Most of the Company's debt is denominated in USD and thus is naturally hedged by primarily USD-denominated sales. The net debt to LTM EBITDA ratio decreased to 1.81x as of 31 December 2018, down from 2.36x as of 31 December 2017.

Cost of sales grew by 22% year-on-year in 2018 to RUB 124 billion (USD 1.97 billion). The key factors behind the growth were:

- Spending on materials and services grew by 18% year-on-year to RUB 36.5 billion (USD 584 million) driven by a 9% year-on-year increase in overall production and 12% year-on-year PPI inflation;
- D&A was up significantly by 43% year-on-year to RUB 19.0 billion (USD 304 million) as a result of the commissioning of new ammonia and urea plants, the modernisation of Beneficiation Plant No 3 and increased capitalised depreciation due to higher operational activity;
- Spending on salaries and social contributions increased by 8% year-on-year to RUB 12.2 billion (USD 196 million) mainly due to salary indexation (an increase of almost RUB 500 million), overall fertilizer production and an increase of around RUB 150 million in medical services and meals;
- Spending on natural gas rose by 32% year-on-year to RUB 12.1 billion (USD 195 million) driven by higher gas purchases as a result of the first full year of operations of our new ammonia plant;
- A year-on-year increase in expenditure on sulphur and sulphuric acid of 75% to RUB 10.7 billion (USD 171 million) due to 73% growth in the purchase price of sulphur;
- Potash costs increased by 24% year-on-year to RUB 10.2 billion (USD 163 million) on the back of an 18% increase in the purchase price and 5% growth in purchased volumes (thanks to the greater share of NPKs with high potash content);
- Electricity costs remained almost flat and amounted to RUB 5.5 billion (USD 88 million);
- A 33% year-on-year decrease in spending on purchased ammonia to RUB 4.2 billion (USD 67 million) was mainly due to additional volumes of our own production following the launch of the new 760 thousand tonnes/year ammonia plant at Apatit in Cherepovets;
- Fuel costs grew by 16% year-on-year to RUB 3.8 billion (USD 61 million) on the back of a 30% increase in purchase prices for heating oil and diesel. However, an 11% decline in overall consumption level partially offset this growth;
- Spending on ammonium sulphate increased by 32% year-on-year to RUB 3.0 billion (USD 49 million) due to 21% growth in consumption (thanks to a higher share of NPS and NPK grades with high ammonium sulphate content) and a 9% increase in the purchase price.

124 RUB BLN

COST OF SALES IN 2018

COST OF SALES
RUB mln

	FY 2018	FY 2017	Change y/y
Materials and services	36,493	30,869	18%
Depreciation and amortisation	18,936	13,242	43%
Natural gas	12,096	9,154	32%
Salaries and social contributions	12,209	11,265	8%
Sulphur and sulphuric acid	10,682	6,120	75%
Potash	10,238	8,279	24%
Chemical fertilisers for resale	6,287	4,932	27%
Electricity	5,474	5,451	0%
Ammonium sulphate	3,015	2,287	32%
Ammonia	4,195	6,287	-33%
Fuel	3,775	3,264	16%
Heating energy	564	667	-15%
Total	**123,964**	**101,817**	**22%**

Administrative expenses increased by 6% year-on-year to RUB 14.9 billion (USD 240 million) in 2018, primarily due to a 5% increase in personnel costs to RUB 8.3 billion (USD 135 million) and a 32% increase in D&A, which was partially offset by a 9% decrease in professional services expenses.

In 2018, selling expenses increased by 37% year-on-year to RUB 34.4 billion (USD 547 million). The main factors behind this growth were:

- Freight, port and stevedoring expenses grew by 57% year-on-year to RUB 17.3 billion (USD 277 million) primarily due to a 23% year-on-year increase in export sales of rock and fertilizers. Additional pressure came from the depreciation of the rouble by 7% year-on-year on average, as the majority of freight and stevedoring tariffs are still denominated in USD;
- Russian Railways infrastructure tariff and operators' fees grew by 13% year-on-year to RUB 10.4 billion (USD 166 million), driven by a change in shipment structures and indexation of railway tariffs;
- Spending on customs duties grew by 61% year-on-year to RUB 1.4 billion (USD 22 million), triggered by increased deliveries under DDU terms.

7 %

GROWTH OF SPENDING ON CAPEX COMPARED TO 2017

CASH SPENT ON CAPEX IN 2018 AMOUNTED TO RUB 38.4 BILLION (USD 613 MILLION), AN INCREASE OF 7% YEAR-ON-YEAR. THE MAIN CAPEX SPENDING WAS ON SCHEDULED MAINTENANCE AND DEVELOPMENT OF THE UPSTREAM BUSINESS, AS WELL AS ON CONSTRUCTION OF NEW SULPHURIC AND NITRIC ACID PLANTS

05 CORPORATE GOVERNANCE

COMMITTED TO BEST PRACTICES IN CORPORATE GOVERNANCE

70% OF MEMBERS OF THE BOARD OF DIRECTORS ARE INDEPENDENT DIRECTORS

SYSTEM AND PRINCIPLES OF CORPORATE GOVERNANCE

As of 31 December 2018

> For PhosAgro, the previous year gave us an opportunity to take stock of where we are, while also identifying new strategic goals. In 2018, we successfully completed a large-scale investment cycle, highlighted by the launch of state-of-the-art ammonia and granulated urea production facilities, the positive impact of which could already be felt at the end of the year: we are now generating increased cash flow, which allows us to maintain a balance between investments in further development, support for social initiatives and the payment of dividends.

As before, we continued to pay special attention to improving the quality of our corporate governance. In 2018 the Board of Directors was joined by several new Independent Directors: Irina Bokova, who spent the previous eight years as Director-General of UNESCO; Xavier Rolet, the CEO of the London Stock Exchange for the previous nine years and Andrey Sharonov, who has many years of experience in high-ranking government posts and in the investment field. We are pleased that they chose PhosAgro, and we are confident that their vast experience and knowledge will help us achieve our strategic goals and make a significant contribution to solving global problems. As a result of these appointments, seven of the ten members of the current Board of Directors are independent, which complies with best practices in terms of openness, business transparency and corporate governance, and it also ensures that the Board of Directors will take into account the rights and interests of all stakeholders, from customers in our domestic market to partners in the more than 100 countries all around the world that import our products.

In 2018, PhosAgro continued work begun the previous year aimed at simplifying the Group's corporate structure. At the end of the year, we decided to restructure JSC Apatit by merging JSC Metachem and JSC PhosAgro-Trans. The restructuring was aimed at further improving managerial efficiency and optimisation of business processes, as well as strengthening PhosAgro's competitive advantages as a vertically integrated company. We intend to continue this work as we move forward.

The Company's commitment to best practices in corporate governance is also illustrated by the fact that the Board of Directors carries out an annual assessment of its compliance with the principles laid out in the Central Bank of Russia's Corporate Governance Code of 10 April 2014. Annex No 2 to this report provides comprehensive information on compliance with these principles in 2018. This was reviewed and approved by the Board of Directors as an independent report. In addition, the Board provided a separate assessment of criteria regarding the quality of corporate governance that, for one reason or another, were not met or were not fully met.

I would like to express my gratitude to the members of the Board of Directors and the management of PhosAgro for their contribution to the Company's sustainable development in 2018 and to maintaining its reputation as a responsible partner, as well as to all of PhosAgro's staff, shareholders and partners for their loyalty to the Company.

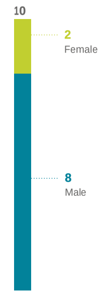
7 OF THE 10

MEMBERS OF THE CURRENT BOARD OF DIRECTORS ARE INDEPENDENT

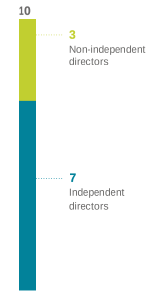
Sven Ombudstvedt
Chairman of the Board of Directors

BOARD OF DIRECTORS

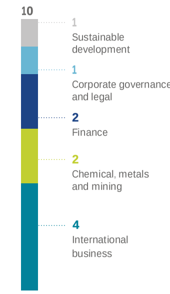
Gender split



Independence



Experience



OUR CORPORATE GOVERNANCE PRINCIPLES

1

ACCOUNTABILITY

The Board of Directors is accountable to PhosAgro's General Shareholders' Meeting and is responsible for:

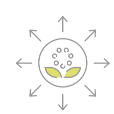
- Formulating and overseeing the implementation of the Company's strategy;
- Establishing and maintaining systems that enable it to monitor PhosAgro's performance.

2

TRANSPARENCY

PhosAgro ensures the reliable and suitable disclosure of all matters relating to its operations, such as financial updates, social and environmental indicators, operating results, ownership structure and corporate governance.

3



RESPONSIBILITY

PhosAgro recognises the rights of all stakeholders and is constantly looking for ways to improve communication with them and pays attention to their needs and expectations so as to foster mutually beneficial relations.

4

EQUALITY

PhosAgro's corporate governance system protects shareholders' rights and ensures that their interests are respected and taken into consideration.

SYSTEM AND PRINCIPLES OF CORPORATE GOVERNANCE
continued

PhosAgro's corporate governance system
PhosAgro is a public company, whose shares are included in Moscow Exchange's Level 1 quotation list, and its depositary receipts are traded on the London Stock Exchange. The listing of securities on Russian and foreign stock exchanges imposes stricter requirements in terms of corporate governance. The Company's corporate governance activities are based on the principles and recommendations set forth in the Corporate Governance Code recommended for use by the Bank of Russia, as well as other requirements of the regulator (Bank of Russia) in the areas of corporate governance, the Listing Rules of the Moscow and London stock exchanges, as well as standards for the disclosure of information developed by the Global Reporting Initiative (GRI).

The Company is constantly developing its corporate governance system. Such changes aim to improve internal efficiency and external competitiveness, which includes raising the level of acceptance of corporate governance practices among stakeholders. One of the criteria related to the maturity of the Company's corporate governance system is the degree to which it complies with the recommendations of the Corporate Governance Code adopted by the Central Bank of the Russian Federation.

THE PERCENTAGE OF THE CODE'S REQUIREMENTS FULLY IMPLEMENTED BY THE COMPANY HAS BEEN INCREASING EVERY YEAR AND CURRENTLY EXCEEDS 80%

In 2018, the Company saw improvements in a number of principles of the Corporate Governance Code. In particular, the materials for meetings now contain information on the shareholders who proposed agenda items and those who nominated candidates for the Company's Board of Directors and Statutory Audit Commission, as well as the results of the assessment by the Remuneration and Human Resources Committee of candidates for the Board of Directors; the Board of Directors approved the Risk Management and Internal Control Policy and made changes to related documents; all material transactions were given the prior consent of the Board of Directors or the General Shareholders' Meeting; an order was prepared and issued on the procedure for preparing materials for the Board of Directors that established, among other things, the grounds for engaging an independent assessor when giving consent (approval) to material transactions.

Our General Shareholders' Meeting is the principal forum through which the Company's shareholders decide which issues are most critical to our business. These include approving financial statements and amending the Company's Charter and other internal documents. The Board of Directors provides overall guidance to the Company, except in areas that are the remit of the Shareholders' Meeting. It sets targets and oversees how the Management Board and the Chief Executive Officer strive to achieve them. The Management Board and the Chief Executive Officer manage the Company's day-to-day operations and implement the strategy approved by the Board of Directors.

The General Shareholders' Meeting
The General Shareholders' Meeting is the Company's highest governing body and is convened by the Board of Directors at least once a year. The Annual General Meeting is held every year between 1 March and 30 June. Extraordinary General Meetings may be convened by the Board of Directors on its own initiative or at the request of the Review Committee, the external auditor or a shareholder owning individually or together with other shareholders at least 10% of issued voting shares. The General Shareholders' Meeting has the exclusive authority to take decisions on a number of matters, including:

- implementation of amendments and additions to the Company's Charter, or adoption of a new version of the Charter
- reorganisation or liquidation of the Company
- election and removal of members of the Board of Directors
- increases or reductions in the Company's authorised capital
- approval of the Company's external auditor
- approval of the Company's annual reports and financial statements
- distribution of profits, including payment of dividends
- payment of remuneration to the members of the Board of Directors and the Review Committee

Voting at a General Shareholders' Meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which is done by cumulative voting. According to the Law on Joint Stock Companies, the quorum requirement for a General Shareholders' Meeting is that shareholders (or their representatives) accounting for more than 50% of the issued voting shares must be present.

A General Shareholders' Meeting may be held in the form of a meeting (in person) or in the form of absentee voting. All shareholders entitled to participate in the General Shareholders' Meeting are notified of the Meeting by a notice posted on a Company's website usually 21 days prior to the Meeting. The list of persons entitled to participate in a General Shareholders' Meeting is compiled on the basis of data in the Company's register of shareholders as of the date established by the Board of Directors. General Shareholders' Meetings are usually held in Russia (Moscow).

In addition to the Annual General Shareholders' Meeting, three Extraordinary General Shareholders' Meetings were held in 2018, the main subject of which was the distribution of dividends in accordance with the Company's dividend policy. In addition, a decision on the composition of the new Board of Directors was taken in light of the changes to the corporate structure.

Role and composition of the Board of Directors
The Board of Directors operates in accordance with the Law on Joint Stock Companies, the Company's Charter, the Company's Regulations on the Board of Directors, the Central Bank of Russia's recommended Corporate Governance Code, guidelines of the UK Corporate Governance Code and generally accepted good practice in corporate governance.

At the Annual General Meeting of Shareholders, the Members of the Board of Directors are elected by cumulative voting for a year-long term.

Since 2011, PhosAgro's Board of Directors, as well as its main committees – the Audit Committee and the Rumuneration and Human Resources Committee – have been chaired by independent directors. Moreover, these committees are composed entirely of independent directors. In 2018, the Risk Management Committee was also chaired by an independent director. Since 2017, the Board of Directors has been made up of 10 members. The Board was expanded both because of the requirements of Russian corporate legislation and because of the Company's desire to recruit as many independent directors as possible. Since the Company has more than 10,000 shareholders, there should be, according to Russian corporate legislation, no fewer than nine Board members. The new makeup of the Board of Directors was determined at the Extraordinary General Shareholders' Meeting held on 26 February 2018, when new independent director Irina Bokova was added, bringing to the Board her unique knowledge, skills and competencies.

The Annual General Meeting of Shareholders of 30 May 2018 elected a new Board of Directors and appointed Xavier R. Rolet as a new independent director. As a result, the number of independent non-executive directors was increased to seven, a change that confirms the Company's commitment to best practices in corporate governance.

An independent director (and therefore candidates for the position of independent director) is a person who is unrelated to:

- the Company
- a major shareholder of the Company
- a major counterparty of the Company
- a competitor of the Company
- the government (the Russian Federation or a constituent entity of the Russian Federation) or a municipality

A person shall be considered to be related to the Company in the event that they or persons related to them, inter alia:

1. Are currently or have been in the preceding three years members of either the executive bodies or employees of the Company or of entities controlled by the Company and or the managing company;
2. Are members of the Board of Directors of a legal entity that controls the Company, is controlled by the Company, or is a management company of such a legal entity; and in a number of other cases stipulated by the above documents.

A person shall be considered to be related to a major shareholder of the Company in the event that they or persons related to them, inter alia, are employees or members of the executive bodies of a major shareholder of the Company, as well as in a number of other cases stipulated by the above documents.

A person shall be considered to be related to a major counterparty or competitor of the Company in the event that they or persons related to them:

1. Are an employee or a member of a management body and/or executive bodies of a major counterparty or competitor of the Company or organisations under its control;
2. Are an owner or a beneficiary of shares (a stake) in a major counterparty or competitor of the Company that constitutes more than 5 per cent of the authorised capital or total number of voting shares (stakes).

A person shall be considered to be related to the government or a municipality if, inter alia, they are currently or were within one year prior to election to the Board of Directors a state or municipal employee, a person substituting positions in public authorities, an employee of the Bank of Russia, or a number of other cases stipulated by the above documents.

THE BOARD OF DIRECTORS IS CONSTANTLY LOOKING FOR NEW WAYS TO MAKE ITS ACTIVITIES MORE EFFICIENT, AND TO IMPROVE ITS IMPLEMENTATION OF THE BANK OF RUSSIA'S RECOMMENDATIONS FOR CORPORATE GOVERNANCE AND COMPLIANCE WITH INTERNATIONAL CORPORATE GOVERNANCE STANDARDS

SYSTEM AND PRINCIPLES OF CORPORATE GOVERNANCE

continued

The main areas of activities undertaken by the Board of Directors in 2018 included:

- assessment and quarterly monitoring of the risk management process;
- assessment and quarterly monitoring of the activities of subsidiaries in the areas of workplace health and safety, industrial safety and environmental protection;
- ensuring compliance with the provisions of the Company's Information Policy and determining the priorities thereof;
- assessment of the effectiveness of the Company's risk management and internal control system;
- assessing the degree to which the requirements of the Company's Insider Information Policy were met;
- the Company's strategy in the area of international projects;
- the sales strategy for mineral fertilizers;
- development of a project management system at Group enterprises;
- evaluation of the performance of the Company's CEO and Management Board;
- oversight over management relations with shareholders, investors and other stakeholders;
- supervising activities aimed at formulating a Development Strategy to 2025, and the implementation status of the Strategy to 2020;
- assessment of the work of the Corporate Secretary;
- monitoring the implementation of priority areas of the Company's activities in 2018 and determining priority areas of the Company's activities for 2019;
- reviewing the Company's budget for 2019, as well as quarterly review of the budget for 2018.

IN 2018, THE BOARD OF DIRECTORS HELD 9 MEETINGS COVERING A TOTAL OF 77 ISSUES

Held / Attended

Name	Year of birth	Board of Directors: Held	Board of Directors: Attended	Audit Committee: Held	Audit Committee: Attended	Strategy Committee: Held	Strategy Committee: Attended	Remuneration and Human Resources Committee: Held	Remuneration and Human Resources Committee: Attended	Risk Management Committee: Held	Risk Management Committee: Attended	Environment, Health and Safety Committee: Held	Environment, Health and Safety Committee: Attended
Andrey A. Guryev	1982	9	9			1	1			4	4	2	2
Andrey G. Guryev	1960	9	6			1	1						
Sven Ombudstvedt[2]	1966	9	9	5	5	1	1	5	5			2	1
Natalia Pashkevich[2]	1939	9	7									2	1
Marcus Rhodes	1961	9	9	5	5			5	5				
Ivan Rodionov[1,2]	1953	9	4							4	2		
James Rogers	1942	9	9	5	5			5	5				
Mikhail Rybnikov	1975	9	9			1	1			4	4	2	2
Irina Bokova[1]	1952	9	7										
Xavier R. Rolet[1,2]	1959	9	4							4	2		
Andrey Sharonov	1964	9	9	5	4								
Alexander Sharabaiko[1]	1977	9	1										

[1] Alexander Sharabaiko was a member of the Board of Directors until 26 February 2018; Ivan Rodionov was a member of the Board of Directors until 30 May 2018; Irina Bokova has been a member of the Board of Directors since 26 February 2018, and Xavier R. Rolet has been a member since 30 May 2017.

[2] Ivan Rodionov was the Chairman of the Risk Management Committee until 30 May 2018; Xavier R. Rolet has been the Chairman of the Risk Management Committee since 30 May 2018; Sven Ombudstvedt was a member of the Environment, Health and Safety Committee until 30 May 2018; Natalia Pashkevich has been a member of the Environment, Health and Safety Committee since 30 May 2018.

In addition, the Board of Directors reviewed a number of anti-corruption documents:

- Regulation on Conflicts of Interests within the Company;
- The Company's Code of Ethics;
- Regulation on the Company's Hotline.

The above-mentioned documents were amended to reflect changes in Russian and international anti-corruption legislation.

Key documents in the field of corporate governance—the Company's Risk Management and Internal Control Policy and its Corporate Governance Code — were updated in response to amendments to Russian laws in 2018. The Board of Directors also approved the work plan for the Company's Internal Audit Department for 2019.

In addition to the above-mentioned issues, the Board of Directors also reviewed and approved financial statements on a quarterly basis, appointed the Company's top executives, approved major and interested-party transactions, and convened shareholders' meetings.

In August 2018, an on-site meeting of the Board of Directors took place at the Metachem site in Volkhov, where the Company's key investment project for the construction of new fertilizer production facilities got under way last year. Board members were informed about how the design and construction of the facility—an extremely important project for the Company—was progressing. On the basis of a detailed study of project indicators, the Board gave the decisions of the Company's management a positive assessment. The meeting highlighted significant progress in all key areas of the Company's operations in recent years.

Planning and evaluation of the activities of the Board of Directors

In accordance with the recommendations of the Corporate Governance Code, the Board of Directors conducted a self-assessment based on 2018 results. In general, most aspects of the work of the Board of Directors and its committees were given a positive evaluation. According to the main criteria for assessing the impact of their activities, the survey showed a positive trend in comparison with Board members' assessments from 2016 and 2017. The self-assessment was carried out on the basis of a survey of members of the Board of Directors. The final report on the results of the self-assessment was presented and reviewed at meetings of the Remuneration and Human Resources Committee and of the Board of Directors. After being discussed, the following self-assessment results were recorded: the composition of the Board of Directors fully meets the requirements of the Code and the Moscow Exchange listing rules. The directors consider the Board's composition to be strong and balanced. The Board's performance remained highly rated. An improvement in the quality of Board discussions was noted. In addition, following a review of the results of the self-assessment, the main areas for development and improvement of the Board of Directors in 2019 were agreed.

THE BOARD'S ACTIVITIES ARE PLANNED. MEETINGS ARE HELD AT LEAST ONCE A QUARTER. THE BOARD CONFIRMS THE DATES AND AN INDICATIVE AGENDA IN ADVANCE ONCE PER YEAR, MAKING CHANGES AS NEEDED THROUGHOUT THE YEAR

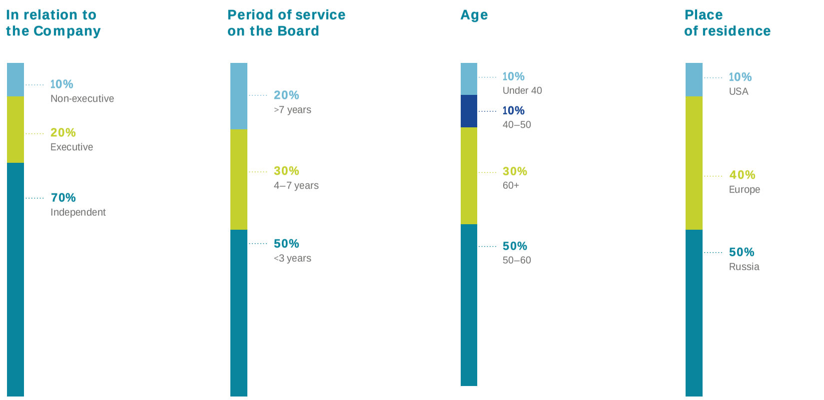
Board committees

The committees of the Board of Directors are advisory and consultative bodies. The Board committees consist of current members of the Board of Directors who have relevant experience and expertise in the area of each committee's focus.

The committees can also involve external experts and consultants in their work. The primary role of the committees is the preliminary consideration of the key issues reserved for the Company's Board of Directors. The committees are responsible for ensuring that issues brought before the Board have been subject to sufficient review in order to ensure that the directors are able to cast their votes based on full and accurate information. To achieve this, committee members maintain a regular dialogue with management, the Company's external auditor and other advisors on the issues that fall within their remit.

SYSTEM AND PRINCIPLES OF CORPORATE GOVERNANCE
continued

STRUCTURE OF THE BOARD OF DIRECTORS



Executive bodies
The Company's day-to-day operations and the implementation of its strategy are managed by its collective executive body (Management Board) and its sole executive body (CEO).

Management Board
The matters that fall within the remit of the Management Board are set out in the Charter and include:
- Reviewing, revising and approving PhosAgro's quarterly and annual budgets;
- Determination of the Company's investment policy and new areas of operations;
- Developing PhosAgro's capital expenditure plans and strategy with respect to any new business activities;
- Making decisions on entering into, amending or terminating transactions related to the disposal or possibility of disposal of securities owned by the Company or shares in the charter capital of business entities whose book value exceeds 20% of the book value of the Company's assets;
- Arranging the preparation and provision of reports to the Board of Directors on PhosAgro's financial and operating performance;
- Approving the regulations on incentivisation and other internal documents that determine the compensation and benefit policies for PhosAgro employees;
- Election and removal of the secretary of the Management Board and their powers.

During the reporting period, the Management Board held six meetings, at which it reviewed the Company's quarterly financial and operational performance. It summarised the results of the Company's 2017 activities in March, identified the Company's priority activities for 2019 in November, and approved the 2019 budget in December. The Management Board also made decisions to approve and amend the charity budget.

The Chief Executive Officer
According to the Company's Charter, the Chief Executive Officer is appointed by the Company's Board of Directors for a period of three years and may be dismissed by a decision of the Board of Directors at any time. The Company's Corporate Governance Code provides that the Chief Executive Officer must act in good faith and with due diligence to further the interests of the Company and its shareholders. All issues related to the Company's day-to-day operations are within the authority and responsibility of the Chief Executive Officer except for those matters that are subject to ratification by the General Shareholders' Meeting, the Company's Board of Directors and/or the Management Board. The Chief Executive Officer, together with the Management Board, is responsible for ensuring that the Company's strategy and the decisions of the General Shareholders' Meeting and the Board of Directors are implemented. In order to ensure efficient corporate communications between the Company's Board of Directors and the Chief Executive Officer, the Chief Executive Officer submits regular quarterly reports to the Board.

Some of the matters for which the Chief Executive Officer is responsible are:
- representing the Company before all federal and local authorities and in meetings with organisations and entities in Russia and abroad
- hiring and dismissing the Company's personnel
- carrying out all other activities and legal steps required to be conducted on behalf of the Company in accordance with the Company's Charter, decisions of the Board of Directors and the General Shareholders' Meeting and/or in accordance with current legislation

Andrey A. Guryev was the Company's Chief Executive Officer throughout 2018. For Mr Guryev's biographical details, please see the "Board of Directors" section of this report.

Principles for remuneration of members of the Board of Directors
When determining the composition of the Board, the General Shareholders' Meeting approves the amount and the rules for determining and paying remuneration and compensation to members of the Board of Directors. In addition, the amount of remuneration provided by the Company to members of the Board of Directors creates sufficient motivation for them to work effectively, allowing the Company to attract and retain competent and skilled professionals. At the same time, the Company avoids paying out more remuneration than is necessary.

The Company pays remuneration to members of the Board of Directors during the period during which they exercise their duties, and it also reimburses expenses related to their performance as members of the Board of Directors. Regular (quarterly) remuneration is paid only to independent members of the Board of Directors. Additional (quarterly) remuneration is paid to the chairmen of Board committees who are independent directors, as well as to members of the Board of Directors who are not Company employees. Remuneration is paid quarterly no later than 20 days from the end of the reporting quarter.

Regular (quarterly) remuneration for the Chairman of the Board of Directors, who is an independent director and is paid an amount equivalent to USD 90,000.00 for a full quarter at the official exchange rate set by the Bank of Russia on the last day of the quarter for which payment is made. Other independent members of the Board of Directors are paid remuneration in an amount equivalent to USD 45,000.00 for a full quarter at the official rate set by the Bank of Russia on the last day of the quarter for which payment is made.

Additional (quarterly) remuneration is paid to the chairmen of Board committees who are independent directors or who are not Company employees in an amount equivalent to USD 30,000.00 for a full quarter according to the official exchange rate set by the Bank of Russia on the last day of the quarter for which the payment is made.

Compensation is provided for actual expenses incurred by the members of PhosAgro's Board of Directors in connection with the performance of their functions as members of the Board of Directors. Reimbursement for expenses is provided within the first 20 days of the month following the reporting month on the basis of requests from members of the Board of Directors submitted to PhosAgro's sole executive body, accompanied by documents confirming actual expenses incurred.

Compensation and reimbursements are paid out in cash from PhosAgro's payment office or, upon the submission of the relevant request from a member of PhosAgro's Board of Directors to PhosAgro's sole executive body (CEO), by a bank transfer to the account indicated in the request.

Board of Directors remuneration
Members of PhosAgro's Board of Directors may receive remuneration and be compensated for expenses incurred in the course of their duties in accordance with decisions of the General Shareholders' Meeting. According to the Company's Corporate Governance Code, the remuneration of the Board of Directors shall be in line with current market conditions and shall be at a level that enables the Company to attract, motivate and retain highly skilled professionals to help drive the future growth and performance of the business. At the same time, their remuneration shall not exceed the amount needed to achieve this.

In 2018, the total remuneration paid to PhosAgro's Board of Directors was RUB 97,318 thousand (excluding reimbursed expenses). The amount of remuneration and additional compensation paid to PhosAgro's Chief Executive Officer is regulated by a contract between the Chief Executive Officer and the Company, which is signed by the Company's Chairman of the Board of Directors. The total remuneration reflects the Chief Executive Officer's qualifications and takes into account the particular contribution of the Chief Executive Officer to the Company's financial results.

Management Board remuneration
The remuneration paid by the Company to the Chief Executive Officer and the six other members of the Management Board (who represent the Senior Management Team) for their services to the Company during the year ended 31 December 2018 was RUB 185.6 million (in 2017 it was RUB 234.5 million).

The renumeration paid to the Company's senior executives consists of a monthly base salary plus additional compensation that is paid twice a year.

SYSTEM AND PRINCIPLES OF CORPORATE GOVERNANCE
continued

BOARD OF DIRECTORS REMUNERATION
RUB

	2017	2018
Igor Antoshin	4,749,761.34	—
Sven Ombudstvedt	19,376,953.47	22,957,434.00
James Rogers	16,147,461.81	19,131,195.00
Ivan Rodionov	6,458,984.49	2,959,284.38
Marcus Rhodes	16,147,461.81	19,131,195.00
Andrey Sharonov	2,592,009.00	11,478,717.00
Xavier Rolet	—	11,784,706.71
Irina Bokova	—	9,875,299.80
Total	**65,472,631.92**	**97,317,831.89**

Payment of additional compensation is based on achieving the Company's key performance indicators and accomplishing additional tasks and goals, as set by the Board of Directors and the Chief Executive Officer for the reporting year or quarter. The key performance indicators for each individual senior manager are set by period and mainly consist of indicators for sustaining operational efficiency, as well as for contributing to the achievement of corporate growth and strategy.

To determine the amount of additional annual compensation, the Company's EBITDA for the reporting period (pursuant to a decision of the Board of Directors) is taken into account.

Insider Information Policy
Insider Information is precise and specific information that has not been distributed or shared that, if distributed or shared, could have a significant impact on the value of the Company's securities. A list of such information within the Company has been drawn up and approved in accordance with the applicable legal requirements.

An insider is a person who has the right to access insider information on the basis of a law, other regulatory legal act, their job description or Company bylaws, as well as on the basis of an agreement with the Company.

The purpose of the Company's Insider Information Regulation is to protect the legitimate interests of investors and to prevent actions by the Company, employees, members of the Board of Directors and the Statutory Audit Commission, related parties, customers and counterparties aimed at misusing insider information and market manipulation.

The Company's Insider Information Regulation was developed on the basis of Russian legislation on countering the unlawful use of insider information and market manipulation, as well as the European Union's market abuse regulation. It governs the procedure for drawing up a list of insider information; the procedure for compiling a list of Company insiders and submitting the list to interested parties; the rules for the Company's notification of insiders, as well as the rules for insiders' notification of the Company and the authorities in charge of regulating securities; the procedure for gaining access to insider information and for sharing insider information with interested parties; the privacy policy regarding insider information; the rules for insiders to conclude transactions involving the Company's securities; rules for monitoring compliance with the requirements of legislation and these regulations; other issues related to the handling and safeguarding of insider information.

The Company division responsible for fulfilling the legal requirements on insider information and the Company bylaws adopted in accordance with said legal requirements is the Office of the Corporate Secretary. The functions performed in this area include the maintenance of lists of Company insiders and related parties; the sending and recording of notifications related to the maintenance of said lists; notification of the persons performing managerial duties about periods when transactions involving Company securities are prohibited for them; analysis of the possibility of using the Company's insider information in transactions involving the Company's securities; preparing a report for the Board of Directors on the Company's fulfilment of its legal requirements in terms of protecting and sharing insider information; analysis of the grounds for, and organisation of, the disclosure of information on transactions involving insiders and related parties in accordance with the requirements of European legislation; advising the Company's employees on issues related to handling insider information.

Dividend Policy
The Company's Dividend Policy is based on balancing the interests of the Company and its shareholders when determining the dividend amount, on respecting and strictly observing the rights of shareholders, as stipulated by the applicable Russian legislation, the Company's Charter and its bylaws, and is aimed at increasing the Company's investment attractiveness and its capitalisation.

The Dividend Policy Regulation approved by the Company establishes a transparent procedure for determining the dividend amount and the payment thereof. Its purpose is also to provide information on the conditions and procedure for the payment of dividends to all interested parties and to determine guidelines for the Company's Board of Directors when developing recommendations on the amount of dividends on shares and the procedure for the payment thereof.

In accordance with this Regulation, when determining the amount of dividends to recommend to the General Shareholders' Meeting and the corresponding share of the Company's net profit to allocate for dividend payments, the Company's Board of Directors strives to ensure that the amount of funds allocated for dividend payments ranges from 30% to 50% of the Company's profit in accordance with its consolidated financial statements under IFRS for the relevant reporting period.

When determining the recommended dividend amount, the Company's Board of Directors must take into account the Company's financial performance for the relevant reporting period; the amount of profit to be allocated for investment and growth, financing the Company's social responsibility and other projects; as well as other significant factors for making an informed decision on recommended dividends.

If the Company has a net profit based on the results of the reporting period, the Company's Board of Directors has the right to refrain from recommending the payment of dividends in cases where there is a reasonable assumption that the payment of dividends could entail a significant deterioration in the Company's financial position.

According to the results of the Company's activities, the declared dividends amounted to 60% of the net profit adjusted for FX. The total amount of dividends declared in 2018 and in 2019 will amount to RUB 24.9 billion, pending AGM approval of the dividends recommended by the Board of Directors on 19 March 2019.

The Review Committee
The Review Committee may undertake audit procedures either on its own initiative, pursuant to a decision of the General Shareholders' Meeting or the Board of Directors or at the request of shareholders owning at least 10% of the shares in the Company. The General Shareholders' Meeting elects the members of the Review Committee for the period until the next Annual General Shareholders' Meeting. The Review Committee comprises three members and is led by the Chairman of the Review Committee. Members of the Committee cannot be on the Company's Board of Directors at the same time, nor can they hold positions in the Company's executive bodies.

Internal audit
The Company's Internal Audit Department assists the Company's executive management and Board of Directors in improving the effective management of business processes, as well as the operation of the internal control and risk management systems.

In its activities, the Internal Audit Department uses a risk-based approach and works closely with the Departments of Risk Management, Internal Control and Economic Security, as well as with Company management.

In 2018, the Internal Audit Department audited the Company's business processes in the following areas: procurement of materials and services, inventory management, treasury, and investments, as well as IT audits of the Company's business systems. The audit plan for the year is reviewed, discussed, and approved by the Audit Committee and the Board of Directors. Audits are performed both at the Group level and within subsidiaries.

In addition, the Internal Audit Department monitors the implementation by the Company's management of corrective actions proposed based on audit results and reports to the Board of Directors on a quarterly basis.

At the end of 2018, PricewaterhouseCoopers conducted an assessment of the compliance of the Internal Audit Department with the requirements of the International Standards for the Professional Practice of Internal Auditing, the Institute of Internal Auditors' Code of Ethics and the requirements of the corporate governance code approved by the Board of Directors of the Bank of Russia. Significant improvement was noted in the work of the Internal Audit Department compared to 2017. A plan was developed and is currently being implemented to further improve the internal audit function.

Members of PhosAgro's Board of Directors
On 1 January 2018, as elected by the Extraordinary General Shareholders' Meeting of 2 October 2017:
1. Andrey A. Guryev
2. Andrey G. Guryev
3. Sven Ombudstvedt
4. James Rogers
5. Ivan Rodionov
6. Marcus Rhodes
7. Mikhail Rybnikov
8. Natalia Pashkevich
9. Alexander Sharabaiko
10. Andrey Sharonov

On 29 May 2018, as elected by the Extraordinary General Shareholders' Meeting of 26 February 2018:
1. Irina Bokova
2. Andrey A. Guryev
3. Andrey G. Guryev
4. Sven Ombudstvedt
5. James Rogers
6. Ivan Rodionov
7. Marcus Rhodes
8. Mikhail Rybnikov
9. Natalia Pashkevich
10. Andrey Sharonov

On 31 December 2018, as elected by the annual General Shareholders' Meeting of 30 May 2018:
1. Irina Bokova
2. Andrey A. Guryev
3. Andrey G. Guryev
4. Sven Ombudstvedt
5. James Rogers
6. Xavier Rolet
7. Marcus Rhodes
8. Mikhail Rybnikov
9. Natalia Pashkevich
10. Andrey Sharonov

BOARD OF DIRECTORS OF PJSC PHOSAGRO

As of 31 December 2018

OMBUDSTVEDT SVEN

Chairman

Title: **Independent Director**

Year of election: **2011**

Equity interest / Stake of ordinary shares: **0.001%**

Date of birth: **27 July 1966**

Education:

Pacific Lutheran University (USA)
Bachelor's degree in Business Administration

The Thunderbird School of Global Management
Master's degree in International Management

2008 — 2013 **Saferoad AS**
Member of the Board of Directors

2010 — 2013 **Western Bulk**
Member of the Board of Directors

2010 — 2017 **Norske Skogindusttrier ASA**
CEO

2011 — Present **PJSC PhosAgro**
Chairman of the Board of Directors
Member of the Audit Committee
Member of the Strategy Committee

2017 — 2017 **Norske Skogindusttrier ASA**
Special Advisor

2017 — Present **Norske Skog AS**
Chairman of the Board of Directors

2017 — Present **Norske Skog Holding AS**
Member of the Board of Directors

Key competencies:
- Strategy
- Finance and audit
- Chemistry and mining engineering

GURYEV ANDREY G.

Deputy Chairman

Title: **Non-executive Director**

Year of election: **2013**

Equity interest / Stake of ordinary shares: **no**

Date of birth: **24 March 1960**

Education:

The G. V. Plekhanov St. Petersburg State Mining Institute
Degree in Economics and Management of Mining and Exploration Enterprises

Central State Institute for Physical Education

2006 — Present **Russian Chemists Union**
Vice-President

2001 — 2013 **Federation Council of the Federal Assembly of the Russian Federation**
Member of the Federation Council of the Russian Federation

2013 — Present **PJSC PhosAgro**
Deputy Chairman of the Board of Directors
Member of the Strategy Committee

06.2017 — 06.2018 **JSC AgroGard-Finance**
Member of the Board of Directors

06.2018 — Present **JSC AgroGard-Finance**
Chairman of the Board of Directors

Key competencies:
- Strategy
- Chemistry and mining engineering

GURYEV ANDREY A.

Title: **Executive Director**

Year of election: **2013**

Equity interest / Stake of ordinary shares: **no**

Date of birth: **7 March 1982**

Education:

The University of Greenwich in London
BA in Economics

Academy of National Economy under the Government of the Russian Federation
Master's degree; PhD in Economics

2011 — 2013 **CJSC PhosAgro AG**
Deputy CEO for Sales and Logistics (in addition to other duties)

2011 — 2013 **OJSC PhosAgro**
Deputy CEO

2011 — Present **Moscow Rhythmic Gymnastics Federation**
President

2012 — Present **Andrey Guryev Charitable Foundation**
Chairman of the Management Board

2012 — 2014 **JSCB Investment Trading Bank OJSC**
Member of the Board of Directors

2012 — Present **LLC PhosAgro-Region**
Member of the Management Board

2013 — Present **PJSC PhosAgro**
Member of the Board of Directors

2013 — Present **PJSC PhosAgro**
CEO
Chairman of the Managment Board
Chairman of the Strategy Committee
Member of the Environmental, Health and Safety Committee
Member of the Risk Management Committee

2014 — 2016 **JSC PhosAgro-Cherepovets**
Member of the Management Board

2014 — Present **Russian Chess Federation**
Member of the Board of Trustees

2015 — Present **The Russian Olympians Foundation**
Member of the Board of Trustees of the Foundation
Member of the Board of the Foundation

2015 — Present **Russian Union of Industrialists and Entrepreneurs**
Member of the Management Board

2016 — Present **Russian Association of Fertilizer Producers**
President

2016 — Present **Russian Rhythmic Gymnastics Federation**
Chairman of the Board of Trustees, Vice-President

2016 — Present **International Fertilizer Industry Association (IFA)**
Member of the Board of Directors

2016 — Present **Miners of Russia non-commercial partnership**
Deputy Chairman of the Supreme Mining Council

Key competencies:
- Strategy
- Environment, health and safety
- Human resources

BOARD OF DIRECTORS OF PJSC PHOSAGRO

continued

ROGERS
JAMES BEELAND JR.

Title: **Independent Director**

Year of election: **2014**

Equity interest / Stake of ordinary shares: **0.0064%**

Date of birth: **19 October 1942**

Education:

Yale University (USA)
Bachelor's degree

University of Oxford, as a member of Balliol College (England)
Bachelor's / master's degree in Philosophy, Politics and Economics

Directorship:

1986 — Present **Virtus Total Return Fund Inc.**
Director

1988 — Present **Virtus Global Dividend & Income Fund Inc.**
Director

1990 — Present **Beeland Interests, Inc.**
Director

2007 — Present **Beeland Enterprises, Inc.**
Director

2007 — Present **Beeland Holdings Pte Ltd**
Director

2012 — Present **Spanish Mountain Gold Limited**
Director

2012 — Present **Geo Energy Resources Limited**
Non-Executive Director

06.2013 — 06.2014 **Fab Universal Corp**
Independent Director

2014 — Present **PJSC PhosAgro**
Member of the Board of Directors
Chairman of the Remuneration and Human Resources Committee
Member of the Audit Committee

2014 — Present **Sinofortune Financial Holdings Limited**
Non-Executive Director

2016 — Present **Duff & Phelps Select Energy MLP Fund Inc.**
Director

2016 — Present **Virtus Global Multi-Sector Income Fund**
Trustee

03.2016 — 04.2018 **Crusader Resources Limited**
Non-Executive Director

08.2017 — Present **JSC AgroGard-Finance**
Independent Director

01.2018 — Present **Ocean Capital Advisors LLC**
Director

09.2018 — Present **Quantum Digital Asset Management Pte. Ltd.**
Member of the Board of Directors

11.2018 — Present **Sirius International Insurance Group, Ltd.**
Member of the Board of Directors

12.2018 — Present **Ananti Inc**
Director

Advisor:

2006 — 2015 **CQS Cayman Limited Partnership**
Advisor

2011 — Present **Forbes & Manhattan**
Advisor

2012 — Present **Santiago Gold Fund**
Advisor

2013 — 01.2018 **Laguna Bay Pastoral Company Pty Ltd**
Advisor

02.2014 — Present **Genagro Limited**
Member of the Advisory Board

07.2015 — 01.2017 **Latitude Technologies Limited**
Senior Advisor

04.2017 — Present **Agritrade Resources Ltd**
Advisor

08.2017 — 08.2018 **ITF Corporation**
Advisor

10.2017 — 10.2018 **Global Blockchain Technologies Corp**
Advisor

Key competencies:
- Finance and audit
- Human resources

RHODES
MARCUS JAMES

Title: **Independent Director**

Year of election: **2011**

Equity interest / Stake of ordinary shares: **0.000644%**

Date of birth: **31 May 1961**

Education:

University of Loughborough
BS in Economics and History of Economics

The Institute of Accountants in England and Wales
Qualified as a chartered accountant, member

2008 — 2015 **OJSC Rosinter Restaurants Holding**
Member of the Board of Directors

2008 — 2016 **OJSC Cherkizovo Group**
Member of the Board of Directors

2008 — 2015 **Tethys Petroleum Limited**
Member of the Board of Directors

2011 — Present **PJSC PhosAgro**
Member of the Board of Directors
Chairman of the Audit Committee

2014 — Present **QIWI plc**
Member of the Board of Directors

2014 — 2017 **Zoltav Resources Inc**
Member of the Board of Directors
(left on 23 May 2017)

2018 — Present **Rustranscom Plc**
Non-Executive Director

Key competencies:
- Finance and audit
- Corporate governance

PASHKEVICH
NATALIA V.

Title: **Independent Director**

Year of election: **2017**

Equity interest / Stake of ordinary shares: **no**

Date of birth: **5 November 1939**

Education:

Leningrad Mining Institute
Grand PhD in Economics, Professor

1999 — Present **Saint Petersburg Mining University**
First Vice-Rector

2017 — Present **PJSC PhosAgro**
Member of the Board of Directors
Member of the Environmental, Health and Safety Committee

Key competencies:
- Chemistry and mining engineering

BOARD OF DIRECTORS OF PJSC PHOSAGRO

continued

RYBNIKOV MIKHAIL K.

Title: **First Deputy CEO of PJSC Phosagro**

Year of election: **2016**

Equity interest / Stake of ordinary shares: **0.0258%**

Date of birth: **30 November 1975**

Education:

Moscow State University
Master's degree in Economics

2011 — 2013	**LLC PhosAgro-Region**	Member of the Management Board
2012 — 2015	**CJSC PhosAgro AG**	CEO Chairman of the Management Board
2012 — 2017	**JSC PhosAgro-Cherepovets**	CEO
2013 — 2013	**OJSC Moscow Stock Exchange**	Member of the Board of Directors
2013 — 2013	**OJSC Apatit**	Member of the Board of Directors
2013 — 2016	**JSC PhosAgro-Cherepovets**	Member of the Board of Directors
2013 — Present	**PJSC PhosAgro**	Member of the Management Board Chairman of the Environmental, Health and Safety Committee, Member of the Strategy Committee, Member of the Risk Management Committee
2015 — 2017	**JSC PhosAgro-Cherepovets**	Chairman of the Managment Board
2016 — Present	**PJSC PhosAgro**	Member of the Board of Directors
2016 — Present	**LLC PhosAgro-Region**	Member of the Management Board
2017 — 2018	**JSC Apatit**	CEO Chairman of the Management Board
2018 — Present	**JSC Apatit**	Member of the Management Board
2018 — Present	**JSC NIIUIF**	Member of the Board of Directors

Key competencies:

- Strategy
- Finance and audit
- Chemistry and mining engineering
- Environment, health and safety

SHARONOV ANDREY V.

Title: **Independent Director**

Year of election: **2017**

Equity interest / Stake of ordinary shares: **no**

Date of birth: **11 February 1964**

Education:

Ufa Aviation Institute
Major in Aviation Instrument Making

Russian Academy of Public Administration under the President of the Russian Federation
Major in Law

2010 — 2013	**Government of Moscow**	Deputy Mayor for Economic Policy
2011 — 2014	**National Research University Higher School of Economics**	Member of the Supervisory Board
2011 — Present	**JSCB Bank of Moscow**	Member of the Board of Directors
2013 — 2016	**Moscow School of Management SKOLKOVO**	Rector
2013 — 2016	**JSC MC Eko-Sistema**	Chairman of the Board of Directors
2014 — 2015	**ALROSA INC (OJSC)**	Member of the Supervisory Board
2014 — Present	**LLC MC NefteTransServis**	Chairman of the Board of Directors
2014 — Present	**PJSC Sovcomflot**	Member of the Board of Directors
2014 — Present	**PJSC NOVATEK**	Member of the Board of Directors
2015 — 2018	**PJSC VTB Bank**	Member of the Supervisory Board
2015 — 2017	**JSC ROSGEO**	Member of the Board of Directors
2015 — 2016	**PJSC Moscow Exchange**	Member of the Supervisory Board
2016 — Present	**Moscow School of Management SKOLKOVO**	President
2017 — Present	**PJSC PhosAgro**	Member of the Board of Directors Member of the the Audit Committee Member of the Remuneration and Human Resources Committee
2018 — Present	**Medicina JSC**	Chairman of the Board of Directors

Key competencies:

- Finance and audit
- Law and corporate governance
- Human resources

BOARD OF DIRECTORS OF PJSC PHOSAGRO
continued

ROLET
XAVIER ROBERT

Title: **Independent Director**

Year of election: **2018**

Equity interest / Stake of ordinary shares: **no**

Date of birth: **12 November 1959**

Education:

KEDGE Business School (France)
MSc — Management Science, International Business

Columbia Business School (USA)
MBA, International Finance

The Institute for Higher National Defence Studies (IHEDN) (France)
Post-graduate degree

2000 — 2007 **Lehman Brothers (New York and London)**
Managing Director

2007 — 2009 **Banque Lehman Brothers S.A. (France)**
CEO

2009 — 2017 **London Stock Exchange Group (LSEG)**
CEO

2011 — Present **Columbia University Business School**
Member of the Board of Overseers

2013 — 2017 **HM Treasury**
Financial Services Trade and Investment Board

2014 — 2017 **The European Securities and Markets Authority (ESMA)**
Securities and Markets Stakeholder Group

2014 — 2017 **Bank of England**
Governor's Financial Services Forum

2017 — 2018 **London Stock Exchange Group (LSEG)**
CEO on garden leave

2017 — Present **Department for International Trade**
Committee of expert advisors

2018 — Present **Shanghai Institute of Finance for the Real Economy — SIFRE**
Expert Advisor

2018 — 02.2019 **Verseon**
Non-executive director

2018 — Present **PJSC PhosAgro**
Member of the Board of Directors, Chairman of the Risk Management Committee

Key competencies:
- Strategy
- Finance and audit
- Risk management
- Law and corporate governance
- Chemistry and mining engineering

BOKOVA
IRINA G.

Title: **Independent Director**

Year of election: **2018**

Equity interest / Stake of ordinary shares: **no**

Date of birth: **12 July 1952**

Education:

Moscow State Institute of International Relations (Russia)
International Relations

John F. Kennedy School of Government at Harvard University (USA), Executive Program
Leadership and Economic Development

1989 — 1989 **University of Maryland School of Public Affairs**
Ford Foundation Fellow on US Foreign Policy

1995 — 1997 **Ministry of Foreign Affairs of the Republic of Bulgaria**
Secretary of the Council of Ministers of Bulgaria for European Integration
Deputy Minister of Foreign Affairs of the Republic of Bulgaria
Bulgaria's First Secretary of State for European Integration

1991 — 1992, 2002 — 2005 **National Assembly of the Republic of Bulgaria**
Member of the National Assembly

2005 — 2009 **UNESCO**
Ambassador of Bulgaria to France and Monaco and Permanent Representative of Bulgaria

2009 — 2017 **UNESCO**
Director-General

2018 — Present **Ban Ki-moon Centre for Global Citizens**
Member of the Board of Directors

2018 — Present **International Automobile Federation**
Member of the Board of Directors

2018 — Present **PJSC PhosAgro**
Member of the Board of Directors
Member of the Remuneration and Human Resources Committee

Key competencies:
- Environment, health and safety
- Human resources

MANAGEMENT BOARD

As of 31 December 2018

GURYEV ANDREY A.

Date of birth: **7 March 1982**

Equity interest / Stake of ordinary shares: **no**

Education:

The University of Greenwich in London
BA in Economics

Academy of National Economy under the Government of the Russian Federation
Master's degree; PhD in Economics

2011 — 2013	**CJSC PhosAgro AG** Deputy CEO for Sales and Logistics (in addition to other duties)
2011 — 2013	**OJSC PhosAgro** Deputy CEO
2011 — Present	**Moscow Rhythmic Gymnastics Federation** President
2012 — Present	**Andrey Guryev Charitable Foundation** Chairman of the Management Board
2012 — 2014	**JSCB Investment Trading Bank OJSC** Member of the Board of Directors
2012 — Present	**LLC PhosAgro-Region** Member of the Management Board
2013 — Present	**PJSC PhosAgro** Member of the Board of Directors
2013 — Present	**PJSC PhosAgro** CEO Chairman of the Managment Board Chairman of the Strategy Committee Member of the Environmental, Health and Safety Committee Member of the Risk Management Committee
2014 — 2016	**JSC PhosAgro-Cherepovets** Member of the Management Board
2014 — Present	**Russian Chess Federation** Member of the Board of Trustees
2015 — Present	**The Russian Olympians Foundation** Member of the Board of Trustees of the Foundation Member of the Board of the Foundation
2015 — Present	**Russian Union of Industrialists and Entrepreneurs** Member of the Management Board
2016 — Present	**Russian Association of Fertilizer Producers** President
2016 — Present	**Russian Rhythmic Gymnastics Federation** Chairman of the Board of Trustees, Vice-President
2016 — Present	**International Fertilizer Industry Association (IFA)** Member of the Board of Directors
2016 — Present	**Miners of Russia non-commercial partnership** Deputy Chairman of the Supreme Mining Council

RYBNIKOV MIKHAIL K.

Date of birth: **30 November 1975**

Equity interest / Stake of ordinary shares: **0.0258%**

Education:

Moscow State University
Master's degree in Economics

2011 — 2013	**LLC PhosAgro-Region** Member of the Management Board
2012 — 2015	**CJSC PhosAgro AG** CEO Chairman of the Management Board
2012 — 2017	**JSC PhosAgro-Cherepovets** CEO
2013 — 2013	**OJSC Moscow Stock Exchange** Member of the Board of Directors
2013 — 2013	**OJSC Apatit** Member of the Board of Directors
2013 — 2016	**JSC PhosAgro-Cherepovets** Member of the Board of Directors
2013 — Present	**PJSC PhosAgro** Member of the Management Board Chairman of the Environmental, Health and Safety Committee, Member of the Strategy Committee, Member of the Risk Management Committee
2015 — 2017	**JSC PhosAgro-Cherepovets** Chairman of the Managment Board
2016 — Present	**PJSC PhosAgro** Member of the Board of Directors
2016 — Present	**LLC PhosAgro-Region** Member of the Management Board
2017 — 2018	**JSC Apatit** CEO Chairman of the Management Board
2018 — Present	**JSC Apatit** Member of the Management Board
2018 — Present	**JSC NIIUIF** Member of the Board of Directors

LOIKOV SIROJ A.

Date of birth: **9 September 1972**

Equity interest / Stake of ordinary shares: **no**

Education:

Tashkent State Economics University
International Economic Relations

Nottingham Trent University (UK)
Bachelor's degree in Business Management

2011 — 2013	**CJSC PhosAgro AG** Human Resources Director
2013 — 2015	**OJSC PhosAgro** Human Resources Director (along with other duties)
2013 — 2015	**CJSC PhosAgro AG** Human Resources and Social Policy Director
2013 — Present	**PJSC PhosAgro** Member of the Management Board
2013 — 2017	**LLC Izumrud** Member of the Board of Directors
2014 — 2015	**CJSC PhosAgro AG** Member of the Management Board
2015 — 2018	**PJSC PhosAgro** Human Resources and Social Policy Director (along with other duties)
2015 — 2018	**LLC Korporativnoe pitanie (Corporate Nutrition)** Member of the Board of Directors
2015 — 2017	**JSC PhosAgro-Cherepovets** Human Resources and Social Policy Director; Member of the Management Board
2017 — 2018	**LLC Tirvas** Member of the Board of Directors
2017 — 2018	**JSC Apatit** Human Resources and Social Policy Director
2017 — 2018	**JSC Apatit** Member of the Management Board
2018 — Present	**PJSC PhosAgro** Deputy CEO

MANAGEMENT BOARD
continued

SHARABAIKO
ALEXANDER F.

Date of birth: **25 February 1977**

Equity interest / Stake of ordinary shares: **no**

Education:
Belarusian State Economic University
Bachelor of Economics with honours

Nottingham University Business School
MBA in Finance

2012 — 2014	**CJSC PhosAgro AG** Chief Financial Officer
2013 — 2014	**OJSC PhosAgro** Chief Financial Officer
2013 — 2015	**CJSC PhosAgro AG** Member of the Management Board
2013 — 2017	**PJSC PhosAgro** Member of the Management Board
2014 — 2015	**CJSC PhosAgro AG** Advisor to the CEO
2014 — Present	**PJSC PhosAgro** Chief Financial Officer
2015 — 2017	**JSC PhosAgro-Cherepovets** Advisor to the CEO Member of the Management Board
2015 — Present	**LLC PhosAgro-Region** Member of the Management Board
2017 — 2018	**PJSC PhosAgro** Member of the Board of Directors
2017 — Present	**JSC Apatit** Advisor to the CEO
2017 — Present	**JSC Apatit** Member of the Management Board
2018 — Present	**PJSC PhosAgro** Member of the Management Board

OSIPOV
ROMAN V.

Date of birth: **4 November 1971**

Equity interest / Stake of ordinary shares: **no**

Education:
Baltic State Technical University
Master's degree from the LETI-Lovanium International School of Management.

2012 — 2015	**PJSC PhosAgro** Member of the Board of Directors
2012 — 2013	**CJSC PhosAgro AG** Member of the Management Board
2013 — 2013	**OJSC PhosAgro** Member of the Management Board
2013 — Present	**PJSC PhosAgro** Business Development Director
2013 — Present	**JSC AgroGard-Finance** Member of the Board of Directors
2014 — Present	**JSC Giproruda** Member of the Board of Directors
10.2017 — Present	**PJSC PhosAgro** Member of the Management Board
2018 — Present	**JSC Apatit** Member of the Management Board

GILGENBERG
ALEXANDER A.

Date of birth: **6 December 1980**

Equity interest / Stake of ordinary shares: **no**

Education:
The Vologda branch of the Moscow State Law Academy
Law degree

2006 — 2013	**CJSC PhosAgro AG** Head of Legal
2013 — 2014	**The Kirovsk branch of CJSC PhosAgro AG** Head of Legal
2014 — 2015	**The Kirovsk branch of CJSC PhosAgro AG** Executive director
2014 — 2018	**LLC Tirvas** Chairman of the Board of Directors
2014 — 2018	**LLC Ecoprom** Member of the Board of Directors
2014 — 2018	**LLC Teleset** Member of the Board of Directors
2015 — 2017	**JSC PhosAgro-Cherepovets** Executive director
2015 — 2018	**JSC Airport** Member of the Board of Directors
2015 — 2018	**JSC Kanatnaya doroga (Cableway)** Member of the Board of Directors
2015 — 2018	**LLC Tsentr Stroitelnikh Materialov (Building Materials wholesale)** Member of the Board of Directors
2015 — 2018	**LLC Gorniy tseh** Member of the Board of Directors
2017 — 2018	**The Kirovsk branch of JSC Apatit** Executive director
2017 — Present	**JSC Hibinskaya Teplovaya Kompaniya** Member of the Board of Directors
2018 — 2018	**PJSC PhosAgro** Deputy CEO and Chief of Staff for the CEO
2018 — Present	**PJSC PhosAgro** Member of the Management Board
2018 — Present	**JSC NIUIF** Member of the Board of Directors
2018 — Present	**JSC Apatit** First Deputy CEO Member of the Management Board

SIROTENKO
ALEXEI A.

Date of birth: **3 January 1969**

Equity interest / Stake of ordinary shares: **no**

Education:
Moscow State University
Degree in jurisprudence

2007 — 2015	**CJSC PhosAgro AG** Member of the Management Board
2010 — Present	**PJSC PhosAgro** Deputy CEO for Corporate and Legal Affairs (along with other duties)
2011 — 2015	**CJSC PhosAgro AG** Legal Affairs Director
2013 — Present	**PJSC PhosAgro** Member of the Management Board
2015 — 2017	**JSC PhosAgro-Cherepovets** Legal Affairs Director Member of the Management Board
2017 — Present	**JSC Apatit** Legal Affairs Director Member of the Management Board

COMMITTEES OF THE BOARD OF DIRECTORS

RISK MANAGEMENT COMMITTEE

Xavier R. Rolet
Committee Chairman

Committee members

Xavier R. Rolet	Ivan Rodionov	Andrey A.Guryev	Mikhail Rybnikov
(since 30 May 2018) Committee Chairman, Independent Non-executive Director of the Board of Directors	(until 30 May 2018) Committee Chairman, Non-executive Director of the Board of Directors	Committee Member, Executive Director	Committee Member, Executive Director

KEY AREAS

The Committee assists the Board of Directors and other corporate units in drafting recommendations and proposals for identifying the most significant risks, developing management measures, as well as improving the risk management system.

The Committee's remit includes:
- assessment of the efficiency of the Company's risk management system and drafting recommendations for its improvement;
- preparation of risk management methodologies, identification of the most significant risks that require constant monitoring and management;
- preparation of recommendations regarding improvement of the risk management system;
- risk appetite determination.

ACTIVITIES IN 2018

Xavier R. Rolet became a member of the Committee in 2018. His key areas of responsibility include risk management, strategy, finance and audit, law and corporate governance, and chemistry and mining.

In 2018, the Risk Management Committee held four meetings. The main issues considered by the Committee in 2018 were:
- Results of the monitoring of the management of key corporate risks (quarterly);
- Results of a reassessment of the Company's key risks and updating the Company's risk map;
- Assessment of the efficiency of the risk management and internal control system.

Key issues to be considered by the Risk Management Committee in 2019:
- Reassessment of the Company's key risks and updating the Company's risk map;
- Assessment of the efficiency of the risk management and internal control system;
- Quarterly monitoring of the management of key corporate risks.

In 2019, the Committee is planning to pay more attention to the Company's risk appetite analysis and deviations. The format of quarterly reports will be adapted to reflect this updated approach.

AUDIT COMMITTEE

Marcus Rhodes
Committee Chairman

Committee members

Marcus Rhodes	Sven Ombudstvedt	James Rogers	Andrey Sharonov
Committee Chairman, Independent Non-executive Director of the Board of Directors	Committee Member, Independent Non-executive Director of the Board of Directors	Committee Member, Independent Non-executive Director of the Board of Directors	Committee Member, Independent Non-executive Director of the Board of Directors

KEY AREAS

The Audit Committee supervises the Company's financial and accounting activities. It reviews and evaluates the Company's financial statements, which are prepared by the Company and audited by the Company's external auditor.

According to the Regulations on the Company's Audit Committee, the Audit Committee shall consist of no fewer than three current members of the Board of Directors and shall be chaired by an independent director.

The Committee's remit includes:
- reviewing the IFRS financials for integrity and transparency;
- analysis of financial reporting processes, including carrying out regular reviews and making recommendations for the Board of Directors;
- recommending the Company's external auditor to the Board of Directors and maintaining an ongoing relationship with the external auditor;
- analysis and support of the internal audit system and risk management procedures, including drafting recommendations for their improvement.

ACTIVITIES IN 2018

During the reporting period, the Audit Committee held five meetings, where matters covering all priority areas of the Company's activity were considered.

In 2018, the Audit Committe focused on the following issues, among others:
- Establishing targets for the 2019 consolidated budget and monitoring the budget planning process;
- Analysis of the implementation of the 2018 budget;
- Analysis of the Company's financial performance based on IFRS consolidated financial statements, including reasons for changes as compared with the results of previous periods;
- Distribution of quarterly press releases on the Company's performance for investors;
- Analysis of the Company's compliance with Russian and European legislation on the protection and use of insider information;
- Assessing the Company's internal oversight and internal audit system;
- Further improving the quality of the financial accounting and report preparation process;
- Developing a 2019 performance plan for the Company's Internal Audit Department and monitoring the implementation of the 2018 plan, as well as assessing the performance of the Internal Audit Department and monitoring the implementation of recommendations.

COMMITTEES OF THE BOARD OF DIRECTORS
continued

STRATEGY COMMITTEE

Andrey A. Guryev
Committee Chairman

Committee members

Andrey A. Guryev	Andrey G. Guryev	Mikhail K. Rybnikov	Sven Ombudstvedt
Committee Chairman, Executive Director	Committee Member, Non-executive Director	Committee Member, Executive Director	(since 30 May 2015) Committee Member, Independent Director

KEY AREAS

The Strategy Committee assists the Board of Directors in the development of the Company's strategy and related processes, including management of the Company's assets and review of major innovation and investment programmes and projects. The Committee and its Chairman are appointed by the Board of Directors, which ensures a comprehensive discussion and analysis of issues within the Committee's remit and considers a variety of opinions.

The Committee's remit includes:
- monitoring and updating the Company's mid-term and long-term strategy, and drafting policy as required;
- evaluating the development of the Company's subsidiaries, including reviewing their strategies;
- making recommendations regarding the Company's M&A projects;
- analysis and recommendations regarding potential strategic partnerships.

ACTIVITIES IN 2018

Following the Board of Directors' self-assessment in 2018, Sven Ombudsvedt became a member of the Committee. His key areas of responsibility include strategy, finance and audit, and chemisty and mining.

In 2018, the Strategy Committee held one meeting, where the following issues were considered:
- Implementation status of the approved Corporate Development Strategy;
- A strategy for the development of fertilizer production, an assessment of the Company's economic efficiency, and the outlook to 2025 in terms of the expansion of output;
- Key indicators and sales development models;
- Key areas of logistics development;
- Future projects (assessment of prospects, preliminary calculation of the efficiency of new products);
- Key investment projects in 2019.

In 2018, the Committee worked on creation of the Corporate Development Strategy to 2025, which is aimed at further strengthening of the Company's leading position in the global phosphate-based fertilizer industry.

REMUNERATION AND HUMAN RESOURCES COMMITTEE

James Rogers
Committee Chairman

Committee members

James Rogers	Andrey Sharonov	Irina Bokova	Sven Ombudstvedt	Marcus Rhodes
Committee Chairman, Independent Non-executive Director	(since 20 November 2018) Committee Member, Independent Non-executive Director	(since 20 November 2018) Committee Member, Independent Non-executive Director	(until 20 November 2018) Committee Member, Independent Non-executive Director	(until 20 November 2018) Committee Member, Independent Non-executive Director

KEY AREAS

The Regulations on the Remuneration and Human Resources Committee require that the Committee Chairman be an Independent Non-executive Director on the Company's Board of Directors, and that the Chief Executive Officer cannot be a member of the Committee.

The Committee's remit includes:
- development of the Company's policy in relation to organising the activities and incentivisation of the Board of Directors;
- development of the Human Resources Policy in relation to the Company's senior management, and supervision of its implementation.

ACTIVITIES IN 2018

Andrey Sharonov and Irina Bokova (independent directors) became members of the Committee in 2018. Both have the relevant experience.

Mr Sharonov's key areas of responsibility include finance and audit, law and corporate governance, and HR management, while Ms Bokova's key areas of responsibility include HR management and environment, health and safety.

During the reporting period, the Remuneration and Human Resources Committee held four meetings. The main issues considered by the Committee in 2018 were:
- Assessment of the professional skills and independence of all candidates for the Board of Directors;
- Assessment of the performance of the Company's executive bodies and senior executives in 2017 in accordance with the criteria described in the Company's Remuneration Policy, as well as a preliminary assessment of the goals achieved by the above-mentioned executives in line with the Company's incentivisation programme;
- Results of the implementation of social programmes in 2017 and the key social policy areas in 2018;
- Analysis of Board members' involvement in Board activities in accordance with the Regulations on the Company's Remuneration and Human Resources Committee and the guidelines established by the Corporate Governance Code;
- Assessment of the Corporate Secretary's performance;
- Results of the employment satisfaction survey conducted at PhosAgro and other Group companies, as well as an analysis of the results and the drafting of recommendations;
- Recommending that the Board of Directors approve the methodology and schedule for the Board's performance self-assessment in 2018.

COMMITTEES OF THE BOARD OF DIRECTORS
continued

ENVIRONMENTAL, HEALTH AND SAFETY COMMITTEE

Mikhail Rybnikov
Committee Chairman

Committee members

Mikhail Rybnikov	Andrey A. Guryev	Natalia Pashkevich	Sven Ombudstvedt
Committee Chairman, Executive Director	Committee Member, Executive Director	(since 30 May 2018) Committee Member, Independent Non-executive Director	(until 30 May 2018) Committee Member, Independent Non-executive Director

KEY AREAS

The Environmental, Health and Safety Committee was formed to oversee the Company's activities in the areas of environmental protection, the efficient use of natural resources and energy, and occupational health and safety for employees, including the avoidance of industrial accidents, and to advise the Board of Directors on such issues. The Committee and its Chairman are appointed by the Board of Directors.

The Committee's remit includes:

- the Company's compliance with legal and regulatory requirements relating to environmental and health and safety issues;
- the Company's development and enforcement of policies, procedures and practices beneficial to the protection of the environment and the health and safety of employees, contractors, customers and the public;
- the evaluation of the Company's efficient use of natural resources and energy, enforcement of energy-saving and resource conservation activities within the Company, and providing recommendations for further implementation and improvement of these activities;
- the prevention of industrial accidents, including plans, programmes and processes established by the Company to evaluate, manage and decrease risks of industrial accidents;
- the improvement of conditions related to the health and safety of the Company's employees, and the enforcement of policies for decreasing and eliminating occupational injuries.

ACTIVITIES IN 2018

Natalia Pashkevich became a member of the Committee in 2018. Her knowledge and experienced enabled the Committee to conduct an assessment of the environmental technology used by the Company, taking into account the latest scientific and technological advancements, including those developed by the Saint Petersburg Mining University.

During the reporting period, the Environmental, Health and Safety Committee held two meetings, where the following issues were covered:

- Key results of work aimed at compliance with the regulatory occupational health and safety requirements for the operation of production facilities at the Company's subsidiaries as well as benchmark results;
- Key results of work aimed at environmental safety compliance at the Company's subsidiaries;
- Factor analysis of changes in payment for any negative impact on the environment;
- Review of changes to Russian environmental protection legislation and analysis of possible effects for the Company's subsidiaries;
- Analysis and assessment of the key aspects of measures taken by PhosAgro Group companies to improve energy efficiency.

The Committee monitored the implementation of environmental mitigation plans by the management of PhosAgro Group companies.

In 2018, the Committee focused on analysing the Company's adverse impact on the environment in comparison with that of other companies, as well as a comparison with the expected adverse environmental impact if the best available technologies were used.

SHARES AND DIVIDENDS

Share capital
PhosAgro's authorised capital as of 31 December 2018 is RUB 323,750,000, consisting of 129,500,000 ordinary shares with a par value of RUB 2.5 per share.

Stock exchanges
PhosAgro's shares are traded on the A1 quotation list of the Moscow Exchange under the symbol PHOR (ISIN: RU000A0JRKT8).

Global depositary receipts (three GDRs represent one share) are traded in the Main Market of the London Stock Exchange under the symbol PHOR.

Regulation S GDRS
CUSIP number: 71922G209 ISIN: US71922G2093
Common code: 065008939 SEDOL: 0B62QPJ1
RIC: PHOSq.L

Rule 144A GDRS
CUSIP number: 71922G100 ISIN: US71922G1004
Common code: 065008939 SEDOL: 0B5N6Z48
RIC: GBB5N6Z48.L

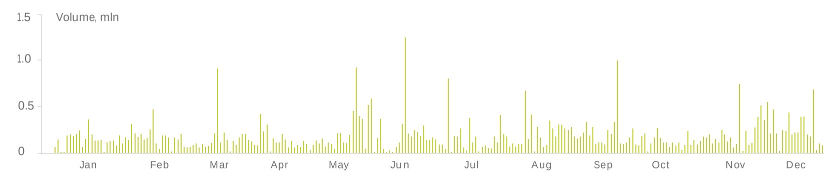
Citigroup Global Markets Deutschland AG acts as the depositary for the Company's GDR Programme.

Analyst coverage
PhosAgro is covered by analysts from leading Russian and international brokers:

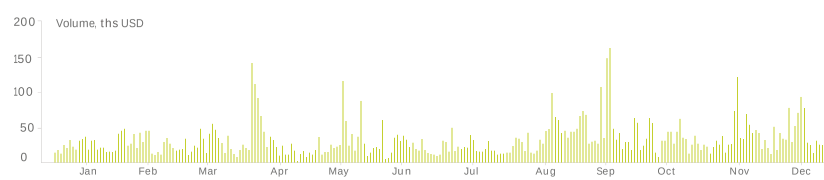
Company	Analyst	Phone
Aton	Andrey Lobazov	+7 (495) 213 0337
BCS Investment Bank	Oleg Petropavlovskiy	+7 (495) 785 5336
BMO	Joel Jackson	+1 (416) 359 4250
Credit Suisse	Semyon Mironov	+7 (495) 662 8510
Gazprombank	Matvey Taits	+7 (495) 983 1800
Goldman Sachs	Nina Dergunova	+7 (495) 645 4230
Morgan Stanley	Muneeba Kayani	+971 (4) 709 7117
Deutsche Bank	Denis Gabrielik	+971 (4) 428 3870
Raiffeisen	Konstantin Yuminov	+7 (495) 221 9842
Sberbank CIB	Irina Lapshina	+7 (495) 258 0511
VTB Capital	Elena Sakhnova	+7 (495) 663 4682
Uralsib	Denis Vorchik	+7 (495) 788 0888
BAML	Stephanie Bothwell	+44 (20) 799 50371
Alfa Bank	Boris Krasnojenov	+7 (495) 795 3612

SHARE/GDR PERFORMANCE

LONDON STOCK EXCHANGE



MOSCOW EXCHANGE



SHARES AND DIVIDENDS
continued

Ownership structure
Based on information available to the Company, the shares of Chlodwig Enterprises Limited and Adorabella Limited are held in trusts where the economic beneficiaries are Mr Andrey Guryev and members of his family.

As of 29 December 2018, there were no shareholders in the Company with a stake of more than 5% beyond those already disclosed by the Company (in the table above).

The Company does not have any information about the possibility of acquisition or the actual acquisition by certain shareholders of a degree of control disproportionate to their participation in the Company's authorised capital, including on the basis of shareholder agreements or because of the availability of ordinary and preferred shares with different nominal values.

	Number of shares	Share, %
Adorabella Limited	27,385,162	21.15%
Chlodwig Enterprises Limited	29,151,400	22.51%
Igor Antoshin[1]	5,941,353	4.59%
Vladimir Litvinenko	25,052,800	19.35%
Evgenia Guryeva	6,235,960	4.82%
Free float	35,733,325	27.59%
Total:	**129,500,000**	**100%**

Number of shareholders and other registered persons in the Company's register as of 29 December 2018	**10,792**
Number of voting shares in the Company	**129,500,000 shares**
Shares held by the Company and its subsidiaries	**no**

[1] Igor Antoshin's stake in PhosAgro does not include ordinary shares in the Company that were transferred by him under a repo deal.

Dividends
PhosAgro's dividend policy calls for a target payout ratio of 30–50% of consolidated IFRS net profit, and the Board of Directors considers recommendations of a dividend payment on a quarterly basis.

DIVIDENDS ACCRUED IN 2018 WERE PAID IN FULL

On 19 March 2019, PhosAgro's Board of Directors recommended a final 2018 dividend of RUB 51 per share (RUB 17 per depositary receipt), or RUB 6.6 billion in total. If approved by the Annual General Shareholders' Meeting (AGM) on 24 May 2019, this will bring PhosAgro's payout ratio to 60% of net profit, demonstrating our commitment to the Company's dividend policy and to upholding the promises made to shareholders during the IPO and SPO.

In 2018, PhosAgro acted as a tax agent when it paid out dividends to the accounts of organisations that own shares as listed in the Russian share register. The Company calculated and withheld tax on those dividends and remitted the amount of tax to the relevant authorities. Dividends paid out to shareholders were net of the amount of the tax deducted. The withholding tax rate depends on the status of the shareholder, in accordance with the information that the shareholder provides. PhosAgro also took into account any double taxation treaties and, where appropriate, made tax payments in accordance with the provisions of the relevant treaty.

Due to changes in Russian Federation law related to the payment of dividends that came into effect on 1 January 2015, existing or potential PhosAgro shareholders and holders of the Company's GDRs are advised to consult their tax advisors for tax implications with regard to dividend payments. The refund of previously withheld tax on income paid to foreign organisations in respect of which the Russian Federation's international treaties regulating taxation matters or for which a specific article provides for a special taxation regulation shall be performed by the tax authority at the place of registration of the tax agent within three years from the end of the tax period in which the income was paid.

DIVIDEND PAYMENTS

Type and date of the General Shareholders' Meeting where the relevant resolution on the declaration of dividends was adopted	Reporting period for which (following the results of which) the declared dividends are (were) paid	Declared dividends, total, RUB	Declared dividends per	
			ordinary share, RUB	depositary receipt, RUB
EGSM 22 January 2019	– *	9,324,000,000	72.00	24.00
EGSM 1 October 2018	– *	5,827,500,000	45.00	15.00
EGSM 6 July 2018	– *	3,108,000,000	24.00	8.00
AGSM 30 May 2018	– *	1,942,500,000	15.00	5.00
EGSM 26 February 2018	– *	2,719,500,000	21.00	7.00
EGSM 2 October 2017	– *	3,108,000,000	24.00	8.00
EGSM 5 July 2017	– *	2,719,500,000	21.00	7.00
AGSM 30 May 2017	2016	3,885,000,000	30.00	10.00
EGSM 16 January 2017	– *	5,050,500,000	39.00	13.00
EGSM 3 October 2016	– *	4,273,500,000	33.00	11.00
EGSM 29 July 2016	– *	8,158,500,000	63.00	21.00
AGSM 31 May 2016	2015	7,381,500,000	57.00	19.00
EGSM 15 January 2016	– *	8,158,500,000	63.00	21.00
EGSM 6 October 2015	– *	7,381,500,000	57.00	19.00
EGSM 14 July 2015	– *	6,216,000,000	48.00	16.00
AGSM 8 June 2015	2014	1,942,500,000	15.00	5.00
EGSM 31 December 2014	9 M 2014	2,590,000,000	20.00	6.67
EGSM 16 September 2014	6 M 2014	3,237,500,000	25.00	8.33
AGSM 13 June 2014	– *	2,499,350,000	19.30	6.43

* Payments were made from undistributed profit for previous years.

Information disclosure
PhosAgro strictly follows the requirements imposed by Russian securities regulations, as well as rules for the companies traded on the LSE, in its information disclosure and filings. The Company publicly discloses all required information to shareholders and investors in a timely manner through authorised newswires; the corporate website, www.phosagro.ru, http://www.phosagro.ru/ori/item4157.php and http://www.e-disclosure.ru/portal/company.aspx?id=573 (PhosAgro's official disclosure page on the Interfax portal).

MANAGEMENT RESPONSIBILITY STATEMENT

THE COMPANY'S MANAGEMENT HEREBY CONFIRMS THAT, TO THE BEST OF ITS KNOWLEDGE:

The financial statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

The management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Company was guided by GRI standards, as well as the principles of the ISO 26000 and AA 1000 standards during the preparation of the intregrated report.

A draft of this integrated report was reviewed and pre-approved at a Board of Directors meeting on 19 March 2019. It was also reviewed and pre-approved at the Annual General Shareholders' Meeting on 24 May 2019.

THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 WERE APPROVED BY THE BOARD OF DIRECTORS ON 19 MARCH 2019

Andrey A. Guryev
Chairman of the Management Board and Chief Executive Officer of PJSC PhosAgro

06 FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the consolidated financial statements of PJSC "PhosAgro" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

VALUATION OF DEFERRED TAX ASSETS

The key audit matter	How the matter was addressed in our audit
The Group has recognised significant deferred tax assets in respect of tax losses.	Our audit procedures included the following:
The recovery of the deferred tax assets depends on achieving sufficient taxable profits in the future.	We analysed the underlying methodology and tested the mathematical accuracy of the taxable profits forecast model used to estimate the likelihood of the recovery of deferred tax assets.
Future taxable profits to be used for utilisation of tax losses accumulated by the Company mainly represent interest income to be received by the Company on the loans issued to the Group subsidiaries less expenses of the Company.	We evaluated the appropriateness of management's key assumptions and estimates, in particular the likelihood of generating sufficient future taxable profits to support the recognition of deferred tax assets, in reference to performance trends and dividend capacity of the Group subsidiaries.
The assessment of the potential to utilise the tax losses is dependent on the forecast profitability of the Group subsidiaries, the amount of dividends to be distributed to the Company, expected foreign currency exchange and interest rates for loans.	We corroborated expected interest rates for loans to be issued and financing to be received by the Company to publicly available market benchmarks.
There is inherent uncertainty involved in forecasting timing and quantum of future taxable profits, which support the extent to which tax assets are recognised. Therefore, this is the key judgmental area our audit is concentrated on.	Using KPMG tax specialist, we considered the appropriateness of the application of relevant tax legislation by the Group, in relation to the utilisation of tax losses.

Audited entity: PJSC "PhosAgro"
Registration No. in the Unified State Register of Legal Entities 1027700190572.
Moscow, Russia

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

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

Key Audit Matters

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

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

FINANCIAL STATEMENTS
continued

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

I.A. Yagnov
JSC "KPMG"
Moscow, Russia
19 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR 2018,

RUB mln

	Note	2018	2017
Revenues	7	233,430	181,351
Cost of sales	9	(123,964)	(101,817)
Gross profit		**109,466**	**79,534**
Administrative expenses	10	(14,864)	(14,018)
Selling expenses	11	(34,410)	(25,201)
Taxes, other than income tax		(3,469)	(2,679)
Other expenses, net	12	(2,726)	(1,647)
Operating profit		**53,997**	**35,989**
Finance income	13	447	615
Finance costs	13	(6,098)	(6,990)
Foreign exchange (loss)/gain, net	29(b)	(19,613)	4,141
Share of (loss)/profit of associates, net of provision	16	(623)	287
Profit before tax		**28,110**	**34,042**
Income tax expense	14	(5,975)	(8,711)
Profit for the year		**22,135**	**25,331**
Attributable to:			
Non-controlling interests*		66	(2)
Shareholders of the Parent		22,069	25,333
Other comprehensive income/(loss) **Items that will never be reclassified to profit or loss**			
Actuarial gains and losses	26	(170)	(342)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation difference		2,872	(377)
Other comprehensive income/(loss) for the year		**3,042**	**(719)**
Total comprehensive income for the year		**25,177**	**24,612**
Attributable to:			
Non-controlling interests*		66	(2)
Shareholders of the Parent		25,111	24,614
Basic and diluted earnings per share (in RUB)	24	170	196

* Non-controlling interests are the minority shareholders of the subsidiaries of PJSC "PhosAgro"

The consolidated financial statements were approved on 19 March 2019:

A.A. Guryev
Chief executive officer

A.F. Sharabaiko
Chief financial officer

FINANCIAL STATEMENTS
continued

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018,

RUB mln

	Note	31 December 2018	31 December 2017
Assets			
Property, plant and equipment	15	186,231	175,113
Catalysts		2,414	1,900
Advances issued for property, plant and equipment		6,759	2,334
Intangible assets		1,786	1,773
Investments in associates	16	506	969
Deferred tax assets	17	8,995	5,371
Other non-current assets	18	1,843	1,955
Non-current assets		**208,534**	**189,415**
Other current investments	19	313	352
Inventories	20	31,870	25,445
Trade and other receivables	21	36,186	33,727
Cash and cash equivalents	22	9,320	2,691
Current assets		**77,689**	**62,215**
Total assets		**286,223**	**251,630**
Equity	**23**		
Share capital		372	372
Share premium		7,494	7,494
Retained earnings		93,951	85,480
Other reserves		7,809	4,767
Equity attributable to shareholders of the Parent		109,626	98,113
Equity attributable to non-controlling interests		195	129
Total equity		**109,821**	**98,242**
Liabilities			
Loans and borrowings	25	122,877	76,530
Finance lease liabilities	27(a)	376	1,004
Defined benefit obligations	26	630	950
Deferred tax liabilities	17	9,023	7,914
Non-current liabilities		**132,906**	**86,398**
Loans and borrowings	25	20,679	44,025
Finance lease liabilities	27(a)	718	1,117
Trade and other payables	28	21,473	21,848
Derivative financial liabilities		626	–
Current liabilities		**43,496**	**66,990**
Total equity and liabilities		**286,223**	**251,630**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2018,

RUB mln

	Note	2018	2017
Cash flows from operating activities			
Profit before tax		28,110	34,042
Adjustments for:			
Depreciation and amortisation	9, 10, 11	20,911	14,807
Loss on disposal of property, plant and equipment and intangible assets	12	586	614
Finance income	13	(447)	(615)
Finance costs	13	6,098	6,980
Share of profit of associates, net of provision	16	623	(287)
Foreign exchange loss/(gain), net		19,613	(4,371)
Operating profit before changes in working capital and provisions		75,494	51,170
Increase in inventories		(5,438)	(6,917)
Decrease/(increase) in trade and other receivables		324	(1,240)
Increase/(decrease) in trade and other payables		655	(134)
Cash flows from operations before income taxes and interest paid		71,035	42,879
Income tax paid		(6,146)	(8,326)
Finance costs paid		(5,210)	(4,558)
Cash flows from operating activities		**59,679**	**29,995**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(38,416)	(35,918)
(Issue)/repayment of loans issued, net		(257)	475
Proceeds from disposal of property, plant and equipment		19	365
Finance income received		307	371
(Acquisition)/disposal of investments, net		(8)	359
Other payments		(814)	-
Cash flows used in investing activities		**(39,169)**	**(34,348)**
Cash flows from financing activities			
Proceeds from borrowings	25	83,874	90,094
Repayment of borrowings	25	(83,572)	(74,245)
Dividends paid to shareholders of the Parent	23	(13,598)	(14,763)
Dividends paid to non-controlling interests		-	(5)
Finance leases paid	25	(1,285)	(1,365)
Payments for settlement of derivatives		(22)	-
Other payments		-	(22)
Cash flows used in financing activities		**(14,603)**	**(306)**
Net increase/(decrease) in cash and cash equivalents		**5,907**	**(4,659)**
Cash and cash equivalents at 1 January		2,691	7,261
Effect of exchange rates fluctuations		722	89
Cash and cash equivalents at 31 December	**22**	**9,320**	**2,691**

FINANCIAL STATEMENTS
continued

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 2018,

ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT

RUB mln

	Share capital	Share premium	Retained earnings	Actuarial gains and losses	Foreign currency translation reserve	Attributable to non-controlling interests	Total
Balance at 1 January 2017	**372**	**7,494**	**74,932**	**(384)**	**5,870**	**137**	**88,421**
Total comprehensive income for the year							
Profit for the year	–	–	25,333	–	–	(2)	25,331
Actuarial gains and losses	–	–	–	(342)	–	–	(342)
Foreign currency translation difference	–	–	–	–	(377)	–	(377)
	–	–	**25,333**	**(342)**	**(377)**	**(2)**	**24,612**
Transactions with owners recognised directly in equity							
Dividends to shareholders of the Parent	–	–	(14 763)	–	–	(6)	(14 769)
Other	–	–	(22)	–	–	–	(22)
	–	–	**(14 785)**	–	–	**(6)**	**(14 791)**
Balance at 31 December 2017	**372**	**7 494**	**85 480**	**(726)**	**5 493**	**129**	**98 242**
Balance at 1 January 2018	**372**	**7 494**	**85 480**	**(726)**	**5 493**	**129**	**98 242**
Total comprehensive income for the year							
Profit for the year	–	–	22,069	–	–	66	22,135
Actuarial gains and losses	–	–	–	170	–	–	170
Foreign currency translation difference	–	–	–	–	2,872	–	2,872
	–	–	**22,069**	**170**	**2,872**	**66**	**25,177**
Transactions with owners recognised directly in equity							
Dividends to shareholders of the Parent, note 23	–	–	(13,598)	–	–	–	(13,598)
	–	–	**(13,598)**	–	–	–	**(13,598)**
Balance at 31 December 2018	**372**	**7,494**	**93,951**	**(556)**	**8,365**	**195**	**109,821**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2018

1. BACKGROUND

(a) Organisation and operations

PJSC "PhosAgro" (the "Company" or the "Parent") and its subsidiaries (together referred to as the "Group") comprise Russian legal entities and foreign trading subsidiaries. The Company was registered in October 2001. The Company's location is Leninsky prospekt 55/1 building 1, Moscow, Russian Federation, 119333.

The Group's principal activity is production of apatite concentrate and mineral fertilisers at plants located in the cities of Kirovsk (Murmansk region), Cherepovets (Vologda region), Balakovo (Saratov region) and Volkhov (Leningrad region), and their distribution across the Russian Federation and abroad.

The Company's key shareholders are two Cyprus entities holding approximately 20% of the Company's ordinary shares each. The majority of the shares of the Company are ultimately owned by trusts, where the economic beneficiary is Mr. Andrey G. Guryev and his family members.

(b) Russian business environment

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

Starting in 2014, the United States of America, the European Union and some other countries have imposed and expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

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

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Group additionally prepares IFRS consolidated financial statements in the Russian language in accordance with the Federal Law No. 208-FZ On consolidated financial reporting.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments available-for-sale are stated at fair value.

(c) Functional currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Parent and its subsidiaries, except for foreign trading subsidiaries, where the functional currency is USD.

(d) Presentation currency

These consolidated financial statements are presented in RUB. All financial information presented in RUB has been rounded to the nearest million, except per share amounts.

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

- Assets and liabilities as at 31 December 2018 were translated at the closing exchange rate of RUB 69.4706 for USD 1 (31 December 2017: RUB 57.6002 for USD 1);
- Profit and loss items were translated at the average exchange rate for 2018 of RUB 62.7078 for USD 1 (for 2017: RUB 58.3529 for USD 1);
- Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction;
- The resulting foreign exchange difference is recognised in other comprehensive income.

FINANCIAL STATEMENTS
continued

The translation from EUR into RUB, where applicable, was performed as follows:
- Assets and liabilities as at 31 December 2018 were translated at the closing exchange rate of RUB 79.4605 for EUR 1 (31 December 2017: RUB 68.8668 for EUR 1);
- Profit and loss items were translated at the average exchange rate for 2018 of RUB 73.9546 for EUR 1 (for 2017: RUB 65.9014 for EUR 1);
- Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction;
- The resulting foreign exchange difference is recognised in other comprehensive income.

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

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

Information about critical assumptions and estimation uncertainties that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:
- Note 3(c)(iv) – estimated useful lives of fixed assets;
- Note 17 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

(f) Adoption of new and revised standards and interpretations
The Group has adopted new standards that are mandatory for financial annual periods beginning on 1 January 2018.

IFRS 9 Financial Instruments has replaced IAS 39 Financial Instruments: Recognition and Measurement. The standard provides amended guidance on the classification, recognition and measurement of financial assets and liabilities. The major impact from the transition relates to the classification of financial assets and introduction of an expected credit loss model which results in the earlier recognition of credit losses and is more forward looking than the previous incurred loss model. The Group used an exemption in IFRS 9, which allows not to restate prior periods in the year of initial application.

The Group estimated the expected credit losses for the entire period of the financial instruments, applying a simplified approach to measuring expected credit losses for trade receivables, which uses lifetime expected loss allowance. In the terms of calculating the expected credit loss, the Group considers the credit rating for each counterparty, adjusted with forward-looking factors specific to the debtors, historical credit loss experience and economic environment in which they operate. As at 1 January 2018, there was no effect on the Group's consolidated financial statements as a result of the implementation of an expected credit loss model. As at 31 December 2018, the Group's estimation of the expected credit losses resulted in the increase of the allowance for doubtful debts for trade receivables by RUB 69 million (USD 1 million) compared to the historical credit loss model required by IAS 39.

IFRS 15 Revenue from Contracts with Customers has replaced IAS 11 Construction Contracts and IAS 18 Revenues. The standard outlines the principles an entity must apply to measure and recognise revenue. The Group applies IFRS 15 using the cumulative effect method (without practical simplifications). The effect of application of new standard on the date of the initial application (1 January 2018) is estimated to be insignificant. Therefore, the information reported for 2017 was not restated and presented in the form in which it was previously reported in accordance with IAS 18, IAS 11 and related clarifications.

The Group analysed the impact of the new standard on the financial statements. As a result, the Group determined that under the terms of the majority supply mineral fertilizers contracts Group undertakes to provide delivery of goods and the related delivery services after the transfer of control over the goods to the buyer at the loading port. According to IAS 18, the Group recognised such services and charged the full costs at the time of loading. According to IFRS 15, these services are a separate performance obligation, which revenue must be recognised during the period of delivery as revenue from logistics activities. The Group recognizes revenue from these logistics services at the time of delivery, due to the fact that the potential difference is calculated and recognised as insignificant.

The group also assessed the impact of the new standard on the revenue disclosure. The Group believes that the current disclosure meets the requirements of the new standard. The Group will continue to monitor the impact of accounting for logistics services as separate contractual obligations and will make the necessary changes to accounting policies in the future if the effect becomes significant.

The effect of applying the new standard as at and for the year ended 31 December 2018 to various reporting items was insignificant.

Other new standards and interpretations to standards set out below became effective 1 January 2018 and did not have any impact or did not have a material impact on the Group's consolidated financial statements:
- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture;
- Amendments to IFRS 2, Share-based Payment;
- Amendments to IFRS 4, Applying IFRS 9 Financial instruments with IFRS 4, Insurance contracts;
- IFRIC 22, Foreign Currency Transactions and Advance Consideration;
- Amendments to IAS 40, Transfers of Investment property.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018:

RUB mln

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Equity securities	Available-for-sale	Mandatorily at FVTPL	755	755
Debt securities	Held to maturity	Amortised cost	21	21
Long-term loans issued	Loans and receivables	Amortised cost	426	426
Other long-term assets	Loans and receivables	Amortised cost	753	753
Short-term loans issued	Loans and receivables	Amortised cost	314	314
Interest receivable	Loans and receivables	Amortised cost	38	38
Trade accounts receivable	Loans and receivables	Amortised cost	14,971	14,971
Receivables from employees	Loans and receivables	Amortised cost	26	26
Other receivables	Loans and receivables	Amortised cost	818	818
Cash and cash equivalents	Loans and receivables	Amortised cost	2,691	2,691
Total financial assets			**20,813**	**20,813**
Financial liabilities				
Loans and borrowings	Other financial liabilities	Other financial liabilities	(120,656)	(120,656)
Finance lease liabilities	Other financial liabilities	Other financial liabilities	(2,121)	(2,121)
Trade and other payables	Other financial liabilities	Other financial liabilities	(12,385)	(12,385)
Total financial liabilities			**(135,162)**	**(135,162)**

FINANCIAL STATEMENTS
continued

(g) New standards and interpretations not yet adopted
The following standard is not yet effective as at 31 December 2018, and have not been applied in preparing these consolidated financial statements:

IFRS 16 Leases has replaced IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 is expected to have a material impact on the Group's financial statements in the period of initial application.

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below.

In respect of the leases in which the Group is a lessee, new assets and liabilities will be recognised for the Group's operating leases of land, buildings and other facilities (see Note 27). The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

No significant impact is expected for the Group's finance leases.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of RUB 1,800 million as at 1 January 2019. The Group does not expect the adoption of IFRS 16 to impact its ability to comply with the loan covenants.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the adoption of IFRS 9 and IFRS 15 from 1 January 2018.

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

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

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

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

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

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

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

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

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

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

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

(iii) Subsequent expenditure
Expenses in connection with ordinary maintenance and repairs are recognised in the statement of profit or loss as they are incurred.

Expenses in connection with periodic maintenance on property, plant and equipment are recognised as assets and depreciated on a straight-line basis over the period until the next periodic maintenance, provided the criteria for capitalizing such items have been met.

Expenses incurred in connection with major replacements and renewals that materially extend the life of property, plant and equipment are capitalised and depreciated on a systematic basis.

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

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

Buildings	**12 to 17 years**
Plant and equipment	**4 to 15 year**
Fixtures and fittings	**3 to 6 years**

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

Buildings	**10 to 60 years**
Plant and equipment	**5 to 35 years**
Fixtures and fittings	**2 to 25 years**

FINANCIAL STATEMENTS
continued

(d) Intangible assets

(i) Research and development

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

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

(ii) Other intangible assets

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

(iii) Amortisation

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

(e) Financial assets

Non-derivative financial instruments.

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

From 1 January 2018, the Group financial assets are classified in the following measurement categories based on the on the Group's business model for managing the financial assets and the contractual terms of the cash flows: financial assets at amortised cost; financial assets at fair value (either through other comprehensive income or profit or loss).

Financial assets at amortised cost.

Financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss ("FVTPL"):

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any gains or losses arising from derecognition are recognised directly in profit or loss.

Financial assets at fair value through other comprehensive income ("FVOCI").

Financial assets are classified and measured at fair value through other comprehensive income if they meet both of the following conditions and are not designated as at FVTPL:

- They are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- Their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss.

Financial assets at fair value through profit or loss ("FVPL").

Financial asset that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss ("FVPL").

(f) Inventories

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

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

(g) Impairment

Financial assets

Previously under IAS 39 a financial asset not carried at fair value through profit or loss was assessed at each reporting date to determine whether there was any objective evidence that it was impaired. A financial asset was impaired if objective evidence indicated that a loss event had occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets were impaired could include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer would enter bankruptcy, the disappearance of an active market for a security.

From 1 January 2018 an impairment loss in respect of a financial asset measured at amortised cost the Group has changed the accounting policy for impairment losses of financial assets held at amortised cost by replacing incurred loss model with an ECL model following the transition to IFRS 9. Under IFRS 9, loss allowances are measured on either of the following bases: 12-month ECLs that result from default events that are possible within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument.

For trade receivables the Group estimated the expected credit losses for the entire period, applying a simplified approach to measuring expected credit losses, which uses lifetime expected loss allowance. In the terms of calculating the expected credit loss, the Group considers the credit rating for each counterparty, adjusted with forward-looking factors specific to the debtors, historical credit loss experience and economic environment in which they operate.

If, in a subsequent period, the fair value of an impaired financial assets increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

Non-financial assets

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

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

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

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

FINANCIAL STATEMENTS
continued

(h) Share capital

(i) Repurchase of share capital

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

(ii) Dividends

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

(i) Financial liabilities

The Group financial liabilities comprise trade and other payables, borrowings and bonds and derivative financial instruments. The Group financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities include derivatives, other liabilities held for trading, and liabilities that the Group designates to be measured at fair value through profit or loss.

The Group derecognises a financial liability when its obligation specified in the contract is discharged or cancelled or expires.

(j) Employee benefits

(i) Pension plans

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised immediately as an expense in the profit or loss. To the extent the benefits vest immediately, the expense is recognised immediately in the profit or loss.

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

(ii) Long-term service benefits other than pensions

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

(iii) State pension fund

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

(k) Provisions

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

(l) Income tax

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

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

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

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

(m) Revenues

Revenue from contracts with customers is recognised when control of the goods or services is transferred to a customer. The amount of revenue recognised reflects the consideration the Group expects to receive in exchange for goods or services, taking into account any trade, volume and other discounts. Advances received before the control passes to a customer are recognised as the contract liabilities. There are no other contract liabilities. The amount of consideration does not contain a significant financial component as payment terms for the majority of contracts are less than one year. No information is provided about remaining performance obligations as at the reporting date that have an original expected duration of one year or less, as allowed by IFRS 15.

Contracts with customers for the supply of goods use a variety of delivery terms. The Group determined that under the terms of the majority contracts for the supply of mineral fertilizers the Group undertakes to provide delivery and the related delivery services after the transfer of control over the goods to the buyer at the loading port. Under IFRS 15, these services are a separate performance obligation, which revenue must be recognised during the period of delivery as revenue from logistics activities. The Group recognises revenue from these logistics services at the time of delivery, due to the fact that the potential difference is calculated and recognised as insignificant.

In the revenue disclosure the sales of certain product groups include the proceeds from logistics services. Costs related to rendering of logistics services are mainly represented by transportation costs and included in the selling expenses disclosure.

Previous accounting policy applied under IAS 18 until 31 December 2017.

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

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

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

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

(n) Finance income and costs

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

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

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

FINANCIAL STATEMENTS
continued

(o) Overburden removal expenditure
In open pit apatite rock mining operations, it is necessary to remove the overburden and other waste in order to access the economically recoverable resources.

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

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

(p) Other expenses
(i) Operating leases
Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit or loss as an integral part of the total lease payments made.

(ii) Social expenditure
To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the profit or loss as incurred.

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

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

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

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

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

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and / or disclosure purposes based on the methods described in 4(a) to 4(c). When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Financial assets measured at amortised cost
The fair values of financial assets carried at amortised cost, which are mainly loans issued and trade and other receivables, approximate their carrying amounts as at the reporting date.

(b) Financial instruments measured at fair value
The fair values of derivative financial assets and liabilities are determined using inputs from observable market data and are categorised as Level 2 of the fair value hierarchy.

The fair values of derivative financial liabilities, represented by put and call options on oil (Brent) contracts, are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

(c) Other financial liabilities not measured at fair value
The fair values of other financial liabilities, which are mainly loans and borrowings and finance lease liabilities, are determined for disclosure purposes and categorised as Level 3 of the fair value hierarchy. The fair values are calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5. PRIOR YEAR ADJUSTMENTS AND RECLASSIFICATIONS

During the current period the Group made a decision to make reclassifications to prior year comparatives to be consistent with the current year classifications, effecting the following captions:
- cost of sales, administrative expenses, selling expenses and other expenses,net;
- elements making revenue;
- elements making cost of sales;
- nventory, catalysts (as non-current assets), trade and other payables;
- segment information.

RUB mln			2017
	As previously presented	Reclassifications	As adjusted
Cost of sales	(101,429)	(388)	(101,817)
Selling expenses	(24,466)	(735)	(25,201)
Administrative expenses	(14,662)	644	(14,018)
Other expenses, net	(2,136)	489	(1,647)
Finance costs	(6,980)	(10)	(6,990)

RUB mln			31 December 2017
	As previously presented	Reclassifications	As adjusted
Catalysts	–	1,900	1,900
Inventories	27,345	(1,900)	25,445

FINANCIAL STATEMENTS
continued

6. SEGMENT INFORMATION

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

- Phosphate-based products segment includes mainly production and distribution of ammophos, diammoniumphosphate, sodium tripolyphosphate and other phosphate based and complex (NPK) fertilisers on the factories located in Cherepovets, Balakovo and Volkhov, and production and distribution of apatite concentrate extracted from the apatite-nepheline ore, which is mined and processed in Kirovsk;
- Nitrogen-based products segment includes mainly production and distribution of ammonia, ammonium nitrate and urea on the factory located in Cherepovets.

Certain assets, revenue and expenses are not allocated to any particular segment and are, therefore, included in the "other operations" column. None of these operations meet any of the quantitative thresholds for determining reportable segments.

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

Segment information as at 31 December 2018 and for the year then ended is as follows:

RUB mln

	Phosphate-based products	Nitrogen-based products	Other operations	Total
Segment revenue and profitability				
Segment external revenues, thereof:	186,971	37,011	9,448	233,430
Export	132,098	30,178	903	163,179
Domestic	54,873	6,833	8,545	70,251
Cost of goods sold	(98,962)	(16,431)	(8,571)	(123,964)
Gross segment profit	**88,009**	**20,580**	**877**	**109,466**
Certain items of profit or loss				
Amortisation and depreciation	(14,304)	(5,883)	(724)	(20,911)
Total non-current segment assets[1]	124,418	60,748	5,265	190,431
Additions to non-current assets[1]	**25,618**	**5,890**	**843**	**32,351**

Segment information of the Group as at 31 December 2017 and for the year then ended is as follows:

RUB mln

	Phosphate-based products	Nitrogen-based products	Other operations	Total
Segment revenue and profitability				
Segment external revenues, thereof:	151,519	22,495	7,337	181,351
Export	103,648	16,983	262	120,893
Domestic	47,872	5,512	7,074	60,458
Cost of goods sold	(81,135)	(13,641)	(7,041)	(101,817)
Gross segment profit	**70,384**	**8,854**	**296**	**79,534**
Certain items of profit or loss				
Amortisation and depreciation	(10,227)	(4,192)	(388)	(14,807)
Total non-current segment assets[1]	108,711	66,081	3,994	178,786
Additions to non-current assets[1]	**26,928**	**8,955**	**613**	**36,496**

[1] Total non-current segment assets include property, plant and equipment, intangible assets and catalysts.

The analysis of export revenue by regions is as follows:

RUB mln

	2018	2017
Europe	57,308	44,511
South America	43,684	28,537
North America	27,589	12,082
India	11,890	7,087
CIS	11,557	17,287
Africa	7,895	7,058
Asia	3,250	4,320
Australia	6	11
	163,179	**120,893**

7. REVENUES

RUB mln

	2018	2017
Phosphate-based products	186,971	151,519
Sales of chemical fertilisers	155,733	123,227
Sales of apatite concentrate	22,098	21,158
Sales of other phosphate-based products and services	8,326	6,453
Sales of nepheline concentrate	814	681
Nitrogen-based products	37,011	22,495
Other	9,448	7,337
	233,430	**181,351**

8. PERSONNEL COSTS

RUB mln

	2018	2017
Cost of sales	(12,209)	(11,265)
Administrative expenses	(8,271)	(7,875)
Selling expenses	(1,888)	(1,466)
	(22,368)	**(20,606)**

9. COST OF SALES

RUB mln

	2018	2017
Materials and services	(36,493)	(30,869)
Depreciation	(18,936)	(13,242)
Salaries and social contributions	(12,209)	(11,265)
Natural gas	(12,096)	(9,154)
Sulphur and sulphuric acid	(10,682)	(6,120)
Potash	(10,238)	(8,279)
Chemical fertilisers and other products for resale	(6,287)	(4,932)
Electricity	(5,474)	(5,451)
Ammonia	(4,195)	(6,287)
Fuel	(3,775)	(3,264)
Ammonium sulphate	(3,015)	(2,287)
Heating energy	(564)	(667)
	(123,964)	**(101,817)**

FINANCIAL STATEMENTS
continued

10. ADMINISTRATIVE EXPENSES

RUB mln

	2018	2017
Salaries and social contributions	(8,271)	(7,875)
Professional services	(1,792)	(1,970)
Depreciation and amortisation	(1,242)	(943)
Other	(3,559)	(3,230)
	(14,864)	**(14,018)**

11. SELLING EXPENSES

RUB mln

	2018	2017
Freight, port and stevedoring expenses	(17,344)	(11,065)
Russian Railways infrastructure tariff and operators' fees	(10,383)	(9,218)
Materials and services	(2,671)	(1,966)
Salaries and social contributions	(1,888)	(1,466)
Custom duties	(1,391)	(864)
Depreciation	(733)	(622)
	(34,410)	**(25,201)**

12. OTHER EXPENSES, NET

RUB mln

	2018	2017
Social expenditures	(1,903)	(1,649)
Loss on disposal of property, plant and equipment and intangible assets	(586)	(614)
Increase in provision for bad debt	(452)	(164)
(Increase)/decrease in provision for inventory obsolescence	(88)	85
Reversal of accrual/(accrual) of contingent liabilities	35	(38)
Other income, net	268	733
	(2,726)	**(1,647)**

13. FINANCE INCOME AND FINANCE COSTS

RUB mln

	2018	2017
Interest income	230	254
Unwind of discount of financial assets	67	89
Dividend income	–	4
Other finance income	150	268
Finance income	**447**	**615**
Interest expense	(4,666)	(4,347)
Provision for bad debt on financial investments (note 18)	(566)	(2,243)
Bank fees	(156)	(355)
Other finance costs	(710)	(45)
Finance costs	**(6,098)**	**(6,990)**
Net finance costs	**(5,651)**	**(6,375)**

14. INCOME TAX EXPENSE

The Company's applicable corporate income tax rate is 20% (2017: 20%).

RUB mln

	2018	2017
Current tax expense	(8,487)	(5,803)
Origination and reversal of temporary differences, including change in unrecognised assets	2,512	(2,908)
	(5,975)	**(8,711)**

RECONCILIATION OF EFFECTIVE TAX RATE,

RUB mln

	2018		2017	
Profit before tax	28,110	100%	34,042	100%
Income tax at applicable tax rate	(5,622)	(20%)	(6,808)	(20%)
(Under)/over provided in respect of prior years	(3)	–	29	–
Unrecognised tax (asset)/liability on (loss)/profit from associates	(125)	–	57	–
Non-deductible items	(1,434)	(5%)	(1,361)	(4%)
Change in unrecognised deferred tax assets	17	–	13	–
Effect of tax rates in foreign jurisdictions	39	–	38	–
Reduction in tax rate	1,153	4%	144	–
Recognition of previously unrecognised deferred tax liabilities	–	–	(823)	(2%)
	(5,975)	**(21%)**	**(8,711)**	**(26%)**

15. PROPERTY, PLANT AND EQUIPMENT

RUB mln

	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2017	44,879	84,169	8,297	76,323	213,668
Additions	1,391	2,774	2,874	29,457	36,496
Transfers	21,379	42,248	–	(63,627)	–
Disposals	(474)	(2,168)	(93)	(295)	(3,030)
At 1 January 2018	67,175	127,023	11,078	41,858	247,134
Additions	2,286	3,903	2,363	23,309	31,861
Transfers	6,835	13,425	–	(20,260)	–
Disposals	(138)	(1,335)	(129)	(305)	(1,907)
Other movements	94	1,632	12	–	1,738
At 31 December 2018	**76,252**	**144,648**	**13,324**	**44,602**	**278,826**
Accumulated depreciation					
At 1 January 2017	(9,637)	(44,172)	(5,146)	–	(58,955)
Depreciation charge	(3,155)	(10,718)	(1,250)	–	(15,123)
Disposals	357	1,614	86	–	2,057
At 1 January 2018	(12,435)	(53,276)	(6,310)	–	(72,021)
Depreciation charge	(4,582)	(14,813)	(1,863)	–	(21,258)
Disposals	74	1,234	96	–	1,404
Other movements	(6)	(707)	(7)	–	(720)
At 31 December 2018	**(16,949)**	**(67,562)**	**(8,084)**	**–**	**(92,595)**

FINANCIAL STATEMENTS
continued

RUB mln

	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Net book value at 1 January 2017	**35,242**	**39,997**	**3,151**	**76,323**	**154,713**
Net book value at 1 January 2018	**54,740**	**73,747**	**4,768**	**41,858**	**175,113**
Net book value at 31 December 2018	**59,303**	**77,086**	**5,240**	**44,602**	**186,231**

During 2018, the Group capitalised borrowing costs in the amount of RUB 836 million (2017: RUB 652 million) in the value of property, plant and equipment using the weighted average interest rate of 3% per annum.

As at 31 December 2018, the balance of the construction in progress account includes the accumulated costs related to.

In Cherepovets:
- Maintenance programme of ammonia production facilities in the amount of RUB 3,099 million;
- Development programme of production facilities for sulphuric acid in the amount of RUB 2,795 million;
- The construction of ammonium sulphate plant in the amount of RUB 2,679 million;
- Development programme of production facilities for extraction of phosphoric acid and fertilizers in the amount of RUB 2,419 million;
- Modernization of production facilities for urea plant in the amount of RUB 976 million;
- The construction of service infrastructure of ammonia plant in the amount of RUB 299 million.

In Kirovsk:
- Kirovsk mine extension and modernization in the amount of RUB 10,962 million;
- The development of Rasvumchorrskiy mine in the amount of RUB 7,067 million;
- The construction of apatit-nepheline beneficiation plant in the amount of RUB 5,329 million;
- The construction of transporter of Koashvinskiy quarry in the amount of RUB of 2,821 million.

(a) Leasing
Plant and equipment with the carrying value of RUB 4,496 million (31 December 2017: RUB 5,422 million) is leased under various finance lease agreements, see note 27(a).

16. INVESTMENTS IN ASSOCIATES

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

RUB mln

	2018	2017
Balance at 1 January	969	816
Share in profit for the period	99	287
Provision for investments in associates	(722)	–
Foreign currency translation difference	160	(134)
Balance at 31 December	**506**	**969**

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

RUB mln

	31 December 2018	31 December 2017
JSC Khibinskaya Teplovaya Kompaniya	421	398
LLC PhosAgro-Ukraine	–	488
JSC Giproruda	61	25
JSC Soligalichskiy izvestkovyi kombinat	24	58
	506	**969**

Summary financial information for associates is as follows:

RUB mln 2018

	Total assets	Total liabilities	Net assets	Revenue	(Loss)/profit for the year
JSC Khibinskaya Teplovaya Kompaniya	1,876	(1,075)	801	705	48
LLC PhosAgro-Ukraine	–	–	–	3,549	181
JSC Giproruda	146	(24)	122	54	9
JSC Soligalichskiy izvestkovyi kombinat	526	(294)	232	497	11
	2,548	**(1,393)**	**1,155**	**4,805**	**249**

RUB mln 2017

	Total assets	Total liabilities	Net assets	Revenue	(Loss)/profit for the year
JSC Khibinskaya Teplovaya Kompaniya	2,128	(1,384)	744	751	23
LLC PhosAgro-Ukraine	2,611	(1,170)	1,441	13,996	777
JSC Giproruda	132	(23)	109	99	(16)
JSC Soligalichskiy izvestkovyi kombinat	425	(196)	229	500	5
	5,296	**(2,773)**	**2,523**	**15,346**	**789**

17. DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following items:

RUB mln

	2018			2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	102	(9,869)	(9,767)	78	(8,893)	(8,815)
Other long-term assets	17	(44)	(27)	6	(28)	(22)
Current assets	1,067	(488)	579	469	(549)	(80)
Liabilities	748	(3)	745	947	(36)	911
Tax loss carry-forwards	8,482	–	8,482	5,486	–	5,486
Unrecognised deferred tax assets	**(40)**	**–**	**(40)**	**(23)**	**–**	**(23)**
Tax assets/(liabilities)	10,376	(10,404)	(28)	6,963	(9,506)	(2,543)
Set off of tax	(1,381)	1,381	–	(1,592)	1,592	–
Net tax assets/(liabilities)	**8,995**	**(9,023)**	**(28)**	**5,371**	**(7,914)**	**(2,543)**

FINANCIAL STATEMENTS
continued

The deferred tax assets on tax loss carry-forwards relate to the Russian entities. Due to recent amendments to the Russian tax legislation, starting from 1 January 2017, tax losses for Russian tax purposes carried forward existing as at 31 December 2018 do not expire.

Management has developed a tax strategy to utilise the tax losses above. In assessing the recoverability of the tax losses, management considers a forecast of future taxable profits of the Company (the "forecast") and the Group's tax position. The forecast is reviewed at each reporting date to ensure that the related tax benefit will be realised. Future taxable profits are expected to be generated from an excess of interest income on loans, to be issued by the Company to the Group subsidiaries, over expenses of the Company. When developing the forecast, management has evaluated profitability and dividend capacity of the Group subsidiaries, and considered expected rates of interest for loans and expected foreign currency rates.

As at 31 December 2018, no deferred tax liability for taxable temporary differences of RUB 52,016 million has been recognised (31 December 2017: RUB 48,502 million), either because the Parent can control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future, or because the applicable tax rate is expected to be 0%.

(b) Movement in temporary differences during the year

RUB mln

	31 December 2018	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2018
Property, plant and equipment	(9,767)	(951)	(1)	(8,815)
Other long-term assets	(27)	(5)	–	(22)
Current assets	579	655	4	(80)
Liabilities	745	(166)	–	911
Tax loss carry-forwards	8,482	2,996	–	5,486
Unrecognised deferred tax assets	(40)	(17)	–	(23)
Net tax (liabilities)/assets	**(28)**	**2,512**	**3**	**(2,543)**

RUB mln

	31 December 2017	Recognised in other comprehensive income	1 January 2018	1 января 2017
Property, plant and equipment	(8,815)	(3,154)	–	(5,661)
Other long-term assets	(22)	(8)	–	(14)
Current assets	(80)	(414)	–	334
Liabilities	911	(149)	(145)	1,205
Tax loss carry-forwards	5,486	804	–	4,682
Unrecognised deferred tax assets	(23)	13	–	(36)
Net tax assets	**(2,543)**	**(2,908)**	**(145)**	**510**

18. OTHER NON-CURRENT ASSETS

RUB mln

	31 December 2018	31 December 2017
Loans issued to third parties, at amortised cost	779	232
Financial assets, at fair value	724	755
Loans issued to employees, at amortised cost	88	77
Financial assets, at amortised cost	28	21
Loans issued to related parties, at amortised cost	–	97
Loans issued to associates, at amortised cost	–	20
Provision for loans issued to third parties	(571)	–
Other long-term assets	795	753
	1,843	**1,955**

19. OTHER CURRENT INVESTMENTS

RUB mln

	31 December 2018	31 December 2017
Loans issued to related parties, at amortised cost	117	213
Interest receivable	88	42
Loans issued to employees, at amortised cost	52	35
Loans issued to third parties, at amortised cost	35	43
Investments in debt securities, at amortised cost	32	–
Loans issued to associates, at amortised cost	13	23
Provision for doubtful accounts	(24)	(4)
	313	**352**

20. INVENTORIES

RUB mln

	31 December 2018	31 December 2017
Raw materials and spare parts	12,500	9,812
Finished goods:		
Chemical fertilisers	12,982	9,363
Other products	651	1,260
Apatite concentrate	327	200
Work-in-progress:		
Chemical fertilisers and other products	3,782	3,543
Chemical fertilisers for resale, purchased from the third parties	1,729	1,279
Other goods for resale	83	84
Provision for obsolescence	(184)	(96)
	31,870	**25,445**

FINANCIAL STATEMENTS
continued

21. TRADE AND OTHER RECEIVABLES

RUB mln

	31 December 2018	31 December 2017
Trade accounts receivable	20,379	15,507
VAT and other taxes receivable	8,973	10,306
Advances issued	5,716	4,662
Income tax receivable	533	2,734
Deferred expenses	159	210
Receivables from employees	11	26
Other receivables	1,033	818
Provision for doubtful accounts	(618)	(536)
	36,186	**33,727**

The movements in provision for doubtful accounts are as follows:

RUB mln

	2018	2017
Balance at 1 January	(536)	(499)
Foreign currency translation difference	(16)	17
Written off provision through trade receivables	380	110
Increase in provision for bad debt	(446)	(164)
Balance at 31 December	**(618)**	**(536)**

See note 29(c) for the analysis of overdue trade accounts receivable.

22. CASH AND CASH EQUIVALENTS

RUB mln

	31 December 2018	31 December 2017
Cash in bank	5,126	2,459
Call deposits	4,188	227
Petty cash	6	5
	9,320	**2,691**

23. EQUITY

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares
Shares on issue at 31 December 2018, RUB 2.5 par value	129,500,000
Shares authorised for additional issue at 31 December 2018, RUB 2.5 par value	994,977,080
Shares on issue at 31 December 2017, RUB 2.5 par value	129,500,000
Shares authorised for additional issue at 31 December 2017, RUB 2.5 par value	994,977,080

(b) Dividend policy

The Company expects to distribute cash dividends in the future and expects the amount of such dividends to be between 30 and 50 per cent of the Group's consolidated profit calculated in accordance with IFRS attributable to shareholders of PJSC "PhosAgro", adjusted by unrealised foreign exchange gain/(loss).

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

(c) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2018, the Company had cumulative retained earnings of RUB 35,076 million (31 December 2017: RUB 32,102 million).

Proposed by the Board of Directors in	Approved by shareholders in	Amount per share, RUB	Amount of dividends, RUB mln
Total dividends approved during the reporting period			
November 2017	February 2018	21	2,720
March 2018	May 2018	15	1,942
May 2018	July 2018	24	3,108
August 2018	October 2018	45	5,828
			13,598
Total dividends approved subsequent to the reporting date			
November 2018	January 2019	72	9,324
March 2019	To be approved in May 2019	51	6,605
			15,929

24. EARNINGS PER SHARE

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the year. Basic and diluted earnings per share are the same, as there is no effect of dilution.

	2018	2017
Weighted average number of ordinary shares in issue	129,500,000	129,500,000
Profit for the year attributable to shareholders of the Parent, RUB million	22,069	25,333
Basic and diluted earnings per share, RUB	170	196

FINANCIAL STATEMENTS
continued

25. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the finance leases, see note 27(a). For more information about the Group's exposure to foreign currency risk, interest rate risk and liquidity risk, see note 29.

RUB mln

	31 December 2018	31 December 2017
Current loans and borrowings		
Unsecured bank loans	19,934	14,266
Interest payable	733	946
Unsecured loans from other companies	20	13
Loan participation notes[1]	–	28,800
Bank commission (short-term)	(8)	–
	20,679	**44,025**
Non-current loans and borrowings		
Loan participation notes[2,3]	69,471	28,800
Unsecured bank loans	53,570	46,577
Unsecured letters of credit issued by banks	–	1,254
Bank commission (long-term)	(164)	(101)
	122,877	**76,530**
	143,556	**120,555**

The breakdown of the loans and borrowings denominated in different currencies is as follows:

RUB mln

	31 December 2018	31 December 2017
USD-denominated	123,152	100,874
EUR-denominated	18,531	6,356
RUB-denominated	2,045	13,426
	143,728	**120,656**
The maturity of the loans and borrowings is as follows		
Less than 1 year	20,687	44,025
1-2 years	19,623	9,483
2-3 years	46,326	16,291
3-4 years	5,665	31,844
4-5 years	38,380	5,064
More than 5 years	13,047	13,949
	143,728	**120,656**

Reconciliation of liabilities arising from financing activities:

RUB mln

	31 December 2017	Cash inflows	Cash outflows	Amortisation of bank commision	Foreign exchange loss	31 December 2018
Loans and borrowings (excluding interest payable)	119,609	83,874	(83,572)	47	22,865	142,823
Finance lease liabilities	2,121	–	(1,285)	–	258	1,094
	121,730	**83,874**	**(84,857)**	**47**	**23,123**	**143,917**

[1] In February 2013, the Company's SPV issued a USD 500 million 5-year Eurobond with a coupon rate of 4.204%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB nil million (31 December 2017: RUB 29,342 million). The redemption was financed by the Eurobond placed in January 2018.

[2] In May 2017, the Company's SPV issued a USD 500 million 4.5-year Eurobond with a coupon rate of 3.95%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB 34,102 million (31 December 2017: RUB 29,258 million).

[3] In January 2018 the Company's SPV issued a USD 500 million 5.25-year Eurobond with a coupon rate of 3.949%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB 33,745 million.

Management believes that the fair value of the Group's other loans and borrowings approximates their carrying amounts.

26. DEFINED BENEFIT OBLIGATIONS

RUB mln

	31 December 2018	31 December 2017
Pension obligations, long-term	302	701
Post-retirement obligations other than pensions	328	249
	630	**950**

The Group has defined benefit plans at JSC "Apatit", Kirovsk Branch of JSC "Apatit" and JSC "Metachem" which stipulate payment of a lump sum allowance to employees who have a specified period of service in these companies upon their retirement. All defined benefit plans are unfunded. The movement in the present value of the defined benefit obligations is as follows:

RUB mln

Defined benefit obligations at 1 January 2017	**767**
Benefits paid	(81)
Current service costs and interest	79
Past service costs	(12)
Actuarial loss in other comprehensive income	197
Defined benefit obligations at 1 January 2018	**950**
Benefits paid	(102)
Current service costs and interest	87
Past service costs	(135)
Actuarial gain in other comprehensive income	(170)
Defined benefit obligations at 31 December 2018	**630**

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

	31 December 2018	31 December 2016
Discount rate	8.8%	7.7%
Future pension increases	4.1%	4.2%

FINANCIAL STATEMENTS
continued

27. LEASES

(a) Finance leases
JSC "PhosAgro-Trans", a Group subsidiary, has entered into several agreements to lease 2,000 railway wagons in 2011–2014. Other Group subsidiaries also have entered into lease agreements in 2016 and 2017. At the end of the lease term, the ownership for the leased assets will be transferred to the lessee.

RUB mln 2018	Minimum lease payments	Interest	Principal
Less than one year	766	48	718
Between one and five years	392	16	376
	1,158	**64**	**1,094**

RUB mln 2017	Minimum lease payments	Interest	Principal
Less than one year	1,247	130	1,117
Between one and five years	1,059	55	1,004
	2,306	**185**	**2,121**

(b) Operating leases
During 2017–2018, JSC "PhosAgro-Trans", a group subsidiary, entered into several operating lease agreements to rent 1,200 railway wagons. Also Kirovsk branch of JSC "Apatit", a group subsidiary, has long-term lease contracts for production facilities.

Operating leases for other companies of the Group are mainly represented by office leases.

The non-cancellable operating lease rentals (excluding VAT) are payable as follows:

RUB mln	31 December 2018	31 December 2017
Less than one year	907	717
Between one and five years	1,562	1,202
	2,469	**1,919**

28. TRADE AND OTHER PAYABLES

RUB mln	31 December 2018	31 December 2017
Trade accounts payable	11,922	12,129
incl. accounts payable for property, plant and equipment and intangible assets	4,248	5,838
Advances received (contract liabilities)	3,644	4,414
Payables to employees	3,068	2,933
Taxes payable	2,229	2,014
Income tax payable	298	109
Accruals	36	51
Other payables	276	198
	21,473	**21,848**

29. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

The Group implemented a natural hedge approach (policy) aiming at reducing its exposure to foreign currency risk by means of borrowing in the same currencies in which sales agreements are denominated.

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

RUB mln	31 December 2018		31 December 2017	
	USD denominated	EUR denominated	USD denominated	EUR denominated
Current assets	3,759	11	1,802	51
Non-current assets	–	–	97	–
Non-current liabilities				
Loans and borrowings	(108,405)	(12,615)	(68,705)	(5,807)
Finance lease liability	(375)	–	(1,004)	–
Current liabilities				
Loans and borrowings	(14,747)	(5,916)	(32,169)	(549)
Finance lease liability	(674)	(38)	(1,117)	–
Payables	(495)	(679)	(74)	(321)
	(120,937)	**(19,237)**	**(101,170)**	**(6,626)**

FINANCIAL STATEMENTS
continued

Management estimate that a 10% strengthening/(weakening) of RUB against USD and EUR, based on the Group's exposure as at the reporting date would have increased/(decreased) the Group's profit for the year by RUB 14,017 million, before any tax effect (2017: would have increased/(decreased) the Group's profit for the year by RUB 10,780 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2017.

The foreign exchange loss recognised in profit or loss of RUB 19,613 million (RUB 4,141 million of foreign exchange gain for the comparative period) resulted from the devaluation of the Russian Rouble against major currencies during the reporting period (its appreciation during the comparative period).

Foreign currency translation differences

In addition, the net assets of the Group's foreign subsidiaries denominated in USD and EUR amount to RUB 15,069 million as at the reporting date (31 December 2017: RUB 18,429 million).

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

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

RUB mln

	31 December 2018	31 December 2017
Fixed rate instruments		
Other non-current assets	868	427
Other current investments	4,405	541
Long-term borrowings	(113,781)	(64,476)
Short-term borrowings	(14,655)	(40,035)
Finance lease liabilities	(1,094)	(2,121)
	(124,257)	**(105,664)**
Variable rate instruments		
Long-term borrowings	(9,260)	(12,155)
Short-term borrowings	(5,299)	(3,044)
	(14,559)	**(15,199)**

At 31 December 2018, a 1% increase/(decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group's profit and equity by RUB 146 million (31 December 2017: RUB 152 million).

(c) Credit risk

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

As at 31 December 2018, the Group's maximum exposure to credit risk is represented by the carrying amount of its financial assets and amounted to RUB 32,281 million (31 December 2017: RUB 20,813 million).

As at 31 December 2018, the Group's financial assets measured at amortised cost amounted to RUB 31,557 million (31 December 2017: RUB 20,058 million).

As at 31 December 2018, the Group's financial assets measured at fair value amounted to RUB 724 million (31 December 2017: RUB 755 million).

Trade and other receivables

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

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

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

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

In addition, the major part of trade receivables in the Group's foreign subsidiaries is insured.

The Group establishes an allowance for impairment that represents its estimate of the expected credit losses in respect of trade and other receivables and other financial assets. The main component of this allowance is a specific loss component that relates to individually significant exposures.

The analysis of overdue trade and other receivables is as follows:

RUB mln

	31 December 2018	31 December 2017
Not past due	17,956	15,147
Past due 0–90 days	3,143	590
Past due 91–180 days	75	33
Past due 181–365 days	137	78
More than one year	101	477
	21,412	**16,325**

Current and non-current financial assets

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

Cash and cash equivalents are primarily held with banks with high credit rating.

Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements in accordance with IFRS 4 Insurance Contracts, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee (note 32).

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

(d) Liquidity risk

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

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

The table below illustrates the contractual maturities of financial liabilities, including interest payments, which are converted at the closing exchange rates, where applicable:

FINANCIAL STATEMENTS
continued

RUB mln							31 December 2018	
	Carrying value	Contractual cash flows	0–1 year	1–2 years	2–3 years	3–4 years	4–5 years	> 5 years
Unsecured bank loans	73,504	80,901	22,009	21,258	12,795	6,515	4,255	14,069
Unsecured loans from other companies	20	20	20	–	–	–	–	–
Interest payable	733	733	733	–	–	–	–	–
Secured finance leases	1,094	1,158	766	262	130	–	–	–
Loan participation notes	69,471	79,303	2,744	2,751	37,250	1,372	35,186	-
Trade and other payables	12,221	12,221	12,221	–	–	–	–	–
Financial guarantees issued for asso-ciates and related parties	1,057	1,233	300	455	478	–	–	–
Derivative financial liabilities	626	626	626	–	–	–	–	–
	158,726	**176,195**	**39,419**	**24,726**	**50,653**	**7,887**	**39,441**	**14,069**

RUB mln							31 December 2017	
	Carrying value	Contractual cash flows	0–1 year	1–2 years	2–3 years	3–4 years	4–5 years	> 5 years
Unsecured bank loans	60,843	68,276	16,236	9,656	17,483	3,930	5,768	15,203
Unsecured loans from other companies	13	14	14	–	–	–	–	–
Unsecured letters of credit	1,254	1,276	14	1,262	–	–	–	–
Interest payable	946	946	946	–	–	–	–	–
Secured finance leases	2,121	2,306	1,247	734	217	108	–	–
Loan participation notes	57,600	62,252	30,133	1,137	1,141	29,841	–	–
Trade and other payables	12,385	12,385	12,385	–	–	–	–	–
Financial guarantees issued for asso-ciates and related parties	1,374	1,697	301	455	461	480	–	–
	136,536	**149,152**	**61,276**	**13,244**	**19,302**	**34,359**	**5,768**	**15,203**

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

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

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

30. COMMITMENTS

The Group has entered into contracts to purchase plant and equipment for RUB 30,826 million (31 December 2017: RUB 26,637 million).

31. CONTINGENCIES

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

(b) Taxation contingencies
The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

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

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances. These transfer pricing rules provide for an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe the basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1,000 million in 2014 and thereon). The compliance of prices with the arm's length level could be as well subject to scrutiny on the basis of unjustified tax benefit concept.

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

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

32. RELATED PARTY TRANSACTIONS

(a) Transactions and balances with associates
(i) Transactions with associates

RUB mln	2018	2017
Sales of goods and services	2,150	9,262
Other income, net	4	–
Interest income	3	15
Purchases of goods and services	(472)	(393)

FINANCIAL STATEMENTS
continued

(ii) Balances with associates

RUB mln

	31 December 2018	31 December 2017
Trade and other receivables	15	573
Short-term loans issued, at amortised cost	13	23
Long-term loans issued, at amortised cost	–	20
Trade and other payables	(10)	(13)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of associates amounting to RUB 1,007 million (31 December 2017: RUB 1,318 million).

(b) Transactions and balances with other related parties
(i) Transactions with other related parties

RUB mln

	2018	2017
Sales of goods and services	557	1,135
Other income, net	22	–
Interest income	14	28
Interest expenses	(54)	(54)
Purchases of goods and services	(2,030)	(1,340)

(ii) Balances with other related parties

RUB mln

	31 December 2018	31 December 2017
Short-term loans issued, at amortised cost	117	213
Trade and other receivables	53	1
Long-term loans issued, at amortised cost	–	97
Finance lease liabilities	–	(285)
Short-term loans received	(20)	(5)
Trade and other payables	(131)	(65)

(iii) Financial guarantees
The Group issued financial guarantees to banks on behalf of related parties amounting to RUB 50 million (31 December 2017: RUB 56 million).

The balances and transactions with related parties are usually unsecured and denominated in RUB.

(c) Key management remuneration
The remuneration of the Board of Directors and key management personnel amounted to RUB 1,775 million (2017: RUB 1,449 million).

33. SIGNIFICANT SUBSIDIARIES

Subsidiary	Country of incorporation	31 December 2018 Effective ownership (rounded)	31 December 2017 Effective ownership (rounded)
Apatit, JSC (including Balakovo and Ki-rovsk branchs)	Russia	100%	100%
Metachem, JSC	Russia	100%	100%
NIUIF, JSC	Russia	94%	94%
PhosAgro-Trans, JSC	Russia	100%	100%
PhosAgro-Region, LLC	Russia	100%	100%
PhosAgro-Belgorod, LLC	Russia	100%	100%
PhosAgro-Don, LLC	Russia	100%	100%
PhosAgro-Kuban, LLC	Russia	100%	100%
PhosAgro-Kursk, LLC	Russia	100%	100%
PhosAgro-Lipetsk, LLC	Russia	100%	100%
PhosAgro-Oryol, LLC	Russia	100%	100%
PhosAgro-Stavropol, LLC	Russia	100%	100%
PhosAgro-Volga, LLC	Russia	100%	100%
PhosAgro-SeveroZapad, LLC	Russia	100%	100%
PhosAgro-Tambov, LLC	Russia	100%	100%
Trading house PhosAgro, LLC	Russia	100%	100%
Phosint Trading Limited	Cyprus	100%	100%
Phosagro Asia Pte Ltd	Singapore	100%	100%
PhosAgro Trading SA	Switzerland	100%	100%
Phosint Limited	Cyprus	100%	100%
PhosAgro Logistics SA	Switzerland	100%	100%
Phosagro Baltic Sp.z o.o.	Poland	100%	100%
Phosagro Deutschland GmbH	Germany	100%	100%
Phosagro France SAS	France	100%	100%
PhosAgro Balkans	Serbia	100%	100%
UAB PhosAgro Baltic	Lithuania	100%	–

34. SEASONALITY

The Group is subject to certain seasonal fluctuations in fertiliser demand due to the timing of fertiliser application and, as a result, fertiliser purchases by farmers. However, the effect of seasonality on the Group's revenue is partially offset by the fact that the Group sells its fertilisers globally and fertiliser application and purchases vary by region.

The Group's costs are generally stable throughout the year with the exception of a slight increase during May-June as a result of maintenance activities undertaken at the Group's production facilities.

Exhibit III-2

INITIATION OF COVERAGE

Russian fertilizers

The three princes: PhosAgro, Uralkali, Acron

Mikhail Ganelin
Mikhail.Ganelin@gazprombank.ru
+7 (495) 983 18 00 (ext. 5 45 83)

We initiate coverage of Russian fertilizer producers PhosAgro, Uralkali and Acron. We believe the sector deserves closer attention, as the operating and financial results of these companies are only weakly correlated with domestic economic performance and depend on the global fertilizers market, the fundamentals of which are firm and being driven by population and food consumption growth. Russian producers are highly competitive versus global rivals due to vertical integration and low production costs, while the weaker ruble strengthens their competitiveness further, boosting margins and cash flow.

Population, income and better diets drive fertilizer consumption

The world population totals more than 7 bln and is rising by 75 mln annually (1.1% CAGR). This means that 1.1 bln people will be added by 2030, which equals the population of India or three countries the size of the US. This is being accompanied by rising income, especially in developing countries, which has led to a shift in diets as people move away from staple foods, such as cereals, in favor of higher-value products, including meat, vegetables and dairy. Food consumption is rising but arable land is not, which is driving a search for ways to increase crop yields. Proper use of fertilizers appears to be the only solution to this problem.

About half of the world's food production is a direct result of fertilizer application

Global fertilizer consumption CAGR stands at 2-3%, while China, India, Brazil and the US determine global demand trends. Though the Russian market is relatively small, it is important for domestic producers (accounting for 10-30% of their sales), as it is expanding faster than the global average while being less competitive. Nitrogen is the largest and steadiest market, accounting for 70% of global fertilizer consumption, but large capacity additions (4% CAGR in ammonia and urea) in China and MENA with access to cheaper gas/coal (the main cost item) may reposition producers on the global cost curve, limiting price increases. The phosphate and potash markets still look favorable in terms of the supply/demand balance, while prices have been rising this year (up 15-20% YTD). Strong demand for potash will lead to record volumes in 2014 and potash producers enjoy solid margins. Falling prices for soft commodities, devaluation of EM currencies and fragile global economic growth may weaken demand for fertilizers in 2015. Expected new demand from India followed by state reforms in the agriculture sector may mitigate these factors and support prices.

PhosAgro and Uralkali — OVERWEIGHT, Acron — NEUTRAL

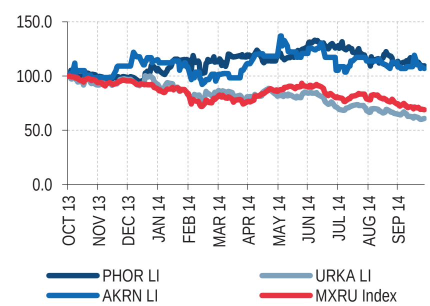
PhosAgro is our top pick in the sector. The company looks undervalued vs. peers taking into account the superior quality of its fertilizers and production flexibility, and it also benefits the most from the weaker ruble. We also have an OVERWEIGHT recommendation on Uralkali, as potash demand and prices are gaining momentum and we think it may surprise on dividends as soon as its debt burden achieves a comfortable level. Acron is the cheapest stock on multiples and suggests solid dividends, but we are NEUTRAL due to uncertainty regarding its future capex and low liquidity.

TICKER	PHOR LI
Closing price, $	10.8
Target price, $	14.6
Upside	36%
Recommendation	OVERWEIGHT
TICKER	**URKA LI**
Closing price, $	16.5
Target price, $	22.1
Upside	35%
Recommendation	OVERWEIGHT
TICKER	**AKRN RX**
Closing price, RUB	1,282
Target price, RUB	1,568
Upside	22%
Recommendation	NEUTRAL

Key ratios

	EV/EBITDA 2015E	P/E 2015E	P/FCF 2015E	DIV. YIELD 2014E
PhosAgro	5.1	6.9	23.0	5.4%
Uralkali	6.5	8.5	15.4	4.6%
Acron	3.6	4.2	neg.	7.9%

Relative share price performances



Source: Bloomberg, Gazprombank estimates

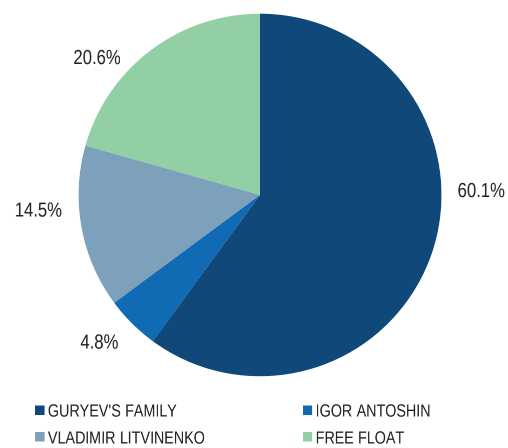
COMPANY DESCRIPTION

PhosAgro is one of the world's leading vertically integrated producers of phosphate-based fertilizers. Its core line of business is the production of phosphate-based fertilisers, high-grade phosphate rock (with a content of P_2O_5>35.7%), as well as feed phosphates, nitrogen fertilizers and ammonia. Structurally PhosAgro is a holding company whose major assets include Apatit and Balakovo Mineral Fertilizers (BMF), PhosAgro-Cherepovets (established via the merger of Ammophos and Cherepovetsky Azot in 2013), Agro-Cherepovets, and Metachem. The company's overall fertilizer capacity accounts to 6.4 mln tonnes, ranking it the third largest globally after Mosaic and OCP (excluding Chinese producers). It is self-sufficient in key feedstock (100% in phosphate rock, up to 90% in ammonia and 40% in electricity), which makes it a low-cost producer compared to global rivals.

Key financials

PHOSAGRO	
Bloomberg ticker	PHOR LI
Current price, $	10.8
Target price, $	14.6
Upside, %	36%
Recommendation	OVERWEIGHT
Number of GDRs, mln	389
Market capitalization, $ mln	4,176
Net debt (1H14)	1,233
EV, $ mln	5,423
Free float	20.6%

Shareholder structure



KEY INDICATORS	2012	2013	2014E	2015E	2016E
Brent price, $/bbl	106.0	106.0	104.0	100.0	100.0
RUB/USD, average	31.09	31.82	38.00	40.00	40.00
CPI (Russia) %	6.0%	5.3%	8.0%	6.0%	5.5%
FINANCIAL RATIOS					
P/E	5.3	16.0	7.4	6.9	6.5
EV/EBITDA	4.5	7.3	5.4	5.1	4.7
EV/Sales	1.5	1.7	1.7	1.7	1.6
P/BV	3.5	2.6	2.3	2.0	1.7
P/CF	10.1	55.9	24.3	23.3	17.7
Div. yield	8.1%	3.2%	5.4%	5.8%	6.2%
Payout ratio	43%	52%	40%	40%	40%
PER SHARE DATA, $					
EPS	2.03	0.67	1.45	1.55	1.65
DPS	0.87	0.35	0.58	0.62	0.66

MARGINS	2012	2013	2014E	2015E	2016E
EBITDA margin, %	32.9%	22.9%	32.0%	32.8%	34.1%
EBIT margin, %	26.8%	15.4%	25.0%	25.1%	25.6%
Pre-tax margin, %	29.6%	9.6%	23.5%	23.3%	24.0%
Net margin, %	23.3%	7.9%	18.0%	18.7%	19.2%
Capex/depreciation	2.05	2.22	2.48	2.48	2.20
Capex/sales	0.13	0.17	0.17	0.19	0.19
Capex/fixed assets	0.20	0.23	0.24	0.24	0.22
ROA	21.2%	6.8%	15.9%	15.5%	15.1%
ROE	49.5%	15.2%	31.4%	28.9%	26.7%
Net debt/Equity	0.54	0.78	0.69	0.60	0.50
Net debt/EBITDA	0.77	1.78	1.24	1.17	1.06

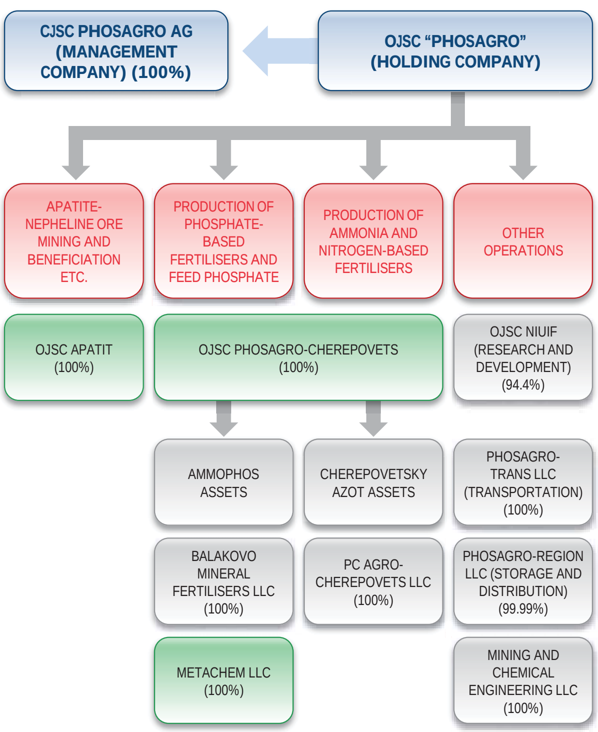
PHOSAGRO BUSINESS OVERVIEW: VERTICAL INTEGRATION, SUPERIOR QUALITY AND PRODUCTION FLEXIBILITY

Asset base

PhosAgro is a leading vertically integrated producer of high-grade phosphate rock (with P_2O_5 content in excess of 35.7%), phosphate-based and complex fertilizers (MAP, DAP, NPK, NPS), as well as feed phosphates (MCP) and nitrogen fertilizers (urea and ammonia nitrate). Over the past five years, PhosAgro doubled and diversified its range of downstream products to over two dozen items. Structurally, PhosAgro is a holding company whose major assets include Apatit and Balakovo Mineral Fertilizers (BMF), PhosAgro-Cherepovets (established via the merger of Ammophos and Cherepovets Azot in 2013), Agro-Cherepovets, and Metachem. PhosAgro's overall fertilizer capacity amounts to 6.4 mln tonnes, ranking third globally excluding Chinese producers after Mosaic (US) and OCP (Morocco). The company is self-sufficient in key feedstock (100% in phosphate rock, up to 90% in ammonia and 40% in electricity), which makes it a low-cost producer.

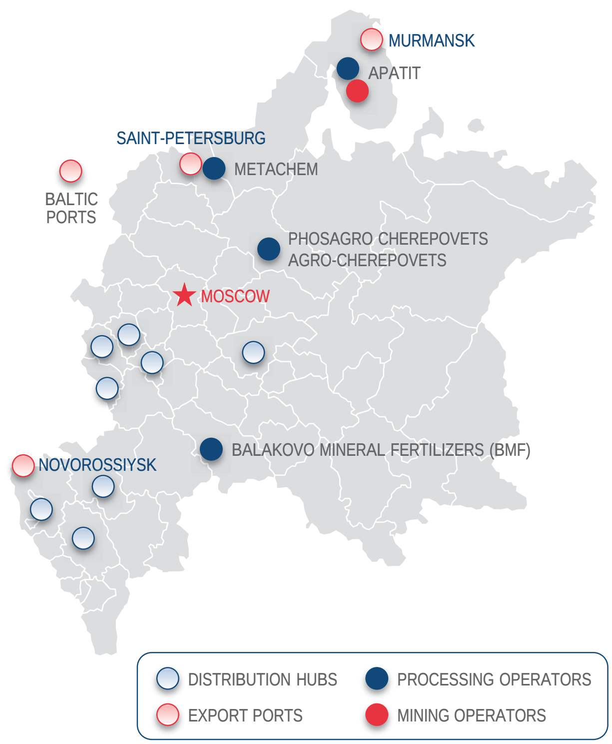
Leading vertically integrated producer of high-grade phosphate rock, phosphate-based and complex fertilizers

PhosAgro group structure...



Source: Company

...and asset locations



Source: Company

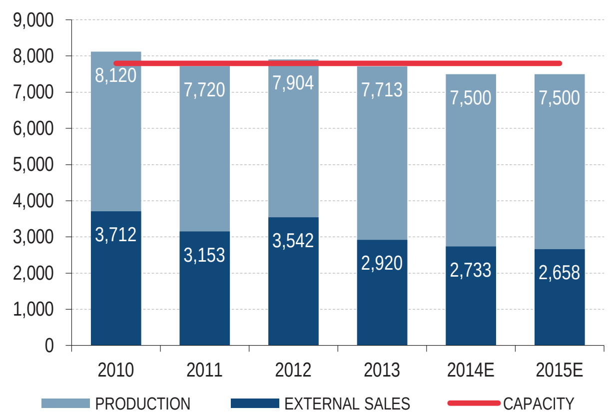
Apatit

Located in Murmansk region on the Kola Peninsula, Apatit is the largest producer of high-grade phosphate rock globally with a P_2O_5 content above 35.7%, which is characterized by a very low level of radioactivity, hazardous metals and cadmium. Its superior quality decreases the cost of fertilizer production and enhances its value, which, in turn, improves crop quality and increases yields. The company also produces nepheline concentrate, which is a by-product used in alumina production.

Apatit is the largest producer of high-grade phosphate rock globally with P_2O_5 content above 35.7%, which is characterized by a very low level of radioactivity, hazardous metals and cadmium

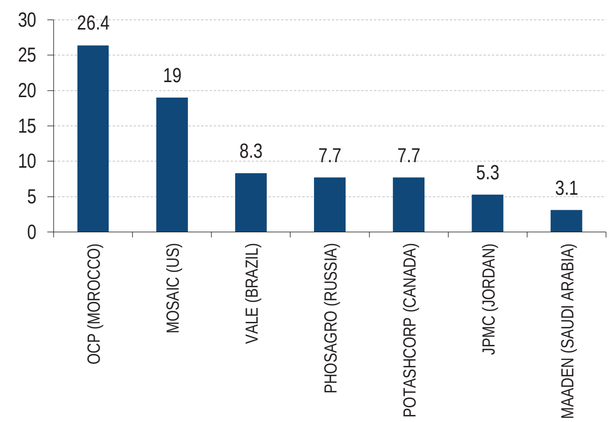
Apatit is developing four apatite-nepheline igneous ore mines (two underground and two open pits) at the Khibinsky deposit with a combined mining capacity of 27 mln tpa and 2.05 bln tonnes of measured and indicated resources according to JORC standards. The company further produces phosphate rock and nepheline concentrate at two beneficiation plants located nearby. In 2014, Apatit will produce around 7.5 mln tonnes of phosphate rock and 1 mln tonnes of nepheline concentrate, on our estimates. About 60% of the phosphate rock is then turned into phosphate-based fertilizers and feed phosphates at the subsequent division, which consists of PhosAgro-Cherepovets and Balakovo Mineral Fertilizers (BMF), while another 40% (2.7 mln tonnes in 2014) is exported, mainly to Europe, which places high demands on the quality of fertilizers that will be used in its agricultural sector later. In recent years, foreign sales of phosphate rock declined at Apatit after Acron launched its own phosphate rock mine Oleniy Ruchey in the neighborhood and stopped buying it from Apatit (around 750 kt per annum).

Apatit phosphate rock production and sales, mln tonnes



Source: Company, Gazprombank estimates

Global phosphate rock production, 2013, mln tonnes



Source: Company

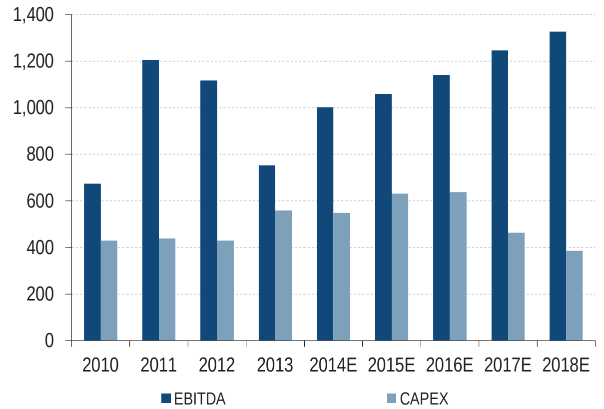
PhosAgro-Cherepovets and Balakovo Mineral Fertilizers (BMF)

The unique competitive advantage of PhosAgro-Cherepovets lies in its technological ability to operate a flexible MAP/DAP/NPK/NPS production facility

The unique competitive advantage of PhosAgro-Cherepovets lies in its technological ability to operate a flexible MAP/DAP/NPK/NPS production facility with total capacity of 3.0 mln tonnes, of which 1.8 mln tonnes are fully flexible and 2.0 mln tonnes are MAP/DAP flexible. It requires just two working shifts to switch production depending on the level of demand for a particular product, leading to maximization of the company's revenues. The product range also includes liquid fertilizers (APP) and aluminum fluoride (AlF_3), which is supplied for aluminum production. In addition, PhosAgro produces ammonia (capacity of 1.1 mln tonnes), all of which is consumed domestically to produce its urea derivatives (980 kt capacity) and AN-based fertilizers (450 kt).

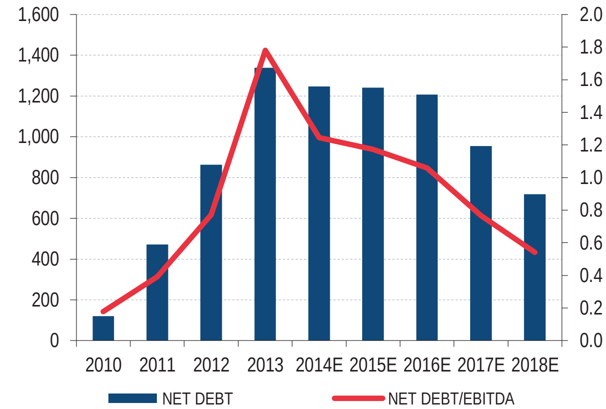
BMF is located in the town of Balakovo in Saratov region. It operates 1.2 mln tonnes of flexible MAP/DAP/NPS production capacity and 0.24 mln tonnes of production capacity for feed phosphates (MCP). Its own power plant with 49 MW capacity covers more than 70% of BMF's electricity needs.

PhosAgro EBITDA vs capex, $ mln



Source: Company, Gazprombank estimates

PhosAgro debt burden, $ mln



Source: Company, Gazprombank estimates

PhosAgro financials: the only pure phosphate producer

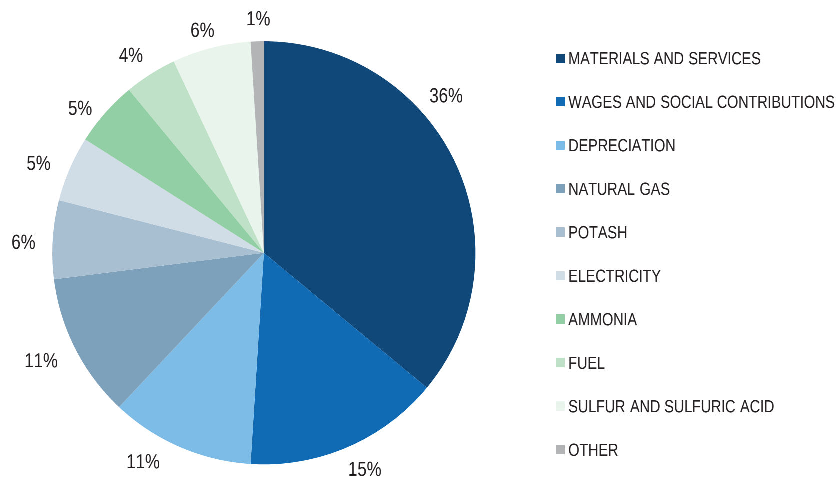
- **Revenue drivers**. Phosphate-based products account for 90% of consolidated revenues, which makes PhosAgro the only pure exposure to the global phosphate market, the long-term development prospects of which look more appealing compared to the potash and nitrogen markets in terms of supply/demand balance. PhosAgro essentially operates at full capacity, implying limited scope for further production growth until 2017, when new ammonia and urea plants are to be launched and making fertilizer prices the main drivers of the company's top-line performance. We forecast revenues for 2014 at $3.1 bln (-4.7% YoY) based on an average export DAP price of $470/tonne and 3% increase to $3.2 bln in 2015 based on an export DAP price of $480/tonne.

Phosphate-based products account for 90% of consolidated revenues, which makes PhosAgro the only pure exposure to the global phosphate market.

- **Cost drivers.** Firstly, the company exports over 80% of its production volumes and thus shows only weak correlation with Russian economic performance, while each RUB 1 depreciation of the local currency adds around $50 mln (5%) to the company's EBITDA. The ruble depreciated by an average RUB 6 during 2013-14, contributing $300 mln to the company's EBITDA of $1 bln in 2014. Secondly, PhosAgro is implementing a cost-cutting program that envisages a cost reduction of RUB 3 bln in 2014-15 (RUB 1.5 bln per annum) owing to increased outsourcing of non-core services, re-engineering of business processes and consolidation of service department functions on a group-wide level. These incentives will push down the headcount from 20,000 in 2012 to 16,500 in 2014, thus improving labor efficiency. We forecast EBITDA to grow 33% and 5.7% in 2014 and 2015 to $1,002 mln and $1,059 mln, compared with the current Bloomberg forecasts of $847 mln and $961 mln, respectively. The 2014 EBITDA margin will surge by an impressive 9 pps to 32% YoY, while financial results for 3Q14 are expected to be particularly strong.

The company exports over 80% of its production volumes and thus shows only weak correlation with Russian economic performance, while each RUB 1 depreciation of the local currency adds around $50 mln (5%) to the company's EBITDA.

PhosAgro costs breakdown, 2Q14



Source: Company, Gazprombank estimates

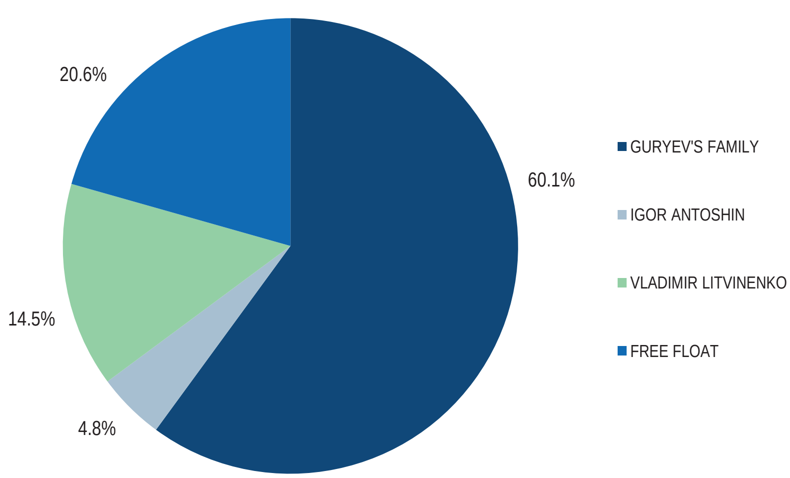
Shareholder structure and corporate governance

PhosAgro is currently controlled by the family of Andrei Guryev (60.1% stake). A 14.5% stake belongs to BoD chairman Vladimir Litvinenko and 4.8% is held by BoD member Igor Antoshin. The company held an IPO in July 2011 at $14 per GDR and then an SPO in April 2013, again at $14 per GDR. In addition, 20.3% is now in free float, with a listing on the LSE (18.35% of the total) and Moscow Exchange (2%).

The company's dividend policy targets 20-40% of IFRS net income.

The BoD consists of eight members, including well-known Jim Rogers, an independent director who recently joined the board. He was a co-founder of Quantum Fund together with Gorges Soros and is one of the most experienced investors on commodity markets. He is a minority investor in PhosAgro, which may be regarded as an additional argument in favor of the company's investment case.

PhosAgro shareholder structure



Source: Company, Gazprombank estimates

Exhibit III-3

PJSC PhosAgro

Economic contribution and payments to governments Report for the year ended 31 December 2018

Contents

Introduction

As one of the world's leading producers of mineral fertilizers, PJSC PhosAgro ("PhosAgro" or "the Company") has up-to-date and relevant policies and ensures full compliance with applicable legislation. PhosAgro closely tracks legislative developments at the government and regulatory levels, and acts in a timely manner to prepare and submit all required reports and statements. Adopting the highest standards of disclosure and transparency, PhosAgro is required to disclose payments to governments in accordance with UK Financial Conduct Authority ("FCA") Disclosure and Transparency Rules ("DTR").

This Report is prepared in accordance with the rules enacted by the FCA Disclosure and Transparency Rules 4.3A that require oil, gas, mining and logging companies that have securities listed on UK-regulated markets to annually and publicly disclose any payments made to governments on a country-by-country and/or project-by-project basis.

The Kirovsk branch of JSC Apatit ("Apatit") is the only PhosAgro entity that is involved in exploration, prospecting, discovery, development and extraction activities. Hence, this Report provides an overview of the payments to government authorities in the Russian Federation made by the Kirovsk branch of Apatit for the year ended 31 December 2018.

This Report has been disclosed via an FCA-approved Regulatory Information Service, submitted to the National Storage Mechanism (http://www.morningstar.co.uk/uk/NSM), and is available for download from www.phosagro.com.

Basis for Preparation – Report on Payments to Governments for the Year ended 31 December 2018

Reporting entities

PhosAgro has more than twenty subsidiaries in the upstream and downstream mining, processing, distribution, logistics, and research and development segments.

However, only one PhosAgro subsidiary, the Kirovsk branch of Apatit, is involved in mining activities. This Report provides an overview of the payments to government authorities in the Russian Federation made by the Kirovsk branch of Apatit for the year ended 31 December 2018.

Activities

The Kirovsk branch of Apatit holds seven mining and exploration licenses, allowing it to conduct exploration and mining activities at three mines. The Kirovsk branch of Apatit extracts apatite-nepheline ore that is then transferred to the beneficiation plant for processing into phosphate rock and nepheline concentrate, which is primarily used by PhosAgro's downstream production sites such as the Balakovo branch of Apatit, as well as other PhosAgro subsidiaries Apatit and Metachem.

Payments to governments made by the Kirovsk branch of Apatit arising from activities involving the exploration, discovery, development and extraction of apatite-nepheline ore and its beneficiation are disclosed in this Report.

The report excludes payments related to the further processing of phosphate rock into mineral fertilizers at the downstream units Apatit, the Balakovo branch of Apatit and Metachem.

However, as a practical matter, initial processing activities are integral to the extractive activity resulting in payment liabilities being determined on a basis that includes both the extraction and initial processing of the apatite-nepheline ore. These initial processing activities may be inseparable from the relevant activities for the purposes of reporting and were included into the Report.

Government

Government means any national, regional or local authority of a country, including a department or agency. All payments by Apatit have been made to federal, regional and local governments of the Russian Federation. Payments to any state-owned enterprises, such as utility fees, water charges, and electricity charges were excluded from this Report (please see payment section). In this Report, payments are broken down by allocation to federal, regional, and local authorities, and include the name of the corresponding government agency.

Project

A project is an operational activity governed by a single contract, license, lease, concession or similar legal agreement, and forms the basis for payment liabilities with a government.

Upstream operations are conducted by PhosAgro subsidiary the Kirovsk branch of Apatit, which mines apatite-nepheline ore from the group of Khibiny mineral deposits in accordance with (please see the Table #1 below):

- 7 (seven) mining and exploration licenses

The Company realises that license-by-license disclosure is the recommended approach for the purposes of the Report. However, where multiple licenses relate to a single mine, these have been treated as a single project due to:

- the geological characteristics of the extracting activities;
- the geographical proximity of the deposits;
- the chemical identity of the mined minerals;
- the particular nature of the ore extraction.

For the purposes of the Report, the Company uses the mine as the project definition.

Table #1

№	Mine	Mineral deposit	License
		Exploration and mining activities	
1	Kirovsky mine	Kukisvumchorr deposit	Exploration and mining activities
		Yukspor deposit	
2	Rasvumchorrskiy mine	Apatitovy Cirque deposit and the underground part of the Plateau Rasvumchorr deposit	Exploration and mining activities
3	Vostochniy mine	The Plateau Rasvumchorr deposit	Exploration and mining activities
4		Koashva deposit	Exploration and mining activities
5		Njorkpahk deposit	Exploration and mining activities
6		Iyolitovy otrog deposit	Exploration and mining activities
7		Plot Plato	Exploration and mining activities

Payments

Payments included in the Report are amounts paid, whether in money or in kind, for relevant activities. The Report includes cash payments actually made during the reporting period (the year ended 31 December 2018).

The Report excludes the following payments:

- administrative government fees, including utility fees, water charges, electricity charges paid to state-owned companies;
- environmental payments, including water pollution, solid waste pollution, and air pollution payments;
- charity payments or any other voluntary payments (made either in cash or in kind) that do not directly follow from a license agreement;
- any other obligatory payments that are not directly linked to mining activity;
- interest or/and penalties on late tax payments or on underpaid tax;
- any refunds received by the Kirovsk branch of Apatit.

The following types of payment are included in this report:

Production entitlements

These entitlements are payments calculated on the basis of the government's share of production under any production-sharing agreements or the government's separate equity interest as an investor in a venture that is incremental to its rights under the production sharing agreement. In 2018 the Kirovsk branch of Apatit had no such arrangements for production entitlements to any government.

Taxes

Taxes include those levied on the income, production or profits of the Kirovsk branch of Apatit and exclude such taxes as value added taxes, personal income taxes, sales taxes, property tax, land tax and social tax.

In 2018 the Kirovsk branch of Apatit paid the following taxes that were included into the Report:

- Resource severance tax;
- Corporate income tax (including withholding tax on dividends);
- Water Tax.

Taking into account provisions of tax legislation in Russia, the corporate income tax and water tax is paid at the legal entity level, rather than in relation to specific projects. Thus, for the purpose of the Report, these payments are included at the entity level, with no detailed project-by-project breakdown. Resource severance tax is, however, paid based on physical volumes of extracted ore, and has therefore been allocated on a project-by-project basis for the purpose of this Report.

Royalties

These are usage-based payments for the right to the on-going use of an asset.

In 2018 the Kirovsk branch of Apatit did not incurr any usage-based payments above the **materiality level** that is discussed below

Dividends

These are dividend payments other that dividends paid to a government as an ordinary shareholder of an entity unless paid in lieu of a production entitlement or royalty.

The Kirovsk branch of Apatit has not incurred such payments during the reporting period.

Bonuses

This includes payments to governments upon receipt of a license, when discovering natural resources, and/or when production has commenced.

In the reporting period the Kirovsk branch of Apatit did not make any one-time payments for mining activities above the **materiality level** that is discussed below

Fees

Fees are paid as consideration for acquiring licenses to gain access to an area where extractive activities are performed. These payments include license fees, rental fees, entry fees and other payments for licenses and/or concessions.

In the reporting period, the Kirovsk branch of Apatit paid rental fees for the land used for the purposes of its extractive activities.

Payments for infrastructure improvements

This includes payments in kind made by companies to governments in the form of infrastructure, whether under contractual obligations or otherwise.

In the reporting period, the Kirovsk branch of Apatit has incurred no expenditures that could be treated as legally obliged under licenses for the exploration, discovery, development and extraction of the apatite-nepheline ore.

Other payments

The Kirovsk branch of Apatit has not incurred any such payments during the reporting period.

Reporting currency

The Report was prepared in Russian Rubles ("RUB"), being the reporting currency of the Company and the currency of all payments to the government.

Materiality level

No payment, whether made as a single payment or as a series of related payments, was taken into account in this Report if it was below £60,000 in the reporting year. On the basis of a weighted average of the exchange rates during the reporting period, payments below RUB 5,000,000 may be excluded.

Consolidated Overview

Payments to governments on a project-by-project basis

'000 RUB

Project	Production entitlements	Total Taxes	Royalties	Dividends	Bonuses	Fees	Other payments	In-kind payments	Payments for infrastructure improvements	Total payments to governments
Kirov mine	-	-	-	-	-	*59,752*	-	-	-	-
Rasvumchorrskiy mine	-	-	-	-	-	*21,385*	-	-	-	-
Vostochniy mine	-	-	-	-	-	*37,204*	-	-	-	-
Total	**-**	***3,556,885***	**-**	**-**	**-**	***118,341***	**-**	**-**	**-**	***3,675,225***

Taxes paid on a project-by-project basis

'000 RUB

Projects	Corporate income Tax			Resource severance			Water tax		Total taxes
	Total	*Federal Budget*	*Regional Budget*	*Total*	*Federal Budget*	*Regional Budget*	*Total*	*Federal Budget*	
Kirov mine	-	-	-	*377,221*	*149,481*	*227,741*	-	-	-
Rasvumchorrskiy mine	-	-	-	*200,281*	*80,112*	*120,169*	-	-	-
Vostochniy mine	-	-	-	*308,998*	*123,599*	*185,399*	-	-	-
Total	***2,668,963***	***0***	***2,668,963***	***886,501***	***353,192***	***533,308***	***1,421***	***1,421***	***3,556,885***

Payments made, broken down by level of government authority

'000 RUB

Government authority	Total Taxes	Royalties	Fees	Bonuses	Production entitlements	Dividends	Payments for infrastructure improvements	Other payments	In-kind payments	Total payments to government authority
Federal Treasury	*3,556,885*	-	*118,341*	-	-		-	-	-	*3,675,225*
Total	***3,556,885***	**-**	***118,341***		**-**		**-**	**-**	**-**	***3,675,225***

Exhibit III-4

POLITICO

Untreated phosphate being dropped off on a montain at the end of a conveyor belt at the Marca factory of the National Moroccan phosphates company. The EU's strategic problem is that its farmers are overwhelmingly dependent on North and West Africa for phosphate | Fadel Senna/AFP via Getty Images

Fertilizer hits the fan

Arcane rules over phosphates have critical geopolitical implications for the EU's ties to Russia and North Africa.

By **GIULIA PARAVICINI** | 9/13/16, 6:30 AM CET | Updated 9/16/16, 1:00 PM CET

An obscure debate over EU fertilizer rules has spiraled into an incendiary geopolitical fight that threatens to roil Europe's delicate relations with Russia and North Africa.

Russia and Morocco have massive stakes in the EU's move to regulate the multi-billion euro fertilizer industry. Both countries mine the phosphate required to make fertilizers, but the African minerals contain a significantly higher level of a toxic, carcinogenic metal called cadmium.

Both OCP and Dechert LLP declined to answer questions for this article.

Russian connection

In the other corner are the Russians.

In Russia, the mineral is controlled by one company, Phosagro. Its shareholders include subsidiaries based in Cyprus, and Vladimir Litvinenko, Putin's campaign manager, who appears to be the third largest shareholder, according to the company's filings.

In December 2015 the company sought to push the Commission to accelerate steps towards a 20mg/kg limit, citing evidence of cadmium's classification in EU chemical regulations as a carcinogen in 2014.

"How come we need 12 years to move to safe levels (20 mg/kg)? There are sufficient cadmium-free alternatives in the market to speed this transition with no market disruption," said Phosagro's Irina Evstigneeva, director of international relations and corporate finances.

To achieve their goal the company hired EPPA, a Brussels-based consultancy, to convince those countries that already permit only low national levels of cadmium to press on with that position.

Jacob Hansen, director general of Fertilizers Europe, which lobbies on behalf of major mineral-based fertilizer producers, warned that the legislation could backfire.

He argued that tough EU-wide rules on standards would simply lead to a more opaque fertilizer trade, with "parallel national markets" emerging instead of the "intended harmonization."

"Mineral fertilizers represent about 80 percent of the market value and will continue to do so. The proposal must support this key market," he said.

This article first appeared on POLITICO Pro.

Exhibit III-5

News › Business › Business News

IPO yields $538m for Guryev

By Olga Popova | Wednesday 13 July 2011 23:00 BST | 0 comments

The Russian fertiliser group PhosAgro priced its initial public offering at the bottom of an indicated range, shrugging off stock-market volatility to raise $538m (£334m) for its largest shareholder, Andrei Guryev.

The listing in London saw PhosAgro become the seventh Russian company to float on overseas markets this year.

The offer valued PhosAgro, whose chairman and 10 per cent-shareholder Vladimir Litvinenko supervised the Russian Prime Minister Vladimir Putin's PhD thesis, at $5.2bn, lower than early analyst estimates of $6bn to $8.7bn.

Exhibit III-6

The New York Times | https://nyti.ms/wodwbh

EUROPE

Midas Touch in St. Petersburg: Friends of Putin Glow Brightly

By ANDREW E. KRAMER and DAVID M. HERSZENHORN MARCH 1, 2012

ST. PETERSBURG, Russia — Arkady R. Rotenberg, a former judo coach, is now a billionaire industrialist, having made a fortune selling pipe to the state-owned gas monopoly, Gazprom.

Yuri V. Kovalchuk owned a minority stake in a small bank in St. Petersburg that in recent years won control of a number of Gazprom subsidiaries. He is now worth $1.5 billion.

Gennady N. Timchenko, once the little-known sales manager of a local oil refinery, is now one of the world's richest men, co-owner of a commodity trading company that moves about $70 billion of crude oil a year, much of it through major contracts with Rosneft, the Russian national oil company.

What these men share, besides staggering wealth and roots in St. Petersburg, is a connection to Prime Minister Vladimir V. Putin, who is poised to win a new six-year term as president in elections on Sunday. The three billionaires are members of a close circle of friends, relatives, associates, colleagues from the security services and longtime advisers who have grown fabulously wealthy during Mr. Putin's 12 years as Russia's paramount leader.

Critics say these relationships are evidence of deeply entrenched corruption, which they view as essentially government-sanctioned theft invariably connected to owns a stake in Bank Rossiya, and some of Mr. Putin's relatives work for the Gazprom spinoffs. According to Mr. Kolesnikov, Bank Rossiya is at the center of the financing for the Black Sea palace.

A spokesman for Mr. Timchenko said his main connection to Mr. Putin was through a judo club in St. Petersburg, called Yavara-Neva, where as a young man the future president sparred with Mr. Rotenberg and his brother Boris Rotenberg.

Today, the Rotenbergs hold interests in a contractor selling pipe to Gazprom, as well as vodka distilleries, a developer of malls outside Moscow, mines and ports. In 2010, Russia's antimonopoly agency reported Gazprom bought 93 percent of its pipe from Arkady Rotenberg's company, North European Pipe Project.

Last year Forbes magazine estimated his net worth at $1.1 billion and his brother's at $550 million.

The lines between legitimate and illegitimate businesses are often fuzzy in Russia. In some cases, critics say that Mr. Putin's associates completed deals without the required competitive bidding, and in others obtained properties at hugely discounted prices. But it was not clear that any laws were violated.

Early in his career, Mr. Putin was philosophically opposed to transferring control of natural resources to private hands; with the help of the rector of one of St. Petersburg's prestigious universities, the Mining Institute, he prepared a graduate dissertation that proposed increasing state control. And in his first years in power, he pursued that approach, retaking Yukos Oil, for instance, which was mostly absorbed into Rosneft.

The rector, Vladimir V. Litvinenko, said this approach was needed after the mismanaged privatizations of the 1990s, but no longer, and that Mr. Putin now believed in the efficiency and benefits of private ownership.

Mr. Litvinenko has enjoyed some of those benefits himself.

A phosphate mine in the Arctic that had been partly owned by Mikhail B. Khodorkovsky, the now-jailed Yukos owner, later became the core asset of Phosagro, a company that went public on the London Stock Exchange last July.

In a prospectus, Mr. Litvinenko is listed among its new owners, holding 5 percent of the shares, worth about $260 million. Mr. Litvinenko, who today is heading Mr. Putin's election campaign in St. Petersburg, said he was paid in shares for consulting work in 2004, and that this "did not contradict any laws."

He also expressed deep reservations about the protest movement.

"If government is changed not by evolutionary methods, but revolutionary methods, this is a catastrophe," he said, adding that Mr. Putin "is the only choice. Of the other candidates, I don't see anybody who could lead Russia. And I don't just fear the street. I horribly fear the street. I have lived a lot. But this period is fearful for me."

Andrew E. Kramer reported from St. Petersburg, and David M. Herszenhorn from Moscow. Anastasia Sadovskaya contributed reporting from Moscow.

A version of this article appears in print on March 2, 2012, on Page A1 of the New York edition with the headline: Midas Touch in St. Petersburg: Friends of Putin Glow Brightly.

Exhibit III-7

Print

УРАЛХИМ

Joint announcement by United Chemical Company URALCHEM and ACRON

15.09.2008

Moscow - September, 15 2008. Major Russian mineral fertilizer producers United Chemical Company URALCHEM and Acron support the resolution adopted by the Russian Federal Service for Financial Markets (FSFM) to halt apatite concentrate trading at the Moscow Stock Exchange and the Umex Universal Trade Stock Exchange effective September 1, 2008. Both companies believe that this resolution is reasonable and well-timed.

The resolution to discontinue trading is a logical implication of FSFM's position outlined in its Letter No. 08-VM-0216238 dated July 2008 On Exchange Trading in Products Produced by Monopolies. In this letter, the FSFM concluded that exchange trading of goods produced by monopolies is not a fair market practice, as it leads to higher monopoly prices and enables monopolies to use questionable sales schemes to evade restrictions imposed by antimonopoly regulations. The prices for monopoly producers' products set in the course of such exchange trade may not be considered fair market prices.

The current situation in the Russian mineral fertilizer market is complicated, with more than 80% of Russia's apatite concentrate, the key input for mineral fertilizer operations, produced by the monopoly Apatit. Apatit is a member of the PhosAgro Group and clearly dominates the Russian apatite concentrate market.

Since November 2007, Apatit has been selling its non-contracted output through its sole intermediary, Trust Broker, for further resale through the commodity exchange. Apatit has been reluctant to enter into direct supply contracts with independent consumers. Limited volumes only were sold through the exchange which, coupled with ongoing increase in demand, put significant and unreasonable upward pressure on prices. This practice led to shrinking margins for mineral fertilizer producers. In H1 2008, the price for apatite concentrate at the Moscow Stock Exchange went up more than eightfold, from RUB 2,232 to RUB 18,000 per tonne. These skyrocketing prices were not the result of higher costs at Apatit, meaning that the company was bringing in triple-digit margins while mineral fertilizer producers were reducing prices for domestic farmers.

The domestic market for apatite concentrate is very tight, forcing Russian producers to shut down their operations. In the meantime, Apatit has been exporting most of its output at prices significantly below domestic rates. In essence, the company has been subsidizing European mineral fertilizer producers to the detriment of Russian producers and the Russian state budget.

Given the uncontrollable and unrestricted increase in input costs, mineral fertilizers have had to pass on higher costs to their end consumers. Unlike producers of raw materials, mineral fertilizer producers do not dominate the market and their practices do not contradict antimonopoly regulations. The sole driving force behind higher mineral fertilizer prices is the unreasonable increase in prices for raw materials at the commodity exchange.

In forcing apatite trading on its consumers, Phosagro is aiming at sustaing its monopolistic prices, which violates Russian Federal Law On Promoting Competition. Furthermore, Companies in the PhosAgro Group (Ammophos and Balakovskyie Mineralnyie Udobrenia) have been purchasing apatite concentrate at low fixed prices under long-term contracts, which gives them an unjustified advantage over other Russian producers.

Despite the rapid increase in prices for apatite concentrate and the tight domestic market, earlier this year URALCHEM and Acron froze prices on mineral fertilizers for its domestic customers, thus preventing prices from soaring during the planting season.

URALCHEM and Acron support the efforts of the Russian Government to provide Russian farmers with mineral fertilizers in the required volume and at reasonable prices. Ensuring reasonable apatite concentrate prices for Russian mineral fertilizer producers on a long-term basis will drive down mineral fertilizer prices and increase domestic fertilizer supplies. In light of the above, the FSFM's resolution to discontinue exchange trading is well-advised. It is fully in line with the Federal Law On Commodity Exchanges and Exchange Trade and puts a stop to the existing practice of monopoly pricing. The resolution will promote long-term contracts at reasonable and justified prices, thus achieving the objective set by Viktor Zubkov, First Deputy Prime Minister.

Exhibit III-8

BASIC MATERIALS | Wed Sep 5, 2012 | 9:58am EDT

Phosagro buys stake to secure fertiliser component supplier

* Fertiliser giant buys stake in ex-Mikhail Khodorkovsky's Apatit

* Phosagro is world's second largest fertiliser producer

Phosagro , a Russian fertiliser company formerly owned by jailed ex-tycoon Mikhail Khodorkovsky, paid $344 million at a state tender to buy back a stake in a vital apatite supplier, Apatit, which was taken over by the state after his conviction.

The onslaught of charges against Khodorkovsky, who says he fell afoul of President Vladimir Putin for his political ambitions, began in 2003 when he and his partners came under suspicion for illegally acquiring a stake in Apatit, producer of an essential component for mineral fertilisers.

Khodorkovsky is serving a 13-year jail term on two separate convictions, including tax fraud and embezzlement, at a prison near the Arctic circle, and is due for release in 2016.

The state seized the Apatit stake when Khodorkovsky's empire was being dismantled following his conviction in the first of two trials, which Kremlin critics say were politically charged.

Phosagro's current owner, Andrei Guryev, was a manager in Khodorkovsky's Menatep Group, which sold Phosagro and the group's remaining 50 percent stake in Apatit to its management.

ALSO IN BASIC MATERIALS

Few resource-rich countries properly manage their natural resources - report

UK blue chips led lower by Hargreaves as strong pound takes toll

Phosagro, the world's second-largest phosphate producer after Minnesota-based Mosaic Co, later raised its stake to 57.57 percent shares of Apatit.

Apatit says it is the world's largest producer of high quality apatite concentrate, a key fertiliser ingredient.

Russia's Economy Minister Andrei Belousov told reporters in Vladivostok on Wednesday that PhosAgro won the stake at a state tender.

Phosagro offered 11.11 billion roubles ($344 million) for the stake, it said in a statement. The R ussian government previously wanted to sell it for at least 10.5 billion roubles ($325 million).

Exhibit III-9

The Khodorkovsky case

The tycoon and the president

What Mikhail Khodorkovsky's downfall says about Russia's recent past, and its future

May 19th 2005 | MOSCOW

MISHA, as Marina Khodorkovsky refers to her son Mikhail, was always, she says, a fiercely determined little boy, whether he was learning to swim or looking for a holiday job. His childhood nickname was "Toy soldier".

Her son's ruthless determination brought him a stunning career, one that exemplifies Russia's post-Soviet history: the opportunities, corruption and chaos of the Boris Yeltsin years; the disappointments and revanchism of Vladimir Putin's presidency; and the uncertainty of the future. Mikhail Khodorkovsky made more money more quickly than almost anyone in history. Then—somehow—he incurred Mr Putin's wrath. This week saw the culmination of his trial in a Moscow court for fraud, tax evasion, embezzlement and running a criminal organisation.

Russia's "oligarchs"—the small group of men who became ultra-rich in the years after communism collapsed—like to say that they are hated in their own country because, prejudiced by communist propaganda and Orthodox Christian asceticism, Russians do not yet understand the virtues of entrepreneurialism or the legitimacy of personal wealth. That is too kind an analysis of their unpopularity.

Related items

Putin versus Khodorkovsky: “Justice” postponed

Apr 28th 2005

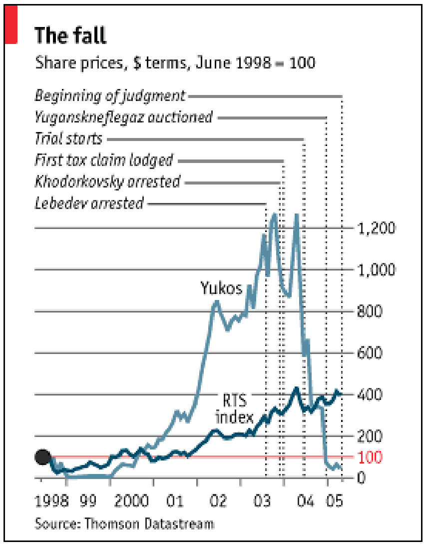
Like many who have prospered in post-Soviet Russia, though he came from a humble family Mr Khodorkovsky began with two advantages. He had a scientific background (and was thus less exposed than others to Soviet indoctrination); and, as an official in the communist youth league, he had powerful friends. As rules were bent and blind eyes turned in the Gorbachev era, legend has it that Mr Khodorkovsky found a way to convert hypothetical Soviet accounting units into cash, the cash into hard currency, and that into lucrative imports. He waded into the initial "voucher" privatisations of the early 1990s, which in theory were supposed to distribute the state's wealth fairly, and (in 1988) started a bank, which began to manage government money.

The bank also ran the rigged auction that led to Mr Khodorkovsky and his associates acquiring a majority stake in Yukos, which until recently was Russia's premier oil company. They got it in the gigantic scam known as "loans-for-shares", in which great slabs of the Russian industrial base were sold to a small cabal of businessmen for a song. The motives for this crooked giveaway were mixed: an urge on the part of Mr Yeltsin's economic reformers to get state assets into private hands; the government's need for funds to see off the communist challenge in the 1996 elections; and sheer greed.

Loans-for-shares was perhaps not technically illegal; but as Andrei Illarionov, Mr Putin's maverick economic adviser, says, adapting Talleyrand, "worse than a crime, it was a mistake". (He adds, though, that renationalisation of the ripped-off assets would be an even worse mistake.) The huge enrichment of a few insiders while most people struggled with poverty helps to explain why, for many Russians, democracy and the free market are still synonymous with corruption and inequality. If Mr Khodorkovsky and the other loans-for-shares participants helped to make a return to communism impossible, they are responsible also for the warped nature of Russian capitalism, and their country's disillusionment with reform.

Foreign investors with short memories are now bemoaning the demise of Russia's most "westernised" oligarch, which is what, when it suited him, Mr Khodorkovsky became. But that was only after he used every means at his disposal to take full control of Yukos. Especially after Russia's default-and-devaluation crash of 1998, some of the means were outrageous: squeezing out minority shareholders; moving important meetings at the last moment; hiding shares in offshore vehicles. There were rumours of worse.

Then, as his supporters now prefer to remember, Mr Khodorkovsky was the first of the Yeltsin-era tycoons to see that there was even more money to be made by going straight. Yukos started to keep western-style accounts and courted foreign partners. Oil prices rose; shares in Yukos, which was pumping 2% of global oil output, rocketed (see chart). Still in his 30s, Mr Khodorkovsky became, reputedly, the richest man in Russia. His career—from nothing to billions and then to prison—has the pure arc of a classical tragedy. This was its peak.



The over-reacher

Mr Putin's installation as president in 2000 was probably the real beginning of Mr Khodorkovsky's fall, though the new president was so opaque that his attitude to the uppity tycoons he inherited from his predecessor was not immediately clear. The downturn in Mr Khodorkovsky's fortunes became obvious in July 2003, when Platon Lebedev, his partner and now co-defendant, was arrested. Three months later, Mr Khodorkovsky himself was nabbed on a Siberian runway.

Almost immediately afterwards, Moscow discovered a new favourite parlour game: who's next? The game was hard to play, however, because nobody knew exactly what Mr Khodorkovsky had done wrong. The most popular theory was and is that he had violated a (possibly apocryphal) pact that Mr Putin struck with the oligarchs in 2000: they could keep what they had got in the 1990s if they paid their taxes and stayed out of politics. Mr Khodorkovsky and his associates funded several political parties, attempting what one Moscow banker describes as an "aggressive takeover of the Duma", the lower house of Russia's parliament. There were whispers of a Khodorkovsky run for the presidency or other high office. In this analysis, a concerted effort to sway policy over energy taxes in June 2003 was the final straw.

But there are other plausible explanations. Given the oligarchs' unpopularity, it was politically expedient for Mr Putin to swing one from a lamp-post. As the very richest, swinging Mr Khodorkovsky would be especially symbolic. Or it may have been his plans to build a private oil pipeline to China that grated most. Or the Kremlin may have been alarmed by talk of a deal between Yukos and a big American oil company, after the planned (now cancelled) merger of Yukos with Sibneft, another oil firm controlled by Roman Abramovich, the owner of London's Chelsea Football Club. Mr Khodorkovsky also clashed publicly with Mr Putin over government corruption in February 2003.

Probably there was no single motive for destroying Mr Khodorkovsky. One that seems to have emerged along the way is the renationalisation of Yukos—and thus the strengthening of the government's control over the country's energy sector.

After Mr Khodorkovsky's arrest, many western fund-managers in Moscow told anyone who would listen that the problem was merely a private contretemps between the tycoon and the president, from which Yukos would emerge unscathed. They were wrong. A parallel campaign against the company soon began, in the form of vast claims and penalties for allegedly unpaid taxes, eventually amounting to around $28 billion; for one year, Yukos is said to owe more than it took in revenues. The basis for the claims was the purportedly illegal exploitation of regional tax-incentive schemes.

Mr Putin said repeatedly that there would be no renationalisation of privatised firms on his watch. But by freezing the company's bank accounts and setting impossible deadlines, the tax authorities and courts ensured that Yukos's tax bills were unpayable. Last December, in a transaction surreal even by Russian standards, Yuganskneftegaz, Yukos's main production arm, was forcibly sold in another rigged auction, to a front company registered at a provincial grocery shop.

The Russian government apparently came up with this ruse—“the swindle of the year”, as the loose-lipped Mr Illarionov called it—after Yukos tried to protect its assets by filing for bankruptcy in America. The origin of the $9.35 billion paid for the subsidiary is still a mystery, but the firm ended up in the hands of Rosneft, a state-owned oil firm. If Yukos's remaining assets go the same way (as looks likely), there will be nothing left of the company for the other shareholders who believed in Mr Khodorkovsky's transformation and bought in.

Rosneft's acquisition of Yuganskneftegaz, meanwhile, has derailed plans to merge the oil firm with Gazprom, the state-controlled gas giant (finally and farcically cancelled this week, though the government came up with another plan that would remove restrictions on foreign ownership of Gazprom shares, a move designed to alleviate some of the pain caused by the Yukos fiasco). The wrangling over the terms of the merger—and over which group of Kremlin henchmen ultimately gets control of Yugansk—vindicates those, including Mr Khodorkovsky, who maintain that the real explanation for the Yukos affair was always the simplest and most obvious one: graft.

The debacle of the auction confirmed the first big lesson of the long, meandering campaign against Mr Khodorkovsky and his company: that Mr Putin's regime is worryingly tactical, changing its methods and even its aims as obstacles that it ought to have anticipated present themselves. This amateurism has infected economic policy, over which the cabal of siloviki (roughly, “power people”) around Mr Putin, himself a former KGB officer, has come to exert a destructive influence.

The result has been queasiness among investors, falling stock prices and rising capital flight. Whatever the moral case for revisiting the privatisations—and it was a strong one—this was not the way to go about it. After Yukos, conciliatory government noises, such as Mr Putin's recent public instruction to the tax authorities to stop “terrorising” business, are automatically disregarded by Russian businessmen.

Will anyone be “next”? The Kremlin probably underestimated the economic impact of its grudge against the tycoons, and may now consider it has done enough pour encourager les autres. But, as capricious tax bills levied by freelancing officials have attested, the forces unleashed by the Yukos affair may be beyond Mr Putin's control. Whether oligarchs or smaller fry, businessmen sense that the old KGB adage—“Give us the man and we will find you the crime”—now characterises their dealings with the state.

The Trial

The charges in Mr Khodorkovsky's 11-month trial do not centre on the “loans-for-shares” rip-off that made him a multi-billionaire. They focus on the allegedly fraudulent part-privatisation in 1994 of Apatit, a fertiliser company, and of another firm, plus personal tax evasion, embezzlement of Apatit's profits through a transfer-pricing scheme, and his leading of an “organised criminal group”.

Mr Khodorkovsky's defence has been that he was not personally responsible for the alleged crimes, or that the actions involved were not in fact illegal. He and his partners say that they turned Apatit from a failing company into a going concern, and that the problems over its acquisition have already been addressed in a civil suit. (Yukos's defence against the tax claims is essentially that “everyone was doing it”; indeed Sibneft, Mr Abramovich's firm, exploited the tax loopholes even more efficiently than did Yukos.)

But most people who visited the stuffy little room in the Meshchansky district courthouse, where the trial was held, emerged with the sense that the precise charges were beside the point. It was a bizarre scene: the accused's families and a clutch of journalists crammed on to a few benches, while Mr Khodorkovsky listened from the defendants' cage and, beside him, Mr Lebedev scornfully filled out Japanese crosswords. The three judges who came up with the verdicts—only a minority of Russian trials as yet involve juries—did not always seem to be concentrating.

This air of predestination was not unusual: almost all Russian criminal trials result in guilty verdicts. A report prepared for the parliamentary assembly of the Council of Europe last year catalogued the improprieties in the Yukos cases: restrictions on the defendants' access to their lawyers; capricious denial of bail; harassment of witnesses; and the unnecessary secrecy of the trial of Alexei Pichugin, a former Yukos security official sentenced to 20 years for murder in a trial that ended in March.

This is the second important lesson of the Khodorkovsky saga: that in Russia, power still matters more than the law. Property is held at the discretion of the president-cum-tsar. Invisible rules and relationships and grievances matter more than rules that are written down. (It is said in Moscow that when the Yukos bankruptcy case was dismissed by a court in Texas, which happened soon after the Russian and American presidents met in Slovakia, Mr Putin took it as proof that things worked just the same way in America.)

Perhaps this was Mr Khodorkovsky's biggest mistake: to think that Russia had changed more than it has. “We lived our lives in the Soviet period,” says his mother, “and we warned him that you cannot trust power in our country.” But, says Mrs Khodorkovsky, her son told her that the country had changed forever. Another view is that Mr Khodorkovsky came to believe that he was invincible, and that his real failing was a classic tragic flaw: hubris.

It is the government's behaviour, as much as Mr Khodorkovsky's own, that has made him an unlikely icon of dissent for Russia's band of put-upon liberals. “His case is a symbol of the authoritarian state, of the unclear rules of the game, of autocracy,” says Vladimir Ryzhkov, an independent Duma deputy. Russians revere suffering, and many have relatives who once spent time in prison on spurious grounds. In Russia, says Igor Shaitanov, a literature professor, “to be unfairly treated is a big step towards becoming a hero.”

It helps that Mr Khodorkovsky led a relatively unflamboyant life, buying no yachts or football clubs, and preferring camping holidays to orgies in the south of France. It also helps that he and his associates spent some of their money on good causes: an orphanage, a university (Mr Shaitanov's), think-tanks, and so on.

But the biggest contribution Mr Khodorkovsky has made to the transformation of his own image, in some quarters at least, from robber-baron to anti-authoritarian dissident, was simply that he stayed in Russia. Boris Berezovsky and Vladimir Gusinsky, two of the other original oligarchs who fell out with Mr Putin, gave up some of their assets and fled abroad, as have several of Mr Khodorkovsky's former associates. Mr Gusinsky left after a brief spell in prison persuaded him to cut a deal.

Putin may have unleashed forces he can't control

Reuters

Mr Khodorkovsky, too, may have been supposed to crack and run. But, according to his mother, “To escape abroad means to admit one's guilt, and Misha does not accept any guilt.” Outside the court, as a few hundred supporters waved his portrait and yelled “Freedom”, Yevgeny Yasin, guru of Russia's liberal economists, said that by choosing to be a political prisoner rather than a political émigré, Mr Khodorkovsky had proved he was “a real man”. The Khodorkovsky fans were subsequently kept away from the court by riot police.

The last laugh?

Behind bars, Mr Khodorkovsky has also striven to re-engineer his reputation by issuing prison manifestos, which, like show trials, are a venerable Russian tradition. In the letters from his cell, Mr Khodorkovsky has criticised the inequities of the reforms that made him rich, assailed the liberal reformers for neglecting the plight of the common man, and abjured what he now calls “the tyranny of wealth”. In his last address to the Meshchansky court, he compared himself to the Decembrists, idealistic military officers who plotted unsuccessfully against the tsar in 1825.

The judges were still reading their verdicts as The Economist went to press, having repeatedly adjourned the hearing early. Though the final sentences had not yet been handed down, the judgment was said more or less to reiterate the prosecution's case (which called for ten-year jail terms). The two men will also face money-laundering charges, which will keep them in prison even if the sentences are light or suspended. Even a brief spell in a Russian jail, where tuberculosis is rife and “accidents” not uncommon, is perilous.

If he survives, what might Mr Khodorkovsky do? For all the mistakes and misfortunes of the last year—the Beslan calamity; the ill-conceived meddling in Ukraine; the botched introduction of social reforms—Mr Putin still enjoys strong public support, according to the polls, and he has nobbled the media to help him keep it. But his power-base in the elite, amounting to some siloviki and allies from his days in St Petersburg, is small. His enemies, meanwhile, are numerous. Mr Berezovsky and Mr Gusinsky, still rich men, have not given up hope of revenge. The other oligarchs have not generally spoken up for Mr Khodorkovsky, partly out of self-interest, partly because of old business grudges, partly because they worry that his obstinacy has jeopardised their own status. But none of them is fond of Mr Putin either.

He himself has denied rumours that he intends to change Russia's constitution and stand for a third presidential term in 2008. Many people are unpersuaded, and even he has not ruled out returning for another spell in the Kremlin in 2012, which the constitution would permit. By then, Mr Khodorkovsky—a ruthless man sunk by an even greater ruthlessness than his own—could be out of prison. The story of Putin and the oligarchs may not be over yet.

• This article appeared in the Special report section of the print edition

Exhibit III-10

PhosAgro Board Recommends Participating in Apatit Privatisation

03.05.2012

:

Moscow – PhosAgro ("PhosAgro" or "the Company") (MICEX-RTS, LSE: PHOR), a leading global vertically integrated phosphate-based fertilizer producer, announces that its Board of Directors has approved the Company's participation in the upcoming privatisation of the Russian Federation Government's stake in PhosAgro's subsidiary Apatit.

The Board has granted PhosAgro CEO Maxim Volkov the authority to determine the price and other parameters of the acquisition of the Apatit shares owned by the Russian Government, and to undertake on behalf of PhosAgro any other actions that are required for the acquisition of the shares.

PhosAgro currently owns more than 57.57% of the voting shares of Apatit. In April of this year the Russian Federation Antimonopoly Service approved PhosAgro's request for permission to acquire up to an additional 42.43% of voting shares in OJSC Apatit, which together with the stake already owned by PhosAgro represents 100% of Apatit's outstanding shares.

In addition to participation in the privatisation, PhosAgro intends to acquire shares from Apatit's other minority shareholders.

The Board also approved several related party transactions in which it determined the price of the property to be acquired based on the property's market value.

The PhosAgro Board of Directors approved a purchase agreement for Ammophos shares that were presented for redemption by shareholders in connection with the merger of Ammophos and Cherepovetsky Azot. The shares are to be sold by Ammophos for a total of RUB 143,140,790. In accordance with the agreement, PhosAgro will purchase 29,759 ordinary shares of Ammophos, which represents 0.33% of the company's share capital. As a result of the transaction, PhosAgro's stake in Ammophos will be 94.13%.

The PhosAgro Board of Directors also approved purchase agreements for shares of Cherepovetsky Azot that were presented for redemption by shareholders in connection with the merger of Ammophos and Cherepovetsky Azot. The first agreement entails the purchase of 44,141 ordinary shares of Cherepovetsky Azot for RUB 79,674,505. In accordance with the second agreement, PhosAgro will purchase 78,015 preferred shares of Cherepovetsky Azot for RUB 134,965,950. The shares to be purchased under these two agreements represent 1.34% of Cherepovetsky Azot's share capital. The seller in both agreements is Cherepovetsky Azot. Upon completion of these transactions, the total stake of PhosAgro and its related parties in Cherepovetsky Azot will increase to 70.63%.

Back to the list Top of Page

Exhibit III-11

PhosAgro gets FAS Approval for up to 100% of Apatit

10.04.2012

:

Moscow, 10 April 2012 – PhosAgro ("PhosAgro" or "the Company") (MICEX-RTS, LSE: PHOR), a leading global vertically integrated phosphate-based fertilizer producer, announces that the Russian Federal Antimonopoly Service (FAS) has approved the Company`s request for permission to acquire up to an additional 42.43% of voting shares in OJSC Apatit, which together with the stake already owned by PhosAgro represents 100% of Apatit`s outstanding shares.

Moscow, 10 April 2012 – PhosAgro ("PhosAgro" or "the Company") (MICEX-RTS, LSE: PHOR), a leading global vertically integrated phosphate-based fertilizer producer, announces that the Russian Federal Antimonopoly Service (FAS) has approved the Company`s request for permission to acquire up to an additional 42.43% of voting shares in OJSC Apatit, which together with the stake already owned by PhosAgro represents 100% of Apatit`s outstanding shares.

The request was submitted as part of PhosAgro`s preparations to participate in the privatisation of the Russian Government`s shareholding in Apatit.

PhosAgro also intends to acquire shares held by private shareholders in Apatit, and has already reached agreements with several of the owners of significant stakes.

Back to the list Top of Page

Exhibit III-12

Report to Congress Pursuant to Section 241 of the Countering America's Adversaries Through Sanctions Act of 2017 Regarding Senior Foreign Political Figures and Oligarchs in the Russian Federation and Russian Parastatal Entities

January 29, 2018

Section 241 of the Countering America's Adversaries Through Sanctions Act of 2017 (CAATSA) requires the Secretary of the Treasury, in consultation with the Director of National Intelligence and the Secretary of State, to submit to the appropriate congressional committees 180 days after enactment a detailed report on senior political figures and oligarchs in the Russian Federation (Section 241(a)(1)) and on Russian parastatal entities (Section 241(a)(2)). Pursuant to Section 241(b), the report shall be submitted in an unclassified form but may have a classified annex. This is the unclassified portion of the report.

Section 241(a)(1) – Senior Foreign Political Figures and Oligarchs in the Russian Federation

As required by Section 241(a)(1)(A) of CAATSA, the Department of the Treasury is providing in this unclassified report a list of senior foreign political figures and oligarchs in the Russian Federation, as determined by their closeness to the Russian regime and their net worth. For purposes of this unclassified portion of the report, this determination was made based on objective criteria related to individuals' official position in the case of senior political figures, or a net worth of $1 billion or more for oligarchs.

To determine the list of senior political figures, the Department of the Treasury considered the definition in CAATSA Section 241(c)(2), which incorporates by reference the definition of "senior foreign political figure" in section 1010.605, title 31 of the Code of Federal Regulations. For purposes of this unclassified portion of the report, such names consist of: i) senior members of the Russian Presidential Administration; ii) members of the Russian Cabinet, Cabinet-rank ministers, and heads of other major executive agencies; iii) other senior political leaders, including the leadership of the State Duma and Federation Council, other members of the Russian Security Council, and senior executives at state-owned enterprises. These individuals are listed in Appendix 1 of this report.

To determine the list of oligarchs, the Department of the Treasury enumerated those individuals who, according to reliable public sources, have an estimated net worth of $1 billion or more. Those individuals who meet this criterion are listed in Appendix 2 of this report.

The Department of the Treasury is also providing in a classified annex to this report additional information required pursuant to Section 241(a)(1). The classified annex may include individuals who are not included in Appendices 1 and 2 to this unclassified report, and such persons may hold a position below those included in the unclassified report or have a net worth below $1 billion.

Appendix B: List of Oligarchs

1. Aleksandr Abramov
2. Roman Abramovich
3. Araz Agalarov
4. Farkhad Akhmedov
5. Vagit Alekperov
6. Igor Altushkin
7. Aleksey Ananyev
8. Dmitriy Ananyev
9. Vasiliy Anisimov
10. Roman Avdeyev
11. Petr Aven
12. Yelena Baturina
13. Aleksey Bogachev
14. Vladimir Bogdanov
15. Leonid Boguslavskiy
16. Andrey Bokarev
17. Oleg Boyko
18. Nikolay Buynov
19. Oleg Deripaska
20. Aleksandr Dzhaparidze
21. Leonid Fedun
22. Gleb Fetisov
23. Mikhail Fridman
24. Aleksandr Frolov
25. Filaret Galchev
26. Sergey Galitskiy
27. Valentin Gapontsev
28. Sergey Gordeyev
29. Andrey Guryev
30. Yuriy Gushchin
31. Mikhail Gutseriyev
32. Sait-Salam Gutseriyev
33. Zarakh Iliyev
34. Dmitriy Kamenshchik
35. Vyacheslav Kantor
36. Samvel Karapetyan
37. Yevgeniy Kasperskiy
38. Sergey Katsiyev
39. Suleyman Kerimov
40. Igor Kesayev
41. Danil Khachaturov
42. German Khan
43. Viktor Kharitonin
44. Aleksandr Klyachin
45. Petr Kondrashev

46. Andrey Kosogov
47. Yuriy Kovalchuk*
48. Andrey Kozitsyn
49. Aleksey Kuzmichev
50. Lev Kvetnoy
51. Vladimir Lisin
52. Anatoliy Lomakin
53. Ziyavudin Magomedov
54. Igor Makarov
55. Iskander Makhmudov
56. Aleksandr Mamut
57. Andrey Melnichenko
58. Leonid Mikhelson
59. Yuriy Milner
60. Boris Mints
61. Andrey Molchanov
62. Aleksey Mordashov
63. Vadim Moshkovich
64. Aleksandr Nesis
65. God Nisanov
66. Aleksandr Ponomarenko
67. Sergey Popov
68. Vladimir Potanin
69. Mikhail Prokhorov
70. Dmitriy Pumpyanskiy
71. Megdet Rakhimkulov
72. Andrey Rappoport
73. Viktor Rashnikov
74. Arkadiy Rotenberg*
75. Boris Rotenberg*
76. Dmitriy Rybolovlev
77. Ayrat Shaymiyev
78. Radik Shaymiyev
79. Kirill Shamalov
80. Yuriy Shefler
81. Albert Shigabutdinov
82. Mikhail Shishkhanov
83. Leonid Simanovskiy
84. Andrey Skoch
85. Aleksandr Skorobogatko
86. Rustem Sulteyev
87. Aleksandr Svetakov
88. Gennadiy Timchenko*
89. Oleg Tinkov
90. Roman Trotsenko
91. Alisher Usmanov

Exhibit III-13

Andrey Melnichenko

Chairman of the Nomination and Remuneration Committee, Member of the Strategy Committee, Non-Executive Director

Over the past 20 years, Andrey has co-founded a number of successful companies including MDM-Bank, EuroChem, SUEK, Siberian Generating Company (SGC), and TMK. He is the main beneficiary of EuroChem, SUEK and SGC. Andrey is currently a member of the Board of Directors of SUEK and chairs the Strategy Committee. He also sits on the Board of the Russian Union of Industrialists and Entrepreneurs.

Andrey studied physics at the Lomonosov Moscow State University and graduated from Plekhanov Russian Academy of Economics, majoring in finance and credit.

Exhibit III-14

#95 Andrey Melnichenko

PHOTO BY COURTESY OF ANDREY MELNICHENKO

REAL TIME NET WORTH

$14.2B as of 5/7/20

▼ $1 M | 0.01%

Reflects change since 5 PM ET of prior trading day

- Industrialist Andrey Melnichenko owns majority stakes in fertilizer producer Eurochem and coal energy company SUEK.
- His first business venture was a chain of currency-exchange booths he started in the 1990s.
- He then invested money made in banking into the fertilizer and coal industries.
- Melnichenko's companies, which employ more than 100,000, have invested some $21 billion into fertilizer and coal production over the past 15 years.

ON FORBES LISTS

#95	**Billionaires 2020**

STATS

Exhibit III-15

EuroChem

Delivering
world-class nutrients

2018 Annual Report and Accounts

Delivering **world-class nutrients**

Highlights

Year-on-year
increase in sales

+15%

EBITDA (US$)

1.52bn

Employees

>26,300

EuroChem is one of the world's leading mineral fertilizer producers, delivering the full range of nutrients and driven by the world's increasing need for food. Our objective is to help the world's farmers improve crop yield and quality – thereby generating sustainable value for all our stakeholders.

Potash on stream

With potash mining underway, EuroChem is one of just three global fertilizer companies with capacity in all three primary nutrients: nitrogen, phosphates and potash.

See page 02

Operating on the global stage

We have an established presence around the world with production facilities in Europe, Asia, and the CIS – supported by comprehensive distribution capabilities.

See page 06

Focused on our customers' needs

With access to vast high-quality natural resources and an extensive portfolio of both standard and premium products, we aim to meet all farmers' plant nutrition requirements.

See page 10

Delivering world-class nutrients

Potash on stream, completing the full range of mineral fertilizers

From discovery...

EuroChem is now one of only three companies in the world with production capacity in all three primary nutrient groups. We are able to make a full range of nitrogen, phosphate and potash fertilizers to help farmers meet the world's food production challenge.

Read more about our strategic priorities on page 28

Delivering sustainable competitive advantage

Our strategy is to add value through low-cost vertical integration. Access to world-class resources, cost-efficient, flexible production capacity and our own logistics and global distribution network gives us significant competitive advantages. Our presence in key markets enables us to serve an extensive customer base around the world.

Increase in fertilizer sales (by volume)

+2%

Fertilizer sales volumes

14.1MMT

Number of customers worldwide

>10,000

>10BMT

of potash reserves and resources in Russia

...to distribution

Delivering world-class nutrients

Ensuring long-term supply across all nutrient categories

A landmark moment for EuroChem

In 2018 we began production of potassium chloride at our Usolskiy plant in the Perm region. The commissioning process saw 15 mining machines in operation by the year end. Construction and installation at train 2 was completed, with both trains 1 and 2 working at projected capacity. The total length of headings at the end of the year amounted to 73 kilometres.

Usolskiy mined 1.38 million metric tonnes (MMT) of potash ore in 2018. Once fully operational, Phase 1 will have a total annual production capacity of 2.3 MMT of muriate of potash, or MOP, the most commonly used potash fertilizer in agriculture.

Work advanced at our VolgaKaliy project in the Gremyachinskoe potash deposit, Volgograd region. Below ground, the two skip shafts were successfully connected and implementation of the cage shaft programme continued. The total hoisting capacity of the two skip shafts is 10 MMT of ore per annum.

Investment in potash projects to date[1] (US$)

4.58bn

Muriate of potash produced at Usolskiy in 2018

250KMT

Average KCl content at Usolskiy

30.8%

1. Historical currency rates were used for the calculation of the investment.

Mine workings at VolgaKaliy

How our stakeholders benefit

Over the past seven years we have made considerable investments in the development of our greenfield potash projects in the Perm and Volgograd regions. This continued commitment underpins the sustainable growth of our business – and contributes significantly to the local economies where we operate.

Communities
As a major employer in Kotelnikovo and Berezniki, EuroChem's presence has a considerable influence on the local economy. Hence our investment in community infrastructure contributes to the success of our major potash projects at VolgaKaliy and Usolskiy. Our ongoing support continues to improve the urban fabric in these communities.

Employees
We offer a safe and progressive working environment for our employees. More than 1,800 people work at Usolskiy and a further 1,300 are employed at VolgaKaliy. Attractive leisure and recreational facilities help us secure and retain the services of talented and motivated staff, which is fundamental to our long-term growth strategy.

Partners and suppliers
As a major business investing billions of dollars in our potash operations, engagement with local and regional contractors and suppliers creates jobs and drives economic growth. The resulting improvements create a virtuous circle by attracting other business investors.

Customers
Our highly cost-competitive potash production will benefit our customers globally, through improved access to affordable, high-quality complex fertilizers. These are essential in enabling growers to make the right decisions about plant nutrition, improve their crop yields and meet growing world demand for food.

Voice from the workplace

"For me, EuroChem is a space where ambitions materialise. In my five years here, I've experienced both professional and personal growth. I set out my plans, and the Company gives me the opportunities to realise them. Two years ago I obtained a management training qualification thanks to our staff development programme. I'm a technical specialist; I'm really interested in this field and loved my training sessions. Having a real chance to grow within a robust and stable company is why I like working at EuroChem."

Ivan Manaka
Senior Specialist, Engineering
and Process Team, EuroChem-VolgaKaliy

Delivering world-class nutrients

Operating on the global stage

From local...

Extending our distribution reach has enabled us to consistently grow the amount of product we bring to market. This has brought us closer to our customers, while channelling valuable market intelligence and strategic opportunities back to us, allowing us to further refine our offering and approach.

Read more about our increasing market share on pages 20-21

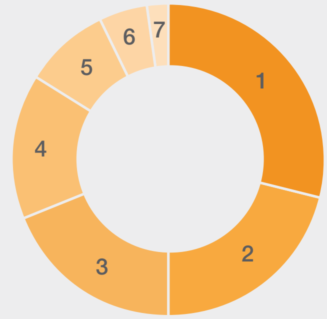
Delivering an optimised supply of nutrients globally

In 2018 we continued to expand our logistics activities and worldwide sales presence, giving us additional depth in key global markets. This has enabled us to build enduring partnerships with our customers and deliver the required volumes of products, on time, throughout the year.

Geography of sales (%)

1 Europe	29
2 Latin America	21
3 Russia	19
4 North America	15
5 Asia Pacific	9
6 CIS[1]	5
7 Africa	2

1. Including associate states, excluding Russia.



>100

countries where we have long-established customer relationships

...to global

Delivering world-class nutrients

Growing a robust network of international relationships

We continue to expand our global footprint. We have broadened our distribution capabilities to widen the availability of our products to more farmers around the world. We are forging and maintaining strong relationships with partners and suppliers to help us meet our customers' specific needs.

Committed to the world's biggest fertilizer market

EuroChem signed a Memorandum of Understanding with Heilongjiang Beidahuang Farms, part of Beidahuang Group, China's largest agricultural company, to supply potash and other NPK fertilizers. The Memorandum – which was signed at our Usolskiy potash mine in July – highlights our determination to become a key supplier to the world's most important agricultural market.

First potash agreement in Africa

In June, we signed a take-or-pay agreement for the purchase of up to 100% of the expected future sulphate of potash (SOP) output from the Colluli Potash Project in Eritrea, East Africa. SOP is a premium fertilizer product suited to crops such as fruit, vegetables and coffee, and represents EuroChem's increased focus on premium products. The contract, for a 10-year term, with an option to extend for a further three years, is the first such agreement by EuroChem in Africa. It gives us access to an economically attractive SOP greenfield project that is well placed to supply the world's fastest-growing markets. Annual output of around 472,000 tonnes is envisaged.

Delivering an optimised supply of nutrients globally

EuroChem's logistics infrastructure supports our vertically integrated business model. Our global distribution network ensures the efficient supply of a complete range of fertilizers – from our standard offering to premium grade products – to customers around the world.

Fertilizer sales volumes

14.1MMT

Increase in total US$ sales

+15%

EBITDA (US$)

1.52bn

EuroChem and Heilongjiang Beidahuang Farms representatives sign the MOU at our Usolskiy mine

How our stakeholders benefit

Customers

Our consolidated distribution platform supports our strategy of moving closer to customers in core markets. This is true both in terms of distance to end customers and with regard to particular regional requirements, since our specialty fertilizers are tailored to specific markets and crops. Farmers also benefit from our comprehensive information and advisory services.

29%

Proportion of Group sales to Europe

Partners and suppliers

Our growing global footprint and extensive distribution network means we support wholesalers, distributors and cooperatives across Europe, South-East Asia and the Americas. We provide fertilizer products to more than 10,000 customers – including partners, suppliers and end users – in over 100 countries. Our network of agrocentres also offers related agricultural and agrochemical services and products, including blending, seeds and soil analysis services.

>100

Products sold by the Group

Employees

EuroChem's workforce has grown organically as a result of the company's expansion. At EuroChem's Usolskiy potash mine for example, more than 2,000 permanent jobs will have been created once full production is underway. We recognise the importance of training and development for our people, and continue to invest in improving their skill sets, knowledge and expertise.

0.89

Long-time injury frequency rate (LTIFR; per 1m man-hours)

Communities

Besides providing stable employment, EuroChem fulfils all local tax and environmental obligations and pays competitive salaries. Its commitment involves engagement with local stakeholders, including residents and regional and local government authorities. Many of the Group's facilities for employees – including recreation, sports and rehabilitation facilities – are open to local people, and our energy generation and transport infrastructure systems also serve our community neighbourhoods.

6.75m

Invested in community development (US$)

Voice from the workplace

"It's an exciting time to be part of the Group. EuroChem is a fast-moving global business and we are making significant progress across North America, providing customers with a flexible and high-quality offering that really meets their needs."

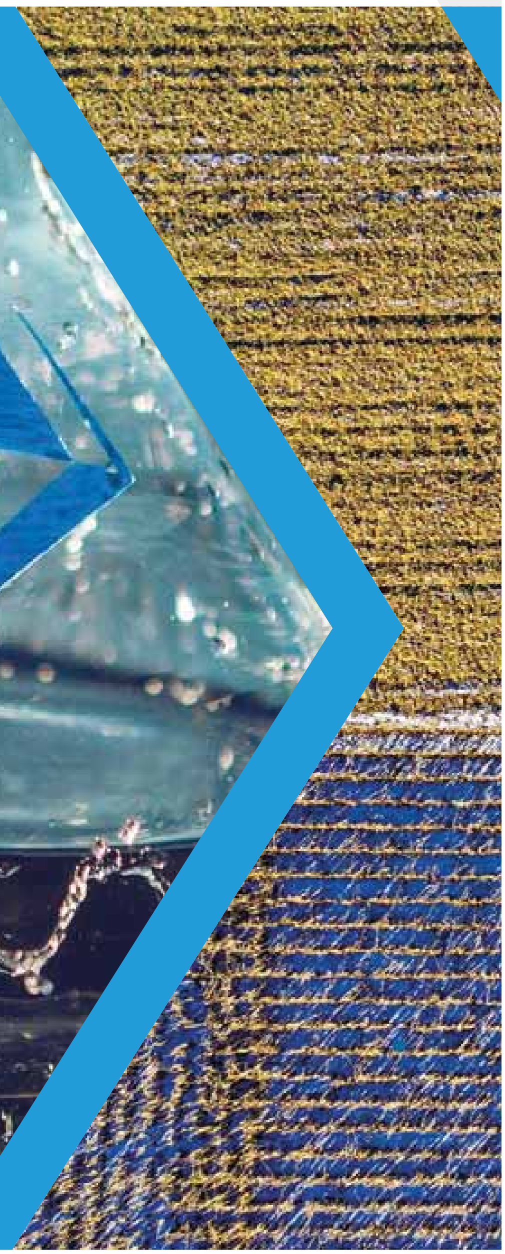
Charlie Bendana
Managing Director
EuroChem North America

Delivering world-class nutrients

Focused on our customers' needs

From concept...

Rising demand for food – coupled with shrinking arable land per capita – challenges farmers to increase yields. Increasing environmental concerns arising from past indiscriminate use of fertilizers are compelling manufacturers to create high-efficiency, gradual release products that reduce possible nutrient loss. That's why we are dedicated to investing in next-generation technologies to make our products even more effective for our customers.



Read more about our approach to innovation on page 12

Delivering innovative products

Our premium fertilizers deliver increasingly resource-efficient solutions, adapted for the specific needs of farms, soils and crops. This is cost effective for customers – and encourages sustainable practices by providing optimal nutrition with minimal application. We plan to expand our range with innovative specialty products including different NPK formulas, products with micronutrients, urease inhibitors and nitrification inhibitors.

Our R&D team in Mannheim, Germany, is focused on optimising the specific characteristics of these products, developing innovative solutions that are equal to the challenges of modern sustainable agriculture.

EuroChem premium products help farmers

- Improve yields
- Limit adverse environmental impact
- Increase crop values
- Reduce costs through lower fertilizer application requirements

+9%

increase in sales of complex and blended fertilizers

...to customer

Delivering world-class nutrients

Investing in next-generation fertilizers

Developing inhibitor technologies

EuroChem is developing a new generation of fertilizers. Enhanced-efficiency fertilizers (EEFs) are specially formulated to provide nutrients more slowly, which enables crops to take them up more efficiently.

Our ENTEC® products work by stabilising the applied fertilizer in the ammonium form for a prolonged period. This arrests denitrification, while still providing a source of nitrogen to the crop. Independent scientific studies show that EEFs such as ENTEC® provide more nitrogen directly to crops.

Depending on environmental conditions, stabilised mineral products such as ENTEC® and UTEC® can decrease ammonia and greenhouse gas emissions by up to 100%, reduce nitrate leaching and increase yields.

We are currently working with 18 research partners and 12 universities – and conducting more than 250 field trials in 25 countries – to develop formulations that will deliver optimal results in specific soils, whatever the crop, location or climate.

Average yield increase using nitrification inhibitor[1]

+5%

Increase in nitrogen use efficiency through use of nitrification inhibitor[1]

+12%

Average reduction in N_2O emissions through use of ENTEC® 26[2]

-72%

1. Source: Abalos et al., Polytechnica Madrid, 2014 Agriculture, Ecosystems and Environment.
2. Source: Programm zur Reduktion von Lachgas-Emissionen in der Schweizer Landschaft – Ammonium-stabilisierter Mineraldünger ENTEC®26, Ernst Basler + Partner (EBP), 8702 Zollikon.

More than 250 field trials are helping us create the next generation of fertilizers

Product portfolio

From basic fertilizers to value-added solutions

We manufacture high-quality nitrogen, phosphate, potash, and complex fertilizers. Our premium products are engineered to keep their nutrient properties longer, guaranteeing an optimal supply of nutrients to plants throughout all growth phases.

EuroChem essential plant nutrition

- AN
- AS coarse
- AS fine
- ASN
- CAN
- DAP
- MAP
- MOP granular
- MOP standard
- NP
- NPK
- UAN
- UAS
- Urea granular
- Urea prilled

Premium plant nutrition

- Nitratop
- EuroMag
- stimulUS
- Flexammon
- Basammon

- Nitrophos

- suNKiss

Globally recognised SOP- and MOP-based NPKs: all nutrients in one granule

NITROPHOSKA BY EUROCHEM

Enhanced nitrification inhibited product: stable N supply in any weather

ENTEC® BY EUROCHEM

Stabilised urea: high concentration and stabilised losses of N

UTEC® BY EUROCHEM

Water-soluble fertilizers: effective fertigation and foliar feeding

solub

Left to right: ENTEC®, SOP-based NITROPHOSKA®, ASN, MOP-based NITROPHOSKA®, CAN.

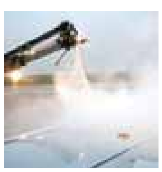
Our vertically integrated business model yields more than just fertilizers

The ability to make industrial products adds depth and value to our wide-ranging portfolio.

Industrial products

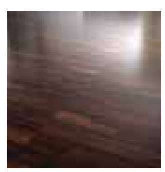
Base organic chemistry
- Acetic acid
- Vinyl acetate
- Butyl acetate
- Methyl acetate
- Acetaldehyde
- Butanol
- Nitric acid

HSE industrial products
- Caustic soda
- Calcium chloride
- Hydrochloric acid
- Sodium hypochlorite
- Ammonia water
- AdBlue®



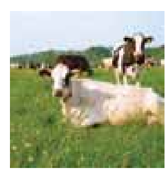
Explosives
- High-density ammonium nitrate
- Low-density ammonium nitrate

Wood processing
- Melamine
- Methanol
- Urea grade A
- UAN



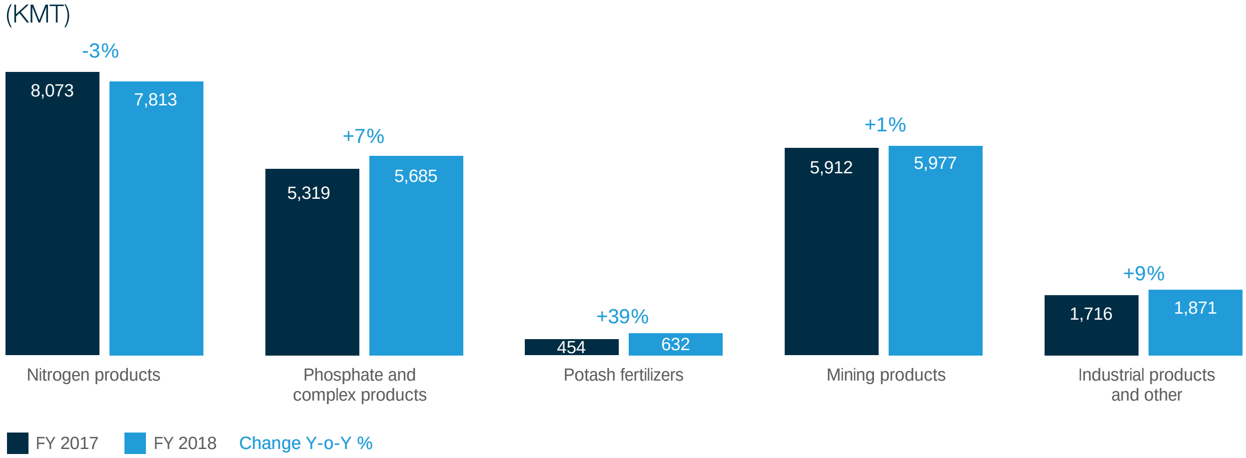
Industrial gases
- Argon
- Carbon dioxide
- Liquid nitrogen
- Liquid oxygen

Feed phosphates
- Monocalcium phosphate (MCP)
- Defluorinated feed phosphate (DFP)



Mining
- Iron ore
- Apatite
- Baddeleyite

Sales volumes by product
(KMT)



Chairman's statement
Accelerating growth

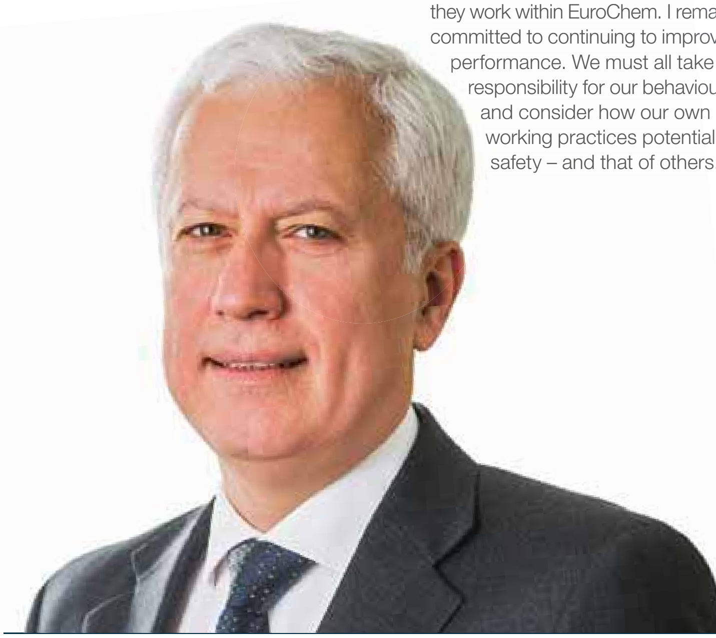
"2018 was a year of considerable progress for EuroChem. We continued to deliver on our strategy and drive the transformation of the business."

Several notable milestones were passed during the year. With test production of potash underway at our Usolskiy mine in the Perm region, I am delighted to be able to say that we now have capacity across all three primary nutrient categories. We also began test production of potash at our VolgaKaliy site in the Volgograd region. Another highlight was the start of production from Russia's only urea ammonium sulphate facility at our Novomoskovskiy Azot plant.

During the year we extended our geographic presence still further, bringing us even closer to promising new markets. The expansion of our Brazilian operations continued, with the opening of two fertilizer blending plants at Sinop and Catalão, strategically important locations in the North and Midwest regions, respectively.

As the world's farmers demand increasingly efficient, sophisticated, and targeted products, EuroChem's clear research objective is to create new fertilizers with these attributes. These next-generation products will enhance and expand our portfolio, delivering the specific performance our customers require.

Amid the excitement and challenges that come with growth and change, we must remember that nothing is more important than the safety and wellbeing of our people. This is the case whatever their role and wherever they work within EuroChem. I remain profoundly committed to continuing to improve our safety performance. We must all take personal responsibility for our behaviour at work and consider how our own habits or working practices potentially affect our safety – and that of others.



EuroChem continuously strives to be a good corporate citizen, whether as an employer, neighbour, customer or supplier. Given the nature of our business, we are also acutely aware of our obligations towards the natural environment. I'm particularly pleased, therefore, that we made good progress this year on key aspects of minimising our environmental impact, especially in the critical areas of effluent discharges, and energy consumption, which continued the downward trend of recent years.

With so much transformation and expansion underway across the Company, it's an exciting and rewarding time to work at EuroChem. Hiring – and retaining – the best people is therefore a priority for us, so we endeavour to offer fulfilling career paths that enable colleagues to reach their full potential. In 2018, we welcomed nearly 800 new colleagues across our Usolskiy, VolgaKaliy, and Kingisepp projects.

During the year we launched several important initiatives focused on staff development. These included our 'HiPo' (High Potential) programme, which identifies exceptional individuals who are at an early stage of their careers but who exhibit strong leadership potential. The programme provides the necessary training and support so they can be fast-tracked into management positions. There is strong interest in the programme, and more than 1,900 staff from nine countries were accepted into it.

Our boardroom also welcomed some new faces in 2018, reflecting the changing nature of our business – as well as its future needs. Geoffery Merszei, Clark Bailey and Samir Brikho have brought valuable fresh perspectives to our deliberations as we steer EuroChem through its next phase of development and growth. During the year we bade farewell to Manfred Wennemer and Garth Moore; EuroChem has benefited considerably from their extensive knowledge, experience and wise counsel. I thank them both for their contributions and service.

Having secured the services of Dmitry Strashnov in 2017, we were naturally very sorry that he left the business for personal reasons after so short a time. Kuzma Marchuk stepped into the role of Acting CEO while we searched for Dmitry's successor. In February 2019 we announced the appointment of Petter Ostbo as our new CEO with effect from June 1. Petter is highly regarded across the industry and brings a wealth of experience to the position. I am delighted he is joining our team – and am particularly grateful to Kuzma for his continuing service until Petter assumes the role in the summer.

Whenever – and wherever – I meet our employees, I am always struck by their professionalism, dedication and pride in our company. The successes of the last year were only possible thanks to the talents and commitment of EuroChem's people – and I extend my thanks to each of them.

Alexander Landia
Chairman of the Board

Board HSE priorities

In 2018, the roll-out continued of Vision Zero, a programme targeting the prevention of injuries, accidents and occupational illnesses, a reduction of environmental impacts, and the rational use of natural resources.

Maintain a safe workplace

The Group is implementing programmes and projects aimed at preventing workplace injuries, accidents and occupational illnesses.

Near-miss investigations

All incidents and near misses are to be reported so that a comprehensive investigation can identify root causes and any patterns to prevent repeat occurrences.

Emissions reductions

We will continue to work to limit emissions, effluent discharges and solid waste along with achieving reductions in the consumption of water, heat and energy.

Effective cooperation

The Group will maintain dialogue with employees, contractors, suppliers, government authorities, trade unions, non-governmental organisations (NGOs), and other stakeholders on health, safety and environmental matters.

Market overview
Growing our market share

Nutrient

Nitrogen
Improves growth and yield

N

Absorbed from the soil in the form of nitrates or ammonium, nitrogen is the key component of plant growth. The essential constituent of proteins, it features in all key stages of plant development, protein and yield formation. It is also a component of chlorophyll, essential for photosynthesis and yield formation.

Phosphorous
Accelerates maturity and improves quality

P

Phosphates are essential for root development and cell division and are involved in membrane function and integrity; they also accelerate maturity. They play a key role in energy storage and transfer and are essential for photosynthesis. Many natural and agricultural soils are deficient in phosphorous. When there are problems with phosphorous fixation in the soil, this also limits its availability to plants.

Potassium
Increases resistance to disease and drought

K

Potassium activates more than 60 enzymes (substances that play a key role in carbohydrate and protein synthesis). It improves a plant’s water regime regulation and increases tolerance to disease, drought and frost. It also strengthens stems and roots whilst adding flavour, texture and colour to food crops.

Global market share in 2018

2.5%

EuroChem accounted for 2.5% of annual global mineral fertilizer production in terms of nutrient capacity in 2018. We expect this share will expand significantly as our potash projects come online.

Nutrient group production

All 3

As one of just three companies worldwide with its own production capacity in all three main nutrient categories – N, P and K – we expect to grow faster than the market.

Global nutrient capacity ranking

10th

Among its global peers, EuroChem ranked tenth in 2018 in terms of nutrient content. This ranking is based on the available capacity in the products that form the basis of most fertilizers: nitrogen (ammonia, N), phosphates (phosphoric acid, P_2O_5) and potassium fertilizers (K_2O). EuroChem is the second-largest mineral fertilizer producer in Russia in terms of product tonnes sold, according to data from the Russian Association of Mineral Fertilizer Producers.

Demand

According to preliminary data from the International Fertilizer Association (IFA), the 2017/18 fertilizer year was marked by slow N demand growth at 0.9% to 105.6 MMT. The major contributors to the growth were India, which restored its consumption volumes from the drop in the 2016/17 fertilizer year; Ukraine, where increased grain exports benefited N fertilizer application; Canada and Nigeria. However, sharp drops in Pakistan, Europe and China curtailed more spectacular growth in demand.

Global demand for phosphate fertilizers rose 2% during the fertilizer year 2017/18 to 45.1 MMT P_2O_5. This growth was mainly inspired by a strong rebound in India, with the country taking a step towards more balanced fertilizer application. In the 2018/19 fertilizer year, India's phosphates consumption is set to increase further following an increase in minimum support prices for fertilizers, and growth of P subsidy. Other phosphates demand growth was recorded in Brazil (MAP & NP fertilizers), Canada, Africa, and other regions.

Potash demand during the 2017/18 fertilizer year amounted to an estimated 36.3 MMT K_2O, up 1.7% compared to 35.7 MMT K_2O in 2016/17. Much of this increase derived from higher consumption in Brazil, India and Africa, offset by softer sales in the US and Europe. During 2018, strong import demand was seen in Brazil (+4% y-o-y), Malaysia and Indonesia (+2%) and Africa (+11%), while China and India recorded moderate growth of 1% each.

Supply

Global ammonia capacity added 1.5 MMT in 2018 to reach 225 MMT – mainly due to additions in Russia, Turkmenistan and the US. Chinese ammonia capacity was rather flat at 71 MMT, with closures in small and medium sectors offset by a net expansion in the larger plant sector. World urea capacity amounted to 214 MMT following project launches in Indonesia, Turkmenistan and the US. However, due to various closures, the IFA considered the total increase to be insignificant.

Global phosphoric acid capacity development during 2018 was mainly associated with ramp-up of existing projects in Morocco and Saudi Arabia (and the launch of a JPH 4 project in Morocco).

The IFA calculated overall K capacity for potassium chloride, potassium sulphate and other products to amount to 100.9 MMT of product in 2018, following additions in Russia, Canada, China and other regions. In the medium term, the gap between supply and demand for potash is expected to prevail, despite some capacity closures in Europe and the US.

Market developments

China remained out of play in the global nitrogen markets throughout 2018, following stringent environmental initiatives established in previous years. The country is now on track to reach its goal of zero fertilizer consumption growth by 2020. This resulted in both decreasing N fertilizer consumption in the country and its supply in the global markets. As such, urea exports from China are expected to reach no more than 2.0-2.5 MMT in 2018, around 50% less than the 2017 figure – and even these volumes would include re-exports.

Global MAP trade was estimated to increase slightly above the 12 MMT of product recorded in 2017. Russia and Saudi Arabia's significant export additions were offset by a drop in US and Chinese sales.

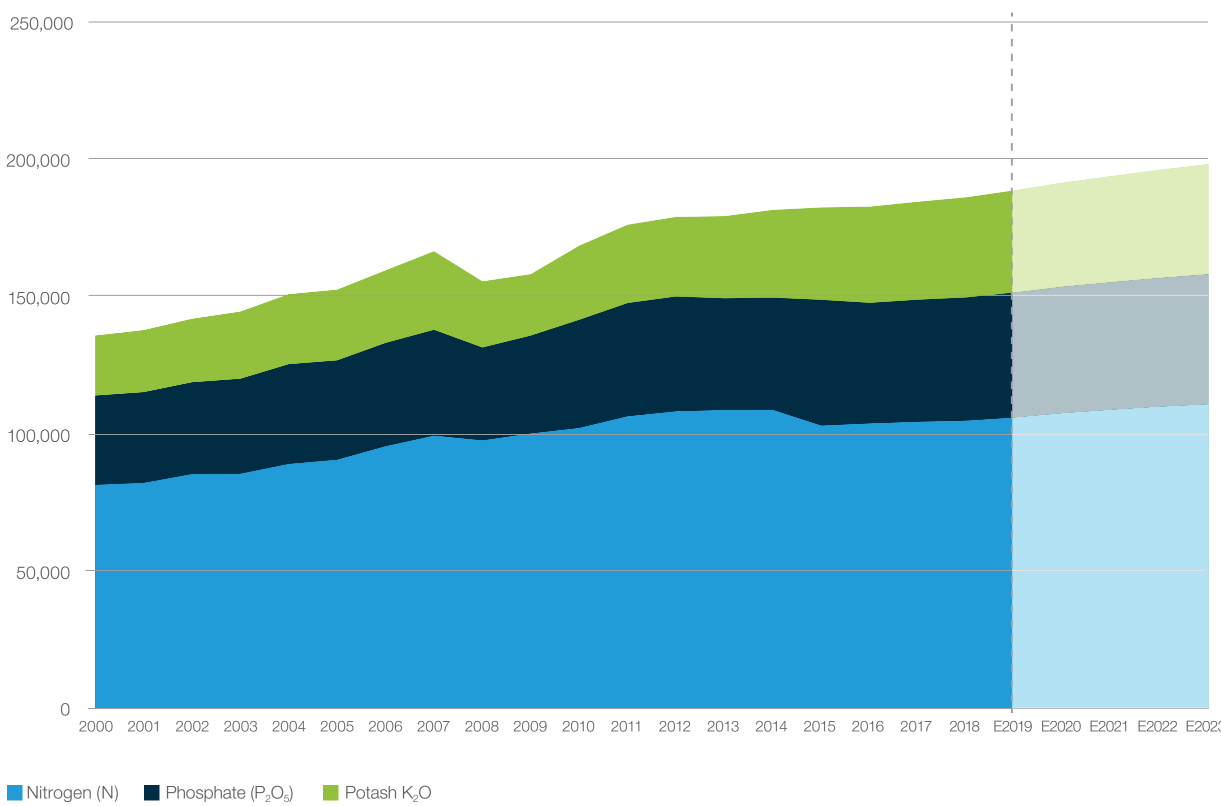
Global potash supply in 2018 added 6.5% or close to 3 MMT K_2O over the 46 MMT K_2O registered in 2017. Canada further increased exports to foreign markets to around 20.5 MMT of potassium chloride, followed by Russia and Belarus, Germany, Israel, Jordan and others.

Market overview
Growing our market share continued

Average market prices (US$/tonne)

	FY 2017	**FY 2018**	Change y-o-y, %	High	Low
Ammonia (FOB Yuzhny)	265	**286**	8	346	217
Prilled urea (FOB Yuzhny)	220	**251**	14	303	216
AN (FOB Black Sea)	191	**186**	-2	215	152
MAP (FOB Baltic)	348	**413**	19	434	378
MOP (FOB Baltic, spot)	228	**256**	12	278	238
Iron ore (63.5% Fe, CFR China)	73	**71**	-3	81	64

World fertilizer consumption in 2000-2023 (KMT nutrients)

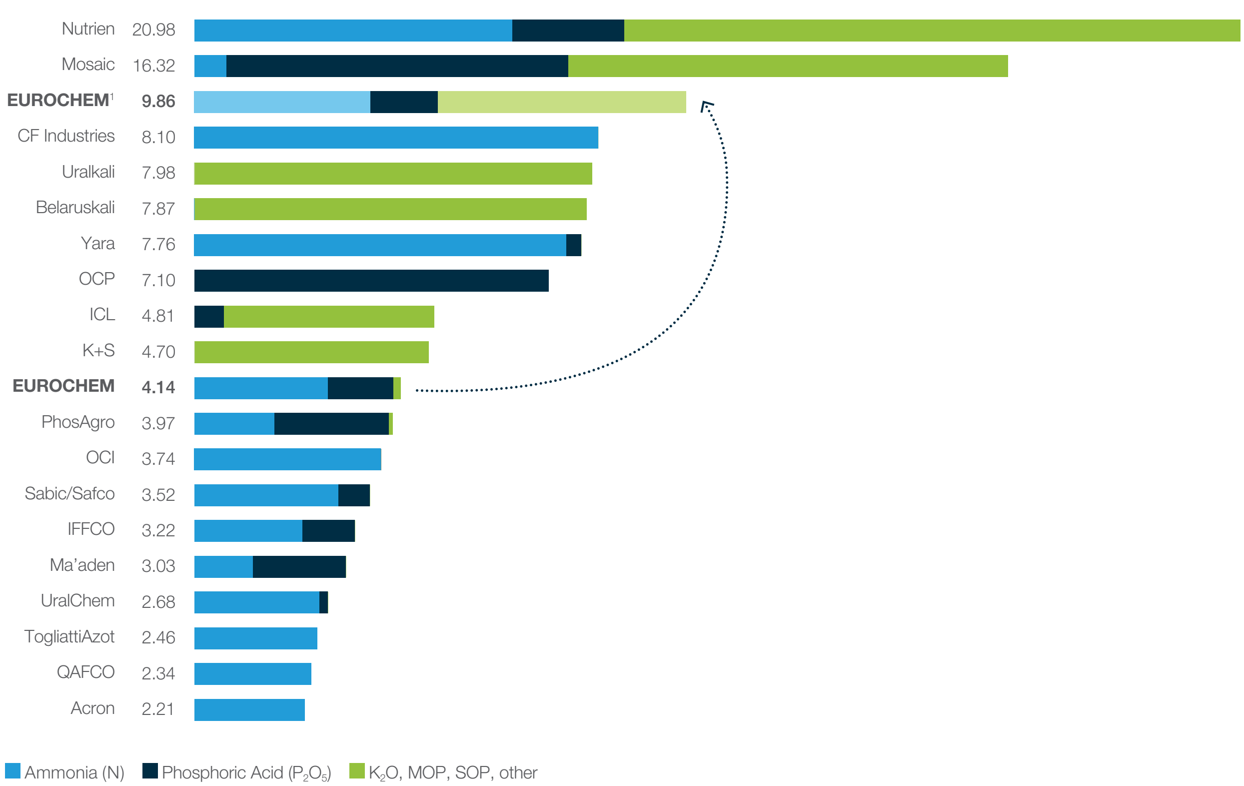


Production in nutrient content (MMTpa)

	2013	**2018**	2023	10-year CAGR
N	2.7	3.0	3.8	3.5%
P_2O_5	1.0	1.3	1.3	2.7%
K_2O	0.2	0.4	3.5	33.1%
Total EuroChem[1]	**4.0**	**4.7**	**8.6**	**8.0%**
N	109.1	105.7	111.7	0.2%
P_2O_5	40.9	45.3	47.9	1.6%
K_2O	28.6	36.9	40.5	3.5%
Total World[2]	**178.6**	**187.9**	**200.1**	**1.1%**
EuroChem Market Share	2.2%	2.5%	4.3%	

1. Without products for industrial use (urea, ammonium nitrate, LDAN), feed phosphates, carnallite.
2. Production of fertilizers consumed in agriculture.
Source: Company estimates, CRU, Fertecon, IFA.

Selected ranking by nutrient capacity (MMT nutrients)



1. Once Baltic ammonia and both potash projects are fully operational.
Sources: Company data, CRU, Fertecon, IFA.

Business model

Our vertical integration creates maximum value

Our capitals

Natural resources
Our sustained growth and competitiveness are underpinned by our access to high-quality reserves including potash and phosphate rock.

Human
The skills and experience of our more than 26,300 dedicated employees – wherever they work in the business – enhance our unique value proposition.

Intellectual
The depth and breadth of our knowledge resources encompass all aspects of our business from our R&D efforts to our internal systems and processes.

Financial
Our track record, robust financial structure and prudent approach facilitate access to attractive financing options, helping secure our long-term growth.

Business
Our business capitals comprise production, processing and port facilities as well as rail and shipping assets and a global distribution platform.

Social
We build lasting relationships with numerous stakeholders – including suppliers and contractors – that meet our high standards of integrity, health and safety.

Our business

Raw materials
Our upstream mining operations provide us with high-quality, low-cost materials including potash and phosphate rock.

Fertilizers
We offer a wide portfolio of nitrogen, phosphate, and potash products, as well as a range of NPK grades and complex fertilizers.

Sales
Our sales and distribution operations are managed through regional offices in Europe, Russia/CIS, North America, Latin America and Asia.

Logistics
We have approximately 6,900 rail cars and own transhipment terminals in the ports of Tuapse (Black Sea) and Murmansk (Barents Sea) in Russia, and Sillamäe (Baltic Sea) in Estonia. We also benefit from direct jetty access in the port of Antwerp in Belgium.

Our strategic priorities

Cost leadership through vertical integration

Our cost and quality advantages are driven by our ownership and control of manufacturing and distribution.

Growth of production through investment in low-cost projects

We are building a leading position in the low-cost production of potash through our two large mines in Russia.

Creating sustainable value

Our commitment to driving sustainable value creation is at the heart of everything we do. Along with economic success, we also uphold the highest standards of employee relations, safety, environmental stewardship and stakeholder engagement.

Our stakeholders

Employees

A skilled and engaged workforce supports our growth. We provide attractive careers with prospects for advancement through training and development.

Shareholders

Our business model generates investment opportunities across our value chain, delivering long-term financial stability and sustainable returns.

Farmers

Farmers are challenged to deliver increasing quantities of food to sustain the world's growing population. We provide them with the products they need.

Government

We foster strong working relationships with federal, regional and local authorities, reinforcing our commitment to the economies in which we operate.

Local communities

We play an active part in our local communities, investing in local facilities to improve people's quality of life.

Media

We share news of our successes to highlight the value we create and our commitment to sustainable business growth.

Read more on our approach to sustainability from page 44

What makes us different

Low cost
Low-cost raw materials, our portfolio of commodity and premium products and an international reach drive us closer to global leadership.

Vertical integration
Our business model delivers cost-efficient and flexible production capacity, increases our investment returns and minimises our financial risks.

All-nutrient
EuroChem is one of three global fertilizer companies with capacity in all three primary nutrients: ammonia, phosphates and potash.

Global production
Our expanding global footprint means that our production facilities are located close to our high-quality raw material sources as well as our key markets.

Specialty products
Changing environmental and farming requirements mean that our proprietary advanced and specialty fertilizers are an essential part of our portfolio.

Competitive feedstock
We have access to high-quality natural resources for our industrial processes, which are supported by a cost-efficient logistics platform.

Corporate governance
Our robust system of corporate governance ensures that all aspects of our business are conducted responsibly, transparently and ethically.

Global distribution
Operating across key global markets, we are able to deliver the required volumes of products on time to our customers all year round.

Strong financial position
Conservative financial policy and completion of our large-scale investment projects will see us deleverage and increase free cash flow.

Proximity to customers
Strong end-user relationships are key to ensuring we provide the necessary support, services and products.

Read more on our strategic priorities on page 28-29

Stakeholder engagement

Key stakeholder groups

Employees | **Shareholders**

Our focus areas

We recognise our responsibility to be a good corporate citizen. This means making a positive contribution to society and working transparently and responsibly to create lasting benefits for all stakeholders. Wherever possible, we endeavour to follow international best practice. In managing the Group's environmental footprint, for instance, our focus is on 'Best Available Techniques/Technology' (BAT) and ISO 14001 environmental management systems. The Board and senior management monitor Health, Safety and Environment (HSE) policy and performance closely. With our employees, we closely monitor training and development, setting quantitative and qualitative targets across recruitment, reward, training and support.

Employees

- Attracting and retaining highly skilled and motivated people
- The provision of personal and professional development opportunities
- Training on Health, Safety and Environment (HSE) policies to help ensure a safe workplace

Shareholders

- Delivering strong economic performance as measured by a range of financial indicators
- Maintaining a positive reputation with customers, analysts and commentators
- Demonstrating proactive and ongoing engagement with wider stakeholder groups

How we engage

We are committed to building long-term relationships with our stakeholders. Our approach is to engage with individuals and groups in local communities, creating value for them, and bringing economic benefits and social advantages by working to deliver initiatives that support their sustainable development. This means not just creating employment but supporting the construction of schools, healthcare facilities, water supplies and even roads. We work transparently with all stakeholders at many levels, from local community discussions to meetings with lawmakers, government officials and others. With farmers, we continue to develop our advisory and added-value information services through our network of agrocentres. We make a substantial effort to keep our employees informed and engaged on sustainability matters, through management briefings, family days, and providing detailed information for them online.

Employees

We communicate HR policy through HR teams at plant and subsidiary level. These teams facilitate training courses and development opportunities, provide mentoring and undertake performance reviews. In 2018 we commissioned a Group-wide anonymous survey to identify employees' views and concerns about their workplace and the business in general. The results, once aggregated, were disseminated at town hall meetings across the Group. Feedback was incorporated into the survey findings and presented to senior management for action.

Shareholders

As a privately owned company, our beneficiaries are closely involved with the business. Our financing needs are also satisfied by occasional forays into the financial markets, which in 2018 included the signing of a new US$820 million unsecured facility with 13 leading international banks. We benefit from close relationships with these organisations, through regular briefings, one-to-one meetings, detailed performance updates, site visits and the annual report. The results of this stakeholder engagement are reflected in the over-subscription of institutions to the finance facility, a fact that also speaks to EuroChem's strong credit profile.

Material issues

Identifying material issues helps us establish sustainability priorities for our business and stakeholders. While internal stakeholders' views are important, external perspectives provide additional context to our assessment of existing and emerging risks as well as opportunities. Engaging with our stakeholders is both a driver and an outcome of our sustainability strategy. Key material issues are health and safety, product stewardship, climate change and the challenge of food security.

Employees

- Employee relations
- Diversity and equality
- Health and safety
- Remuneration

Shareholders

- Investment
- Financial performance
- Strategy
- Risk management
- Reputation

In practice

Investing in our people – see page 54

Performance Review: Sales Division – see page 42

We operate a complex global business, involving many people, from our more than 26,300 employees to our 10,000+ customers in over 100 countries. Consistent and effective engagement with our diverse range of stakeholders is therefore crucial and underpins our licence to operate. The touch points are many and varied, for example, when we are defining strategy and risks, when we set objectives and targets at a Group or plant level, when making community investments or when recruiting and training employees. The relationships we have with our key stakeholders are summarised below.

Farmers and suppliers	Government	Local communities	Media
■ Provision of education and advice on environmentally optimal practices and techniques ■ Collaboration on new, low-impact products, ensuring these meet their needs ■ Working with suppliers to ensure timely delivery of high-quality products as needed	■ Stimulate national and local economic development, which creates employment and generates wealth ■ Production and social infrastructure development ■ Instituting environmental controls that meet the needs of regional and/or local authorities	■ Generation of long-term employment ■ Economic development and explanation of the benefits to the region ■ Environmental aspects of operations, their impact and mitigation	■ Transparent and open communications on the Company's performance and activities
We engage with farmers directly and also through our partners, such as distributors. We also provide a wide range of advisory services in many countries via our network of agrocentres. We regularly attend exhibitions, conferences and other events, meeting with farmers, cooperatives, trade bodies, and other producer groups.	We allocate considerable resources in engagement with national, regional and local governments. We carry out public affairs work with governments and discuss issues of industry concern with trade bodies that also conduct high-level meetings on our behalf. We meet government representatives wherever we operate or plan to invest to ensure we understand their requirements for economic and social development.	Investment in communities around our plants and facilities. Engagement involves building relations with local stakeholders, including other employers, infrastructure owners, residents, schools, and others. Many plants run site visits, open days and other community events, including those specifically targeted at local residents, employees, their friends and families, and the wider public. As well as information distribution, these events provide many opportunities for consultation and active participation.	Besides a regular programme of diary activities including financial results announcements, annual report publication and public events, we engage proactively with media at all levels, providing expert comment and analysis on issues of public concern, publishing media releases, features and other content, and attending public conferences and exhibitions. We also host regular visits to key company locations, inviting journalists to inspect progress. EuroChem's growing media profile is testament to the success of the Company's communications strategy.
■ Farmer engagement through agrocentres and distributors, exhibitions and conferences ■ Product launches	■ National and local investment levels ■ Feedback from government partners	■ Level of investment in sport, health facilities, education provision, environmental control, local charities and cultural activities ■ Appropriate and correct payments of tax wherever EuroChem operates	■ Stakeholder knowledge and understanding of company strategy and activities ■ Regular media calls and briefings held throughout the year
Performance Review; Fertilizers Division – see page 38	**Environmental responsibility – see page 51**	**Local communities – see page 59**	**Media visits Usolskiy Potash Project – see page 36**

Our strategy

Focusing our operations

Our strategic priorities

Associated risks

Cost leadership through vertical integration

- Target raw material self-sufficiency (ammonia, phosphate rock, potash) to further improve cash cost position
- Own mining, processing facilities, logistics and distribution

EuroChem operates a vertically integrated business model with advanced, cost-efficient and flexible production capacity. This is based on high-quality reserves supported by logistics and distribution assets that deliver distinct cost advantages over our competitors.

Associated risks:

- Shrinking natural gas cost differential between Russia and Europe/US
- In periods of prolonged market deterioration, vertical integration can lead to higher operating leverage, which can be detrimental to cost position
- New capacity in other low-cost regions

Growth of production through investment in low-cost projects

- Build leading low-cost potash production and maximise internal processing
- New ammonia plant will cover existing shortfall; low cost position will facilitate profitability

The development of potash enables us to further diversify our product range. This delivers a competitive advantage, since the additional sales flexibility will help us respond to changes in demand and economic conditions over sustained periods if needed.

Associated risks:

- Technical and engineering risks relating to the construction of the potash mines at Usolskiy and VolgaKaliy
- Commercial risks
- Ongoing intensive capital expenditure requirements

Strong financial position

- Conservative financial policy and debt management
- Completion of large-scale investment projects
- Focus on deleveraging and improving free cash flow

As per the Group's conservative financial policy, the internal net debt to EBITDA ratio ceiling is set at below 2.5x with covenant leverage test of no more than 3.5x. Capital expenditure has fallen, and free cash flow improved, as our major projects pass their peak investment phase.

Associated risks:

- The Group is exposed to interest rate fluctuations
- Potential for mismatch between currencies in which revenues and costs are denominated
- Trade barriers may affect demand for products
- Mining-related risks may result in delays to the Group's potash projects

Excellent proximity to customers

- Proximity to customers in key markets via our distribution network allows us to sell at a premium and exploit seasonality patterns
- We gain valuable market knowledge from direct end-user contact, especially on product quality, R&D and services
- Value-added products satisfy specific customer needs in different regions

EuroChem will continue to develop its network; enhancing its regional footprint and direct sales and distribution capabilities. The Group will also enhance its support services and product development operations.

Associated risks:

- Cost of developing high-quality distribution platform
- Increased credit and currency risks

Achievements in 2018	Performance	Strategy in action
We improved intra-Group shipments of phosphate rock by increasing production at Kovdorskiy GOK and the Group's Kazakhstan operations. We progressed on schedule with the construction of the EuroChem-Northwest ammonia plant at Kingsisepp, Russia, due to open in 2019.	Our competitiveness depends on the continued high quality of our products and close monitoring of the cost of delivery to key markets. Our cost and quality advantages are driven by the ownership and control we have over the manufacturing and distribution of our products.	Increased vertical integration, improved efficiency and greater raw material self-sufficiency will strengthen our cost leadership position. This entails boosting production capacity at Nevinnomysskiy Azot and Phosphorit, completing the ammonia plant at Kingisepp, launching potash production and expanding mining output at Kovdorskiy GOK. New efficiency measures will reduce costs, while increased sales of speciality value-added products will help offset the volatility of earnings.
Test production of potassium chloride began at Usolskiy. At the year end, 15 mining machines were operating. Two shafts and two trains are fully operational in test mode, working at projected capacity. At VolgaKaliy, engineers are devising a plan to address the new water inflow; operation of the two existing shafts will be unaffected. Pre-commissioning activities commenced at EuroChem-Northwest ammonia plant, Kingisepp.	Phase 1 of our Usolskiy project is expected to be complete during 2019 and fully ramped-up by 2022. Production of potassium chloride (KCl) was 250 KMT in 2018. The first granulation line came on stream in early 2019. The two existing shafts are designed to produce 10-12 MMT of ore per year, but are restricted to 7.5 MMT by the regulator while in test mode. The Kingisepp ammonia plant is on track to open in 2019.	Successful production of potash at Usolskiy and VolgaKaliy will transform EuroChem's profile in the industry, putting the Group at the most efficient end of the potash production cost curve. Operating costs, location of production assets and distance to market are key drivers of competitiveness. Implementation of leading-edge technologies, coupled with world-class logistics at Usolskiy and VolgaKaliy, will make EuroChem one of the world's most competitive potash producers. The Kingisepp plant's projected capacity of 1 MMT will take EuroChem beyond self-sufficiency in ammonia.
We introduced tighter financial controls, managed our capex down and reduced our net debt/EBITDA ratio to 2.29x. EBITDA was 18% above budget, due principally to positive pricing effects for our main fertilizers and iron ore.	Net debt/EBITDA ratio and free cash flow are key metrics for evaluating our financial performance. Current scores from credit rating agencies recognise EuroChem's sustainable cost competitiveness, which is supported by our vertically integrated business model.	Positioned at the lower end of the cost curve, our major projects are nearing completion, reducing our capital expenditure. We have large-scale operations, a diversity of product mix and established positions in regional and global markets. Our sustainable cost-competitiveness supports relatively high margins and has been helped by a weaker rouble.
We continued to expand our direct distribution footprint with new outlets across Russia and Europe. We also continued the integration of assets acquired during 2016 and 2017 – including Fertilizantes Tocantins, Emerger Fertilizantes and Hispalense de Liquidos. Additional investment was directed to increase storage, blending or other production capabilities.	The development of our global distribution capacity has enabled us to move closer to our customers. Developing strong end-user relationships is a priority, as we seek to align our business in terms of support services and product development.	Investment in new operations included Fertilizantes Tocantins, Brazil, where we opened two new blending plants in 2018 at Sinop and Catalão. With six other plants across the country, Tocantins is one of the biggest fertilizer providers in Brazil and gives EuroChem a significant customer base.

Stakeholders engaged

Performance review

Building a world-class nutrients company

"The past year has been one of significant delivery against our long-term growth strategy – and saw us achieve capacity in all three primary nutrients. Having secured EuroChem's position as a genuine global force in the fertilizer industry, we remain focused on long-term value creation."

2018 performance review

We continued to invest significantly in our flagship potash and ammonia projects during the year. As these programmes come to fruition, our large-scale capex investments are beginning to ease off.

In 2018 we achieved significant deleveraging due to a number of factors, including a tighter focus on costs; sales increases and stronger cash flow; a reinforced balance sheet; and reduced capital expenditure.

Much higher operating profit boosted full-year EBITDA to US$1.52 billion, 34% up on 2017. This success was recognised by the investor community and confirms the view that our approach – supported by our vertically integrated business model – will enable us to achieve optimum value creation over the cycle.

In 2018, EuroChem's fertilizer production grew by 2% to 14.1 million tonnes. Our potash production is accelerating broadly in line with projections – and 2019 will see additional strong growth. This will include the launch of our ammonia plant in Kingisepp, Russia, which will further showcase the success of our long-term strategy.

Growing our global footprint

We continued to develop our distribution capabilities in line with the expansion of our production capacity. In May we opened a new blending plant at our majority-owned Brazilian business Fertilizantes Tocantins. A second facility followed in July, underlining the importance to EuroChem of a strong Latin American presence. We also signed a Memorandum of Understanding for the supply of potash and other NPK fertilizers to Heilongjiang Beidahuang Farms in China.

Environmental credentials

Environmental legislation plays an increasingly influential role in the way our industry operates. EuroChem is already taking the initiative in the fertilizer business; supporting research to develop better products and reduce some of the negative consequences of fertilizer overuse.

We have a growing track record in piloting best available technologies at our facilities including, for example, the continued reduction of water consumption and greenhouse gas (GHG) emissions at existing production plants. We are innovating too, such as through the introduction of new fertilizers that dramatically cut NO_2 emissions and nitrate run-off.

During the year, we continued to engage with a variety of stakeholders close to our plants. By the Baltic Sea, for example, we have been working since 2012 to improve the local environment with the John Nurminen Foundation. The Foundation described the improvements in water quality in the Gulf of Finland resulting from our cooperation as 'remarkable'. The latest agreement, signed in May, will see us work together on projects in the Luga River basin, near our Phosphorit plant.

In March we received a state award from the Russian Ministry of Natural Resources and Environment, recognising our significant investment in conservation, the encouragement of biodiversity, environmental compliance and education. More recently, we received the International Fertilizer Association (IFA) Excellence Gold Medal for our efforts in advancing Health, Safety and Environment (HSE) issues.

Safety performance

Managing our global expansion presents us with numerous challenges, many of which arise in the sometimes harsh and potentially hazardous environments where we operate. Nevertheless, we owe it to every one of our more than 26,300 employees and our many contractors to provide a safe workplace, with the right equipment and appropriate training. Despite our strong focus on safety in 2018, our lost time injury frequency rate rose – and tackling it thus remains our top priority for the year ahead.

Looking ahead

The past year was productive for EuroChem, as we began to see the results of our long-term investment activity. We continued to extend our global footprint and are now poised for growth in fast-developing regions and key markets. Petter Ostbo joining in June 2019 as Group CEO will support this push going forward. Our senior management team has also been strengthened by the appointment of Stefan Judisch as Deputy CEO and Chief Commercial Officer. With their support we are well placed to continue driving EuroChem onwards and upwards.

As the world's population continues to grow inexorably, and demand for food increases, we are helping farmers – our most valued stakeholders – rise to the challenge. Our position at the lower end of the industry cost curve and our efficient, high-quality resource base enable us to supply our customers, wherever they are, with the nutrients they need at competitive prices. We look forward with confidence as we fulfil the promises of recent years and deliver long-term value for all our stakeholders.

Kuzma Marchuk
Acting Chief Executive Officer and Chief Financial Officer

Key events of the year

In a greatly improved trading environment we have focused relentlessly on efficiency gains and cost containment, seeking margin improvements wherever possible and reducing operational and production costs. In a busy year for EuroChem, there were many highlights.

Launch of potash production

The start of test production in 2018 at our large-scale potash project at Usolskiy marked the culmination of a decade-long investment and signalled the arrival of EuroChem as a true global player in the fertilizer industry, one of only three companies worldwide with its own production in all three nutrient categories.

Start of sulphur-enriched urea production

EuroChem began producing urea ammonium sulphate at Novomoskovsk in December. Launch of the production line following new investment in the plant is a first for the Group and also for Russia, as it is now the country's only UAS facility. EuroChem has a track record of innovation – the Group is the only company to produce melamine, acetic acid, and baddeleyite concentrate in Russia.

Positive financial outlook

The Group signed a new US$820 million unsecured finance facility in June. The facility was oversubscribed. Ratings agency S&P also affirmed the Group's BB- rating and revised its outlook to positive, citing an expected improvement in performance on the back of a supportive market environment.

Success of the EuroChem Cup

Huge media interest in our annual children's ice hockey tournament in Novomoskovsk followed the inclusion of a team from the United States for the first time. The community-building initiative, conceived to bring together people from wherever EuroChem operates around the world, has involved more than 1,000 children since it was created in 2013.

Performance review
Group performance

Kuzma Marchuk
Acting Chief Executive Officer and Chief Financial Officer

"We have delivered a very strong sales performance, rounding off a solid year. This leaves us well positioned to ramp up our new potash and ammonia projects – and we expect continued growth in 2019."

The Group's consolidated sales for the year ended 31 December 2018 were US$5.58 billion compared with US$4.87 billion in 2017; an increase of 15%. This growth was primarily the result of stronger pricing dynamics for the Group's main fertilizer products and improvement in the overall sales mix. The higher pricing – and beneficial foreign exchange effects on rouble-denominated costs – helped to deliver EBITDA for the year of US$1.52 billion, a 34% increase on 2017.

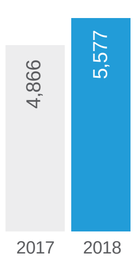
Fertilizer sales volumes for the year amounted to 14.1 million metric tonnes (MMT), 2% ahead of last year's figure of 13.8 MMT. All product lines delivered improved sales volumes, with the exception of nitrogen fertilizers. While the Group's sales of its own nitrogen fertilizer products remained stable, there was a reduction in third-party sales due to reduced production by a large contractor.

Sales of complex and blended fertilizers rose by 9% in 2018. This was primarily due to higher sales in Brazil, where Fertilizantes Tocantins launched two new blending plants during the year. Sales volumes of feed phosphates increased by 15%, due to an improved balance across the Group's key target markets in Europe, the US and Russia.

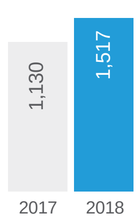
Iron ore sales were broadly in line with 2017, with strong demand in Russia resulting in fewer shipments to Asia. Sales of EuroChem's industrial products grew, mainly as a result of strong performances from technical ammonium nitrate and industrial urea, each of which rose 31% on the previous year.

Highlights

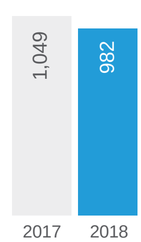
Sales
(US$m)



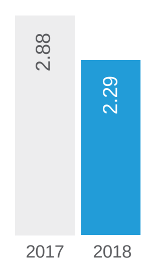
EBITDA
(US$m)



Cash from operations
(US$m)



Net covenant debt/ LTM[1] EBITDA[2]



Change y-o-y

Sales	EBITDA	Cash from operations
+15%	+34%	-6%

1. Last 12 months.
2. Including net income from associates and joint ventures.

Sales of EuroChem fertilizer products – excluding third-party products – amounted to 10.0 MMT, broadly in line with 2017 volumes. Third-party sales volumes for the year rose slightly to 4.1 MMT from 3.8 MMT in 2017, due mainly to stronger sales in Brazil.

Mining products sales volumes grew 1% to 5.98 MMT in 2018 while industrial products delivered an increase of 9% to 1.87 MMT.

Europe, Russia and the CIS are the Group's home markets. In 2018 they accounted for 29% and 24% of total sales, compared with 32% and 27%, in 2017, respectively.

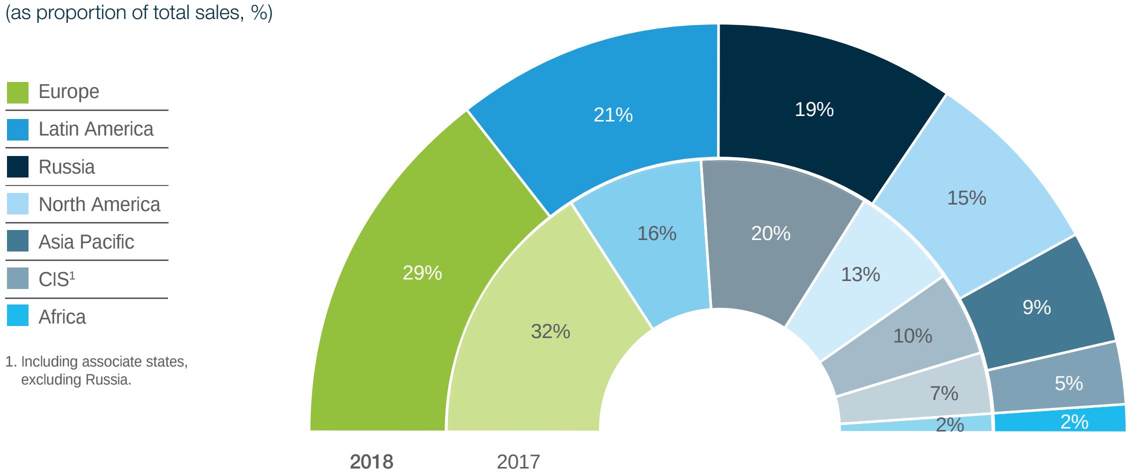
EuroChem continued to reinforce its marketing capabilities in the CIS, signing new long-term distribution agreements in Armenia and Georgia during the year. The Group's stronger market presence also supported increased deliveries to Azerbaijan and Moldova.

For more information on sales performance, see pages 42-43.

Selected sales volumes
(KMT)

EuroChem and third-party products	FY 2018	FY 2017	Change y-o-y %
Nitrogen products	**7,813**	8,073	-3%
Nitrogen fertilizers	**7,797**	8,055	-3%
Other products	**16**	18	-11%
Phosphate and complex products	**5,685**	5,319	+7%
Phosphate fertilizers	**2,379**	2,304	+3%
Complex fertilizers	**2,907**	2,667	+9%
Feed phosphates	**399**	348	+15%
Potash fertilizers	**632**	454	+39%
Total fertilizers (incl. feed phosphates)	**14,130**	13,846	+2%
Mining products	**5,977**	5,912	+1%
Iron ore concentrate	**5,844**	5,878	-1%
Other products	**133**	34	+291%
Industrial products and other	**1,871**	1,716	+9%

Geography of sales
(as proportion of total sales, %)



1. Including associate states, excluding Russia.

Group performance continued

Cashflow

In 2018, the Group generated operating cash flow of US$982 million, compared to US$1.05 billion the previous year, a fall of 6%. This variation was a result of several factors, including higher net working capital amid overall market price growth for the main fertilizers, additional investment in inventories and temporary inventory growth in Europe driven by adverse weather in the Black/Baltic Sea ports.

EuroChem's total capital expenditure for the year amounted to US$1.11 billion, compared to US$1.49 billion in 2017. Positive free cash flow generation is expected in 2019 as the Group reaches the end of its investment cycle and the new ammonia and potash capacities begin to ramp-up.

Balance sheet

EuroChem ended the year with net leverage of 2.29x on covenant net debt of US$3.45 billion and 12-month rolling EBITDA of US$1.52 billion.

The Group obtained several new facilities in 2018, including a new US$820 million unsecured finance facility with 13 leading international banks. The three-year facility was oversubscribed, reflecting the Group's strong credit profile and the widespread support for EuroChem within the global banking community. The facility was arranged on a club basis and came with a two-year grace period. EuroChem has used the proceeds to refinance part of its debt, including a portion of the five-year unsecured club loan obtained in 2017.

Project finance

In June 2018, the Group fully repaid the US$750 million non-recourse project finance facility for its Usolskiy potash project. Signed in 2014 and due in 2019, the payment was made with a US$600 million subordinated shareholder loan received in June, as well as JP Morgan's US$125 million tranche and the Group's own funds.

Operating profit and operating margin

	2018 US$m/%	2017 US$ m/%	Change Y-o-Y
Sales	**5,577**	4,866	+15%
Operating profit	**1,189**	832	+43%
Operating profit margin	**21%**	17%	+4p.p.
EBITDA margin	**27%**	23%	+4p.p.
EBITDA	**1,517**	1,130	+34%

The EuroChem-Northwest ammonia project at Kingisepp, Russia, is supported by an off-covenant project finance facility. At the end of the year, the Group's outstanding indebtedness under the facility was EUR 473 million (US$541 million) out of the EUR 557 million available limit. The first repayment following the grace period is due later in 2019.

Corporate developments

With effect from 1 January 2018, EuroChem's Oil & Gas Division was removed from its corporate structure, reflecting the Group's focus on the growth of its core assets.

In May, EuroChem announced the opening of a new blending plant in Sinop, Brazil, as part of the Group's ongoing expansion of its Fertilizantes Tocantins distribution business. The plant represents an investment of BRL 62.4 million (US$17 million).

Also in May, the Group announced a take-or-pay agreement for the purchase of up to 100% of the expected future sulphate of potash (SOP) output from the Colluli Potash Project in Eritrea, East Africa. The contract is for a 10-year term with an option to extend for a further three years.

In July, EuroChem signed a Memorandum of Understanding with Heilongjiang Beidahuang Farms for the supply of potash and other NPK fertilizers to China. The Group also announced the opening of a second new fertilizer blending plant in Brazil in the city of Catalão, Goias State.

In October, the Group announced the expansion of its North American distribution network after taking on dry and liquid fertilizer transport and storage assets from international merchandising and trading firm Trammo, Inc.

October also saw the formal opening of a new EUR 14 million (US$16 million) production plant for highly efficient, water-soluble fertilizers at EuroChem's Lifosa subsidiary in Lithuania.

In November, the Group announced the signing of an R&D agreement with Belgium-based biotechnology company Aphea.Bio. The agreement will see the companies collaborate on the development of next-generation fertilizer technologies.

In December, the Group announced the start of production at Russia's first urea ammonium sulphate (UAS) facility at EuroChem's Novomoskovskiy Azot plant.

Senior management

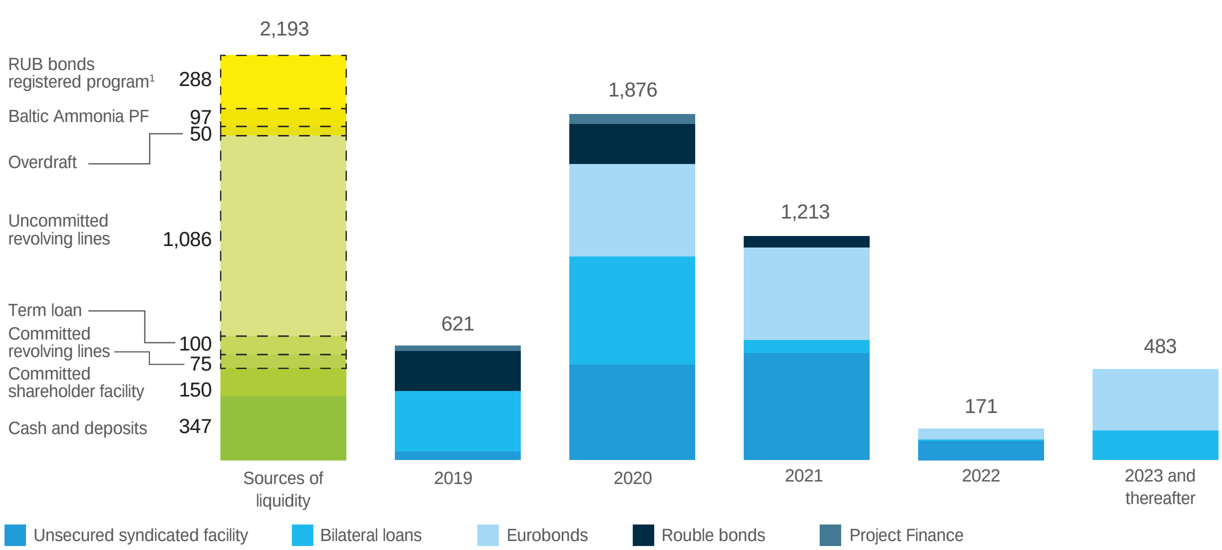
EuroChem appointed Kuzma Marchuk as Group Chief Financial Officer with effect from 13 June 2018. Mr. Marchuk, who had previously served as a Non-executive Director from 2017, is also a director of SUEK, where he served as Chief Financial Officer between 2011 and 2016. Prior to that he was CFO of Uralkali between 2004 and 2010. He also served as a member of the Board of Directors of Uralkali between 2007 and 2010.

Mr. Marchuk became Acting CEO of EuroChem following the resignation of Dmitry Strashnov for personal reasons in September. In February 2019, the Board announced the appointment, effective 1 June, of Petter Ostbo as the Group's CEO. Mr. Ostbo was previously Executive Vice President for Production and Chief Financial Officer at Yara International.

Operating environment

In May 2018, EuroChem sold its Ukraine subsidiary. The decision followed the introduction of trade restrictions by the Ukrainian authorities in 2017 against foreign suppliers of fertilizers. The Group reallocated the fertilizers it would have sold in Ukraine to alternative markets.

Debt maturity profile as of 31 December 2018
(US$m)



Source: Company information.

1. USD equivalent of RUB 20 bn remaining available for placement under the registered RUB bond program as of December 31, 2018.

Performance review
Mining Division

Evgeny Kotlyar
Head of the Mining Division

"We are building a leading position in potash production through our two mines, which will yield some of the world's most competitively priced product and have added a new dimension to our international presence."

The Group's mining assets currently comprise Kovdorskiy GOK (Russia), and EuroChem Karatau (Kazakhstan), which support phosphate fertilizer production and yield mining products such as iron ore and baddeleyite concentrates. The Mining Division is also bringing two greenfield potash projects on stream at VolgaKaliy and Usolskiy (Russia). Once fully operational, the potash mines together represent more than 8.3 MMT in annual potash (MOP) capacity.

The development of potash is key to our proven vertically integrated business model, which envisages self-sufficiency in essential raw materials as a strategic priority. Average KCl content is 30.8% at Usolskiy and 39.5% at VolgaKaliy.

EuroChem's potash production will initially meet internal needs, which are currently met through purchases of MOP and SOP from the market. Over time, these will be gradually replaced with our own potash, after which we plan to increase NPK/complex production capacity further.

Since the Group first acquired a licence at auction for the exploration and mining of the Palashersky and Balakhontseysky sections of the Verkhnekamskoe potassium deposit in the Perm region we have made good progress in developing the Usolskiy mine, which is the more advanced of the two greenfield projects. Once fully ramped-up, they will be among the most cost-efficient potash operations globally.

Test production began at Usolskiy during 2018 and by the year end, 15 Ural-20R continuous mining machines were in operation, both for development and production. Construction and installation at train 2 was completed, with both trains 1 and 2 working at their projected capacity of 1.1 million metric tonnes (MMT). The total length of headings at the end of the year amounted to 73 kilometres. Launch of the third and fourth trains is expected by the end of 2019.

The raw ore and finished product storages areas were constructed and commissioned during the year. The finished product loadout area was built on site and the station at Palashery is now loading and dispatching trains with finished product. All transport and logistics activities were thoroughly tested and all utilities, including water, gas and associated treatment facilities were constructed and put into operation. A systematic effort is now underway to improve process parameters and expand ore mining capacities.

Usolskiy mined 1.38 MMT of potash ore in 2018. In terms of finished product, once fully operational in Phase 1 of the ramp-up, Usolskiy will have a total annual production capacity of 2.3 MMT of muriate of potash (MOP), the most commonly used potash fertilizer in agriculture. A second phase will add an additional 1.7 MMT of capacity, though this would require construction of a further skip shaft and the expansion of the existing processing facility. Total investment in both potash projects to date is US$4.6 billion.

Focusing on our progress at Usolskiy

Engaging with the international media

EuroChem came under renewed media scrutiny during 2018 following the start of test production at Usolskiy. Responding to this interest from the mining industry and the global fertilizer market, we organised two separate media visits to the mine.

Participants were drawn from leading international and national business titles and the specialist trade media. The events involved presentations from EuroChem's strategy and mining teams, a tour of the mine and the above-ground processing facilities, and a visit to the beneficiation mill at Usolskiy.

The resulting coverage drew attention to the prevailing state of the world potash market. It also highlighted aspects of EuroChem's successful vertical integration strategy, noting the views of third-party analysts that the Group is likely to be at the most efficient end of the potash production cost curve – and thus well placed to gain market share – in due course.

Work also advanced at our VolgaKaliy project, where we are developing the Gremyachinskoe potash deposit in the Volgograd region. Below ground, the two skip shafts were successfully connected and the implementation of the cage shaft programme continued.

As previously disclosed, the cage shaft at VolgaKaliy suffered manageable water inflow in 2015. In December 2018, water inflow in the shaft reoccurred and we implemented additional remedial measures to address the problem. The incident is not expected to significantly impact the project's progress.

Similar incidents have occurred with other operators' shafts in North America and elsewhere, with facilities later being reclaimed and continuing to operate. Although the water inflow at VolgaKaliy's cage shaft caused an initial delay, the volume of ore mined at the site is expected to be sufficient for the operations during the initial stage of production set out in the Group's plan.

Work continued to develop the mine using the other two skip shafts. A freeze wall currently being built around the cage shaft will eliminate water inflow. Above ground the flotation plant is in commissioning mode, with the first concentrate obtained in July 2018. The total hoisting capacity of the two skip shafts is 10 MMT of ore per annum, which will allow the mine to ramp-up to Phase 1 full production capacity of 7.3 MMT of ore in 2021-22.

The second phase assumes the availability of a third shaft and a new processing plant. Construction of the third shaft, also under the protection of a freeze wall at a depth of 810m, has been delayed due to water inflow that initially occurred in 2015. Six new additional wells were drilled and frozen to mitigate the effects of the water inflow. A second ring of wells will establish a new freeze wall, enabling construction of the third shaft to be completed in 2024. The third shaft will increase capacity for ore mining and extraction from 10 MMT up to 14.6 MMT per year.

The water inflow in the third shaft is not expected to significantly delay the continued implementation of the project. The third shaft is not connected to the mine, so the water inflow will not cause flooding of the mine or any loss of reserves.

Mining in numbers

To date, we have invested US$4.6bn[1] on both projects.

Our two new potash mines at Usolskiy and VolgaKaliy will together represent more than 8.3 MMT in annual MOP capacity.

At Usolskiy, 15 Ural-20R machines were in operation at the year end, both for development and production.

1. Historical currency rates were used for the calculation of the investment.

Average KCl content at VolgaKaliy

39.5%

Length of headings at Usolskiy at year-end

73km

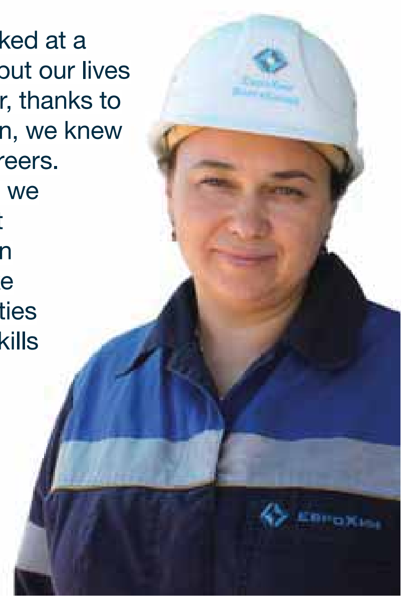
Annual ore hoisting capacity at VolgaKaliy

10 MMT

Voice from the workplace

"My husband and I both previously worked at a potash company in the Perm region – but our lives have been transformed in the past year, thanks to EuroChem. With its excellent reputation, we knew a move here would be good for our careers. When our applications were accepted, we moved to Kotelnikovo and now work at VolgaKaliy. We're very happily settled in our new community and intend to make the most of the professional opportunities that lie ahead. It's wonderful that our skills have been recognised – and we're proud that we're now contributing to EuroChem's success."

Natalya Golubinova
Head of Reagents Department,
Beneficiation Plant, EuroChem-VolgaKaliy LLC



Performance review
Fertilizers Division

Alexander Tugolukov
Head of the Fertilizers Division

“Advantageous locations and secure supplies of raw materials ensure our production assets are among the most cost-efficient of their type anywhere in the world. We are also able to adapt our production flows to meet changing market dynamics.”

The Group’s Fertilizers Division spans the production of mineral fertilizers (nitrogen, phosphate and complex) and industrial products, as well as our phosphate rock beneficiation operations at EuroChem-Karatau (Kazakhstan). It also includes our EuroChem-Northwest ammonia project at Kingisepp, Russia, where pre-commissioning activities are underway ahead of its official launch in June. The plant has a planned annual production capacity of 1 million metric tonnes (MMT) of ammonia.

Our production facilities in Russia, Belgium, China and Lithuania manufacture more than 100 products – from commodity and specialty fertilizers to industrial products such as acids, gases, de-icing agents, organic synthesis products and mineral raw materials.

This geographic and technical spread enables us to produce and sell a diverse range of products to meet market demand.

Highlights in 2018 included the start of urea ammonium sulphate (UAS) production at the Novomoskovsk plant. Used by farmers to improve crop yields – especially of wheat, soy, cabbage and onion – UAS complements our current portfolio of sulphur-enriched fertilizers, which includes ammonium sulphate (AS) and ammonium sulphate nitrate (ASN). The production facility, developed with Stamicarbon, part of Maire Tecnimont Group, is Russia’s first UAS plant and has a capacity of 600 tonnes per day of UAS and 400 tonnes per day of granulated urea.

The opening means EuroChem is the only UAS maker in Russia. The Company is also Russia’s sole producer of melamine, used in the construction and automotive industries, and the world’s only producer of baddeleyite concentrate, used in the production of electroceramics.

Another milestone was the start of production of food-grade liquid carbon dioxide at the Nevinnomysskiy Azot plant in Russia.

The production facility, which represents an investment of almost US$7.5 million, will supply producers of carbonated drinks, including Coca-Cola and PepsiCo, as well as domestic producers Narzan and Aqua-White, and the Ipatovskiy and Stavropolskiy breweries.

EuroChem’s Antwerp operation, a key part of the fertilizer business

Greenhouse gas (GHG) emissions reduction at EuroChem Antwerpen

A key tool in achieving the European Union’s 2020 Climate and Energy targets is the EU Emissions Trading System (ETS). This covers 45% of EU GHG emissions from large facilities in the power, industry and aviation sectors, with a target of 21% emissions reduction compared to 2005 levels.

Our Antwerp plant is included in the ETS. We have invested in emissions reduction technologies and processes since it became part of EuroChem in 2012. Our GHG emissions consist of N_2O from nitric acid production and CO_2 from fertilizer manufacture. Initially we were exceeding our targets and having to purchase CO_2 allowances; however in the current ETS phase (which ends in 2020), we have moved to an ‘accumulated excess’ of allowances.

Our process changes contributed to a substantial cut in emissions from 2012 to 2018. Emissions in 2018 were 204,490 tonnes of CO_2, 47.8 % of the 2012 level, maintaining a sub-50% average reduction in each of the past three years.

The main improvements in emissions were achieved through the operation of N_2O abatement technologies in the nitric acid plants, ranging from a new reactor to minor modifications and improvements. We will continue to pursue reductions in GHG emissions up to 2020 and beyond.

Fertilizers in numbers

EuroChem's ammonia plant at Kingisepp, Russia, is adjacent to the Group's Phosphorit phosphate fertilizer facility and thus well positioned to deliver to key markets. EuroChem-Northwest, coming on stream in the second quarter of 2019, has a design capacity of 2,700 tonnes per day or 1 million tonnes per annum. In addition to the ammonia production facility, the project also includes utilities and offsite buildings, including a warehouse for storage of liquid ammonia.

Invested in EuroChem-Northwest (US$)

1bn

From Kingisepp to the Baltic Sea

50km

Workers involved in construction phase

2,000

Total Group fertilizer output

14.1MMT

Long-term jobs created at EuroChem-Northwest

300

Different grades of NPK products manufactured at Antwerp

35

In October, we opened a new US$16 million facility for the production of crystalline urea phosphate at Lifosa in Lithuania. The plant, which has a projected capacity of 25,000 tonnes per year, was constructed in just 12 months. It adds to the range of fertilizers currently produced at Lifosa, including diammonium phosphate (DAP), and water-soluble crystal monoammonium phosphate (MAP).

A substantial number of investment projects were undertaken during 2018, including new facilities to improve occupational health and safety and reduce our environmental emissions.

At our NPK plant at EuroChem-Antwerpen, we installed a state-of-the-art industrial dust and gas-scrubbing unit to remove particles and gases from industrial exhaust streams at the plant. At Kingisepp, we commissioned a new collection system to take surface waste water to our facility at Phosphorit. The effluent will be used in the operating processes of our adjacent ammonia plant when it begins operations, thereby helping reduce Phosphorit's effluent discharges by more than 70%.

Marjukka Porvari (left) of the John Nurminen Foundation, with (centre) Vladimir Erlykov, Executive Director of Phosphorit.

Innovating to improve water quality

In 2012, EuroChem began cooperation with the John Nurminen Foundation, an independent charitable organisation working to protect the Baltic Sea. The joint project focused on transforming the ecological quality of the Luga River basin, adjacent to our Phosphorit facility at Kingisepp. The work included the development of a system of dams and other measures, which led to a significant decrease in phosphorus discharged into the Luga and thus the Baltic Sea.

The Foundation supervised independent testing of water quality within the Luga basin and Baltic Sea, as well as the effectiveness of the plant's water purification system. Marjukka Porvari, Director of the Foundation's Baltic Sea projects, described the results as 'remarkable', adding: "In terms of its positive impact on the environment… this is the largest environmental project ever implemented in the Gulf of Finland in the Baltic Sea."

The John Nurminen Foundation and EuroChem have agreed to continue working on measures to improve the environment in the Luga River basin and the Gulf of Finland.

Under the terms of the agreement, EuroChem will continue to invest in water quality and efficiency, with the Foundation acting as an independent monitor and observer.

Performance review
Logistics Division

Igor Nechaev
Head of the Logistics Division[1]

“Our logistics operations are a key component in our vertically integrated business model. They optimise and guarantee both raw material and final product flows. Their main strategic objective is to reduce our overall transhipment costs and consequently our products’ cost to market.”

EuroChem’s Logistics Division is engaged in all supply chain operations, including transportation services and the purchase and delivery of raw materials and finished goods, as well as freight forwarding and other logistics services.

Transportation is a significant cost element in the mineral fertilizer value chain, whether procuring raw materials or delivering products to customers. It is therefore essential that our handling and transport operations be as efficient as possible. Ownership of our logistics and distribution assets is key, as is the strategic imperative of investing in these activities to minimise the cost of getting products to market.

EuroChem operates an extensive transportation and logistics network. This includes rolling stock owned by the Group and rented from third parties, which enables us to keep costs lower than those of competitors who lack a similar infrastructure. Our transportation and logistics facilities also provide a reliable means of supplying raw materials to – and delivering products from – our production facilities, thereby reducing the Group’s dependence on third parties.

As at 31 December 2018, the Group had rolling stock comprising approximately 6,900 railcars and 45 locomotives.

The Group operates its own transhipment terminals, including Tuapse on the Black Sea, Murmansk on the Barents Sea and Sillamäe in Estonia. We also have direct jetty access in the port of Antwerp, Belgium.

Tuapse has a current capacity of 2.3 million metric tonnes (MMT) per year of dry mineral fertilizers. Murmansk can handle 3.1 MMT a year of iron ore and iron pellets, 2.2 MMT a year of apatite and 2.0 MMT of dry mineral fertilizers.

The maximum possible transhipment of liquid cargo at Sillamäe is 600 KMT per year. The port will have 1 MMT of additional capacity once the ammonia transhipment terminal currently under development comes on stream in late 2019. The Group also uses port infrastructure of third parties at Klaipeda, Lithuania, with an annual capacity of 3.7 MMT of bulk fertilizers and 1.5 MMT of phosphate rock.

The Group also has considerable expertise in cargo vessel brokerage and other transportation services – and occasionally operates vessels on a time-charter basis when required.

To ensure greater stability in the supply of raw materials to production subsidiaries and distribution of products to customers, we have been developing additional transport and logistics infrastructure.

Efficient transport and logistics are an integral part of our business model

1. With effect from 1 January 2019, the activities of the Logistics Division and the Marketing and Sales Division are being combined under the leadership of Deputy Chief Executive Officer and Chief Commercial Officer Stefan Judisch.

Logistics in numbers

EuroChem uses its own logistics assets – supplemented by occasional rentals from third parties. In 2018 the Group moved 18 MMT of raw materials and fertilizers. Owned logistics assets enable more efficient, cost-effective delivery of products to customers in major markets, ensuring continuity through consistent supply of adequate quality feedstock and export of finished products.

Railcar capacity of maintenance depot at Nevinnomyssk

5,000

Annual loading capacity of fertilizers, EuroChem Antwerpen

2.9MMT

Rail track at EuroChem plants

326km

Fertilizer storage volume at Tuapse

80KMT

Panamax vessels
(Usolie, Iron Kovdor)

2

Total railcars after the purchase of new hopper railcars for Usolskiy potash plant

8,600

Maximum possible transhipment of liquid cargo at Sillamäe

600KMT

EuroChem owns 45 locomotives and almost 7,000 rail cars

Performance review
Sales Division

Stefan Judisch
Deputy Chief Executive Officer and Chief Commercial Officer

> "From source to solution, an efficient global distribution network ensures EuroChem's products are available across all our key markets. We provide a complete range of fertilizers, from standard products to more advanced premium products and enhanced-efficiency fertilizers."

The solid sales performance of the Group in 2018 was achieved by higher average prices for the Group's main fertilizer and mining products, as well as additional third-party trading momentum. In Europe, low water levels persisted for some months, resulting in reduced barge carriage on inland waterways and increased transport costs. Although some volumes were shipped by trucks, the ability to shift additional volumes onto rail was limited due to the absence of railway infrastructure around some clients' premises. The beginning of December saw a return to more normal water levels, though several shipments were pushed into the first quarter of 2019. Europe remained the Group's largest sales region in 2018, accounting for 29% of total sales.

Full-year Group fertilizer sales volumes were 14.1 million metric tonnes (MMT), 2% ahead of the 13.8 MMT sold in 2017, reflecting a shift in the Group's production mix towards phosphate and blended fertilizers in light of the more competitive trading landscape. Sales volumes for mining products were 5.98 MMT, 1% above last year's figure. The Group benefited from relationships established with new distribution partners and sales outlets across several markets in 2017, including in Bulgaria, Hungary and Serbia.

Our substantial presence at DLG Field Days (Feldtage) in June

Showcasing our innovation

One of the largest fairs of 2018 was the bi-annual DLG Field Days (Feldtage). Held in June in Bernburg, Germany, it was attended by over 20,000 visitors from around 20 countries. EuroChem's 500m² stand attracted key agricultural decision-makers, influencers and partners keen to learn more about our products and future developments.

Discussion also focused on changes in EU regulations and their impact on European farming, enabling us to highlight our ENTEC® inhibitor line.

Our diversified presence across both developed and emerging markets – and our growing strength in domestic and overseas markets – augurs well for the future. Our growth in Latin America is underpinned by the development of the sales platform at Fertilizantes Tocantins. We expect this will also play a significant role in the Group's eventual potash market entry, as Brazil is expected to be EuroChem's largest outlet for granular MOP.

Our global distribution network offers EuroChem's complete range of nitrogen and phosphate fertilizers, from standard to premium products and potash. The distribution system also oversees sales of mining products, including iron ore concentrate, phosphate rock, and baddeleyite concentrate – and offers a growing range of industrial products.

A growing presence across world markets

Russia and the CIS

This is one of the fastest growing fertilizer markets in the world, driven not least by increased sales in Russia, which became the world's biggest grain exporter in 2016. International sanctions and a ban on certain food imports saw a major drive to substitute imports with home-grown products. This resulted in an increase in the production of specialty crops across all segments, which in turn drove demand for specialty fertilizers, such as water-soluble products. Sales of these premium fertilizers have grown rapidly since their introduction in 2016. EuroChem currently accounts for about 20% of the Russian fertilizer market.

With our market presence anchored in local production and complemented by a network of wholly-owned distribution centres, we continue to strengthen ties with end users. We estimate that more than 55% of local sales are made directly to growers, ranging from farmers (1,000 ha estates) to medium-sized enterprises (1,000 to 20,000 ha), and agricultural holdings (>20,000 ha).

Europe

New EU regulations will trigger demand for more advanced, enhanced-efficiency products. We expect to see increasing sales of nitrification and urease inhibited solutions, as well as biological and organic-based products. These changes are positive for EuroChem, since our objective is to continue growing sales of premium products through the introduction of new product lines, as well as increasing deliveries of NPKs produced at Nevinnomyssk in Russia.

Although premium products in Western European markets suffered from supply-driven global market conditions, substantial growth in Eastern Europe, where we have established new distribution arrangements, helped to offset this trend. We remain the second-largest European fertilizer supplier, with substantial manufacturing presence at EuroChem Antwerpen and Lifosa in Lithuania – and a sales presence in Mannheim, Germany – with a wide network across the continent.

Our European sales team maintains a network of established offices. Our colleagues are recognised for their agricultural expertise and knowledge of premium products, such as Nitrophoska® and ENTEC®. EuroChem participated in 22 major agricultural fairs and events across nine European countries in 2018. These events allowed our local teams to showcase our products and represented a potential outreach to nearly 900,000 farmers and agricultural distributors.

1865

Marketing excellence

As a natural extension to its ownership of EuroChem Antwerpen, the Group has secured the rights to use the 'Horse & Lion' seal, originally used as a corporate logo for BASF. The seal carries a reputation for integrity and quality – and is a sought-after mark of excellence in Asian fertilizer markets.

Sales in numbers

EuroChem's efficient sales and distribution network ensures our fertilizers are widely available to farmers on a timely basis. Proximity to customers is one of our key strategic goals and we will continue expanding our presence.

Total fertilizer sales volumes in 2018

14.1MMT

Latin American sales as proportion of the total

21%

Customers worldwide

>10,000

Latin America

Gaining a firm foothold in Latin America has been a notable feature of EuroChem's recent global expansion strategy.

Sales to Latin America received a boost from the Group's new Brazilian assets as well as from growing sales at Emerger Fertilizantes, the distribution business acquired in Argentina in 2017.

In fact, Brazil has the largest potential of arable land among the world's main commodity producers and therefore offers a significant market opportunity. The integration of Tocantins proceeded in line with expectations and its contribution to the business has been significant, enabling us to boost our share of the market considerably.

North America

North America has long been a key market for EuroChem. The combination of EuroChem products, international and domestic supply contracts and BenTrei's best-in-class logistics service has helped us extend our customer base. The Group plans to build on recent growth, expanding in coastal areas and developing trading relationships with local producers to support market share gains in the central US, while we develop premium product sales.

In 2018, we extended our North American distribution network by taking on dry and liquid fertilizer transport and storage assets from international merchandising and trading firm Trammo, Inc. The move substantially expands EuroChem's fertilizer storage capacity in the US, and enables us to strengthen our presence into Western Canada as well as on the East Coast.

EuroChem now operates 25 warehouses in the US, with a current storage capacity of about 500,000 metric tonnes. North America accounted for about 15% of Group sales in 2018.

Asia

Asia is one of the world's leading consumers of NPK products and imports substantial quantities. Our Nitrophoska® NPKs combine all nutrients in one granule, with a lower acidifying effect than ammonium sulphate or urea-based fertilizers. This is crucial in Asia, where acid soils, particularly in the uplands of South-East Asia, have defied efforts by farmers to develop them for agricultural use. New blends of fertilizer are making a difference as farmers work to develop land and improve yields.

EuroChem's brands are well known in Asian markets, where our strategy has been largely focused on sales of premium fertilizers, as well as a wide range of industrial and mining products. The Group has two regional sales offices in Asia and we expect the region will continue to be a key destination for our potash-based fertilizer products. In 2018, the Asia Pacific region accounted for 9% of Group sales.

Corporate Governance

Board of Directors

Delivering effective leadership

Alexander Landia
Chairman of the Board, Non-executive Director

S N

Background and experience

Alexander has extensive senior management experience, leading and advising various organisations throughout his career. Between 1993 and 2001 he worked at Dresdner Bank in Frankfurt as First Vice President, Oil & Gas Global Debt. Until 2004, he was General Director of Accenture Russia and was subsequently appointed as Global Gas Lead Partner. Alexander currently serves as Chairman of the Board of Directors and Nomination and Compensation Committee of SUEK. Alexander is a member of the Strategy Committee of SUEK and also serves on the Board of Directors of Lambert Energy Advisory Ltd. (UK). He is Chairman of the Board of Directors of The Mobility House AG (Switzerland). Alexander is also a co-founder of Bernotat & Cie (Germany). He has been Chairman of the EuroChem Board since 2015.

Qualifications

Alexander graduated from the Tbilisi State University and has a PhD in Mathematics from the Minsk Institute of Mathematics of the National Academy of Sciences of Belarus.

Does not hold Company shares.

Andrey Melnichenko
Non-executive Director

S

Background and experience

Andrey is a self-made Russian industrialist. Over the past 20 years, he co-founded a number of multi-billion-dollar businesses including fertilizer producer EuroChem, coal producer SUEK, and power generator SGC (now directly owned by SUEK) – which are among the biggest in the world in their respective industries. In the early 1990s, Andrey co-founded MDM Bank, which under his leadership became one of Russia's most successful and largest private banks. In the 2000s, he exited MDM Bank, while investing in already privatised industries – fertilizers, coal and steel pipes (which he exited in 2006 through an IPO).

Andrey is the main beneficiary and a member of the Board of Directors of EuroChem Group AG and SUEK JSC, and chairs their Strategy Committees. He sits on the Board of the Russian Union of Industrialists and Entrepreneurs, where he chairs its Mining Commission.

Qualifications

Andrey studied Physics at the Lomonosov Moscow State University, and graduated from the Plekhanov Russian Academy of Economics with a degree in Finance. As at the date of this report, a company that holds business interests beneficially for Andrey Melnichenko owns 100% of Linea Ltd (Cyprus), which in turn owns 100% of AIM Capital S.E. AIM Capital S.E. has a 90% holding in EuroChem Group AG.

Dmitry Strezhnev
Non-executive Director

S

Background and experience

Dmitry has extensive experience in business administration, particularly in large industrial corporations. During his career, Dmitry has served as the Head of Agrodortekhsnab and Tekhsnab-2000 – trading companies that sell road and construction machinery and provide maintenance services. He was also deputy director of Dorstroykomplekt, a company specialising in highway engineering, before becoming Director General of Likino Bus Plant. Prior to EuroChem, Dmitry held executive positions in the automobile industry, including at vehicle producer GAZ Group. Dmitry served as the General Director of MCC EuroChem JSC from 2004 until the beginning of 2017. From 2015-2018 he was also the CEO of EuroChem Group.

Qualifications

Dmitry graduated from Lomonosov Moscow State University with a degree in Physics (Hons) and holds an MBA from the Academy of National Economy under the Government of the Russian Federation. As at the date of this report, a company that holds the business interests beneficially for Dmitry owns a 10% interest in EuroChem Group AG.

Jürg Seiler
Independent Director

A

Background and experience

Jürg served as CFO at Ventyx, the Enterprise Software business of ABB, from 2012 until 2014. Prior to taking up this role, he was global CFO at ABB Power Systems Division and earlier served as CFO at ABB Lummus Global. Jürg has more than 30 years' international experience, including assignments in South Africa, Hong Kong, the US, and Switzerland. He previously held key financial positions across several countries and businesses.

Qualifications

Jürg holds a Master's degree in Economics from the University of St. Gallen, Switzerland.

Does not hold Company shares.

Key to Committee membership

- Committee Chairman
- S Strategy Committee
- N Nomination and Remuneration Committee
- A Audit Committee

Sergey Vasnetsov
Independent Director

S N

Background and experience

From 2010 to 2016, Sergey was Senior Vice President, Strategic Planning and Transactions at LyondellBasell, where he led a team responsible for corporate strategy, capital allocation (CapEx, M&A, JVs), and investor relations. He was responsible for the specialty plastics unit within the global polypropylene compounding business, serving the automotive and consumer durable markets. From 1996 to 2010, Sergey worked in New York at several leading investment banks, including Barclays and Lehman Brothers. His roles included serving as Head of Lehman's global chemical research group, responsible for identifying and developing investment ideas for the largest global, US private and public investment funds. He started his career as an industrial research scientist at Union Carbide in 1990, and authored eight US and world patents in polymer technology. He was previously a member of the Texas Petrochemical Company (TPC Group) Board of Directors and its Audit and Strategy Committees.

Qualifications

Sergey graduated with a Master of Science degree at Novosibirsk State University and was a George Soros Scholar at Oxford University; he later earned an MBA degree (Finance) from Rutgers University in the US.

Does not hold Company shares.

Geoffery Merszei
Independent Director

A

Background and experience

Geoffery started his career at the Royal Bank of Canada. From 1977 to 2001 and from 2005 to 2013, he served in a number of senior executive positions at The Dow Chemical Company, including Executive Vice President and CFO, and CEO and Chairman of the Board of Dow Europe, Middle East and Africa. He served on Dow's Board from 2005 to 2009, was lead director of Dow Corning Corporation from 2005 to 2010, and was a director on the boards of the Chemical Financial Corporation and Chemical Bank from 2006 to 2010, respectively. From 2001 to 2005 he was Executive Vice President and CFO of Alcan. Geoffery also served as an executive committee member of the European Chemical Industry Council (CEFIC) from 2009 to 2012. Geoffery brings more than 30 years' experience in corporate governance and finance to EuroChem. He currently serves on the boards of OC Oerlikon AG and Clariant AG and is also Chairman and CEO of Zolenza AG, an investment and advisory firm based in Switzerland.

Qualifications

Geoffery holds a BA in Economics from Albion College, Michigan, US.

Does not hold Company shares.

Clark Bailey
Non-executive Director

Background and experience

Clark served as EuroChem's Head of Mining from 2013 to 2018 and was responsible for several major developments, including the Kovdorsky GOK phosphate rock and iron ore mining facility, the development of the Group's two potash deposits in Russia, and a phosphate rock project in Kazakhstan. Before joining EuroChem, Clark worked at PotashCorp as Senior Vice President, Projects and Technical Services in Saskatoon, Saskatchewan from 2007 to 2012, as well as Director & General Manager – Capital Projects (PCS Nitrogen) in Chicago, Illinois and Vice President, Operations (PCS Nitrogen) in Memphis, Tennessee. Prior to his 16 years at PotashCorp, Clark spent 15 years at Fish Engineering & Construction Inc based in Houston, Texas.

Qualifications

Clark is a mechanical engineer, a graduate of the University of Texas at Austin, and a member of the American Society of Mechanical Engineers (ASME).

Does not hold Company shares.

Samir Brikho
Independent Director

S N

Background and experience

Samir held senior management positions at Asea and ABB Power Generation between 1983 and 2000, before moving to Alstom where he served as Chief International Operations Officer and Senior Vice-President, and CEO of Alstom Kraftwerke in Germany. In 2003, he became CEO of ABB Lummus Global and in 2005 he was appointed to the Group Executive Committee of ABB Ltd, and served as Head of the Power Systems Division at ABB Group. From 2006 to 2016, Samir was CEO of Amec. Foster Wheeler (formerly Amec) Samir was the 2009 and 2016 chair of the World Economic Forum's Engineering and Construction Board. He served as chair of the Forum's Disaster Resource Partnership and is currently co-chair of the Forum's Infrastructure & Urban Development Industries Committee.

Qualifications

Samir holds a Master of Science degree in Thermal Technology from the Royal Institute of Technology in Stockholm, Sweden. He received an Honorary Doctorate from Cranfield University in the UK. He is also a graduate of the Young Managers Programme at INSEAD and the Senior Executive Programme at Stanford University.

Does not hold Company shares.

Corporate Governance report

Maintaining effective stewardship

The Board's strategic role

The primary focus of the Board is to steer, support and oversee the Company's strategic development. EuroChem's Board of Directors is responsible for the overall stewardship of the Group. It is accountable for determining that the Group's affairs are conducted and managed in such a way to achieve this objective. The Board's mission is to ensure there is a solid and consistent strategy for the business, enabling EuroChem to achieve its business goals and deliver long-term sustainable shareholder and stakeholder value.

The Board also ensures that EuroChem adopts and maintains international standards and best practices. It monitors the Group's accounting function, its risk management processes, internal controls and governance framework. Its activities are aligned with the principles set out in the Articles of Association and the Regulations of the Board of Directors.

Each member of the Board is expected to have a good understanding of the Group's business and the industry in which it operates. Directors develop relationships with the management team, enabling them to readily obtain information on key material issues as well as strategy implementation and risk management.

Decision making

To fulfil its function, the Board receives up-to-date, comprehensive information in a timely manner. In addition to materials prepared for scheduled quarterly meetings, Directors receive additional occasional updates. These include management accounts, safety updates and media coverage summaries, as well as details of corporate events, strategic investment projects and any legal proceedings.

Directors are advised of all significant corporate events at the earliest opportunity by the senior management team. This communication process is defined in a policy and in associated procedures, and enables the Board to make balanced and informed assessments of the Company's performance, position and prospects.

The EuroChem Board makes full use of each Director's unique experience and perspective, ensuring that each individual has ample opportunity to freely express their opinion. To enhance their understanding of our operations, Directors undertake an annual site visit to one of the Group's facilities.

The agenda for Board meetings is planned a year in advance, taking into account the optimal cycle for reviewing recurrent issues such as budgets, financial reporting and strategies. The timing, expectations and goals of these reviews are well understood by both the Directors and the management team. They include detailed updates on core operational areas, investment projects and strategy.

Effectiveness

At its meetings towards the end of the year, the Board reviews its activity for the previous 12 months and discusses how it can improve its overall performance. During the most recent assessment, the focus was once again on the Board's greater involvement in the Company's core business activities and strategic direction, including through curatorship. Additionally, it was agreed to introduce the mechanism of task distribution among Board members, which will deepen coordination with the management in specific focus areas. This will deliver not just a deeper understanding of our business and the fertilizer industry as a whole, but a more productive Board-management relationship.

This year, the Nomination and Remuneration Committee discussed the Company's curatorship activities over recent years, shared its appraisals of curators' past performance and made proposals for further development. The discussion focused on the current issues requiring deeper engagement on the part of the Board, specifically in the development of key strategic projects.

Induction process

On joining the Board, each new Director is provided with a clear and comprehensive picture of the Group and its operations. This formal induction process includes a series of meetings with key managers from across the Group. It also requires a Director to become familiar with the regulations pertaining to Board procedures and standing items on the Board's forward agenda. New Directors also have the opportunity to visit EuroChem facilities to obtain a better understanding of the Group's operations at first hand.

This year, two new Directors joined the Board and undertook a comprehensive induction to the Company. This involved a combination of presentations, seminars, face-to-face meetings with management and other activities.

Directors' independence

We apply the UK Corporate Governance Code's definition of 'independent' Director. A key criterion is that the individual is free from any conflicts of interest. Should actual or potential conflicts arise, independent Directors are notified and required to act appropriately.

All Directors are required to inform the Company of any events that could compromise their independent status. New Directors must declare any conflicts of interest and sign up to the Group's Board Regulations. This requires them to refrain from taking any action that could lead to any conflict, with an obligation to inform the Chairman at the earliest opportunity, should such a situation arise.

At the end of 2018, four of the Board's eight Directors were fully independent of the Company's executives, affiliates and major counterparties. Their status as 'independent' is confirmed after each election or re-election to the Board, using a standard questionnaire relating to the declaration of interests. The Non-Executive Directors exercise independent, objective judgement in respect of Board decisions, and scrutinise and challenge management.

Leading by example

The Chairman of the Board oversees and steers its deliberations, while ensuring its effectiveness by facilitating open communications and cultivating an atmosphere of mutual respect and constructive debate. The Chairman's specific responsibilities are set out in the Board Regulations.

The Board establishes the Company's strategy, monitors its progress and holds the Management Board to account for its execution. The CEO and members of the Management Board are responsible for the day-to-day management and operation of the Company. The Management Board comprises key managers with responsibility for daily operations, finance, fertilizer production, mining, sales and marketing, logistics and administration.

The Board is responsible for appointing the CEO and Management Board; it also determines the length of their terms.

The Board delegates certain responsibilities to its three Committees:

Committee	Principal function
Audit Committee	Oversees the reliability and integrity of financial reporting, accounting policies and disclosure practices. Ensures the adequacy and effectiveness of the management reporting and control systems in managing risks and ensuring compliance.
Strategy Committee	Makes recommendations on the Company's strategic direction, evaluates strategies towards growth opportunities, sales and marketing and operations. Assesses new business proposals including acquisitions/joint ventures and makes appropriate recommendations. Together with the Nomination and Remuneration Committee, it oversees the Company's corporate reputation, and social and HSE-related strategic goals.
Nomination and Remuneration Committee	Focuses on remuneration and incentive programmes. Considers succession planning for directors and other senior executives with a view to challenges and opportunities facing the Company, and the skills and expertise needed on the Board in future. It places a strong emphasis on HSE performance and oversees compliance with relevant laws and regulations.

Further details on the Group's Board and Committees are available in the Corporate Governance section of EuroChem's corporate website at www.eurochemgroup.com.

Equal opportunities

We are committed to attracting the best people with the right talent, experience and attitude to EuroChem. We promote a working environment free from discrimination, and treat colleagues equally, regardless of age, disability, gender, ethnicity, marital status, sexual orientation or religion.

EuroChem's Board exhibits a mix of experience, age, and nationality. We continue to look at ways of achieving greater female representation in senior roles, including at Board level. Our E-Generation programme identifies talented, motivated young individuals within EuroChem and plays a key role in our drive to provide new opportunities for women and prepare them for leadership roles within the Group.

Corporate behaviour and compliance

We strive to uphold the highest ethical standards across all our activities, in line with EuroChem's values, goals and objectives. The Board and senior management of the Group set the 'tone at the top', which is underpinned by our Code of Conduct. New Directors and all employees are given a copy of the Code during their induction process. The Code is accessible via the Corporate Governance section of the Company's website at www.eurochemgroup.com.

The Group's geographical expansion, together with increasingly onerous regulatory requirements, necessitates a robust system of monitoring.

Early warning of any changes in relevant legislation is also essential to the Group's planning and compliance activities. We continued to develop the Group Compliance Function in 2018, revising and updating the existing policies as required on a continuing basis. The Group Compliance Programme is maintained by ongoing education and training of our employees on Code of Conduct and compliance policies. New employees receive compliance training as part of their onboarding, and the Group's Compliance function provides refresher compliance training and updates for existing employees.

The compliance policies are accessible to all employees of the Group via the Company's intranet.

Our approach to governance

EuroChem's corporate governance system is based on the following principles:

- Treating our shareholders fairly; recognising and protecting their rights
- Operating an effective system of internal control and audit
- Ensuring access to the Company's information, and financial transparency
- Applying the highest levels of business ethics
- Providing an excellent working environment, career progression and effective communication mechanisms for employees

Board priorities

The Board's principal activities include:

- Developing and setting the Group's overall strategy
- Overseeing the Group borrowings and treasury policy
- Reviewing and deciding on material acquisitions, contracts, major capital expenditure projects and budgets (supported by the Strategy Committee)
- Overseeing risk management and internal controls (supported by the Audit Committee)
- Reviewing and deciding on succession planning and appointments (supported by the Nomination and Remuneration Committee)
- Overseeing corporate governance and compliance issues (supported by the Audit Committee)
- Reviewing and endorsing corporate policies

Maintaining effective stewardship continued

Governance structure

EuroChem's highest-ranking corporate governance body is the General Meeting of Shareholders (GM). The Board of Directors is elected by – and reports directly to – the GM. The Board of Directors appoints the Chief Executive Officer (CEO) and the Management Board, and determines the length of their mandates. The CEO and Management Board report directly to the Board of Directors, which is represented by the Chairman.

The Board works to a forward agenda. This is updated annually and considers all issues that are referred to it by law, the Company's Articles of Association and Regulations on the Board of Directors. The meeting schedule for the year includes six joint-presence meetings covering issues that require substantive discussion. The Board also holds supplementary meetings to address any significant matters that may arise during the year. These are held either by teleconference or, for procedural issues, by absentee voting.

The Company's Legal function oversees the preparations for the Board and Committee meetings. The agenda is prepared in conjunction with the Chairman, the CEO and the Company Secretary. Materials on specific topics are distributed to the Board and Committee members in advance by email and uploaded to the Board portal.

Key Company documents that define EuroChem's approach to corporate governance are:

- Articles of Association
- Regulations on the Board of Directors
- Organisational Regulations on the Management Board and the Chief Executive Officer
- Audit Committee Regulations
- Nomination and Remuneration Committee Regulations
- Strategy Committee Regulations
- Code of Conduct

The legal and regulatory environment

The EuroChem Group comprises the parent entity, EuroChem Group AG, and its subsidiaries (collectively the 'Group' or 'EuroChem Group'). The Company was incorporated under the laws of Switzerland on 16 July 2014 and has its registered office at Baarerstrasse 37, 6300, Zug, Switzerland.

We have introduced the principles recommended by the UK Corporate Governance Code and apply recognised international best practice, including:

- The positions of Chairman of the Board of Directors and Chief Executive Officer are separate
- Board Directors are elected and the Board's performance is assessed annually
- The Board has a majority of independent and non-executive Directors
- The independence of individual members is verified by the Board annually
- Individual Board members avoid potential conflicts of interests when making decisions

Shareholder structure

As at 31 December 2018, AIM Capital SE owned 90% (31 December 2017: 90%) of the share capital of EuroChem Group AG: the remaining 10% of the Company was held indirectly by Dmitry Strezhnev (31 December 2017: 10%). A company that holds business interests beneficially for Andrey Melnichenko owned 100% of Linea Ltd. registered in Cyprus, which in turn indirectly owns 100% of AIM Capital SE (31 December 2017: 100%).

Share capital

EuroChem Group AG share capital consists of CHF 100,000 (one hundred thousand) and is divided into 1,000 (one thousand) registered shares with a par value of CHF 100 (one hundred) each.

Board composition

At the start of 2018, the Board comprised eight Directors: Alexander Landia (Chairman), Andrey Melnichenko, Kuzma Marchuk, Garth William Moore, Jürg Seiler, Dmitry Strezhnev, Sergey Vasnetsov and Manfred Wennemer.

At the Annual General Meeting of Shareholders on 28 June 2018, the following members were elected to the Board: Alexander Landia (Chairman), Andrey Melnichenko, Clark Dillon Bailey, Samir Brikho, Stefan Judisch, Geoffery Merszei, Jürg Seiler, Dmitry Strashnov, Dmitry Strezhnev and Sergey Vasnetsov.

As at 31 December 2018, EuroChem's Board of Directors comprised eight Directors, as presented on pages 66-67 of this report.

Developments in 2018

Samir Brikho and Geoffery Merszei joined the Board in February 2018. Garth Moore and Manfred Wennemer left the Board. Kuzma Marchuk left the Board to take up the position of Chief Financial Officer on 13 June.

Dmitry Strashnov, who joined EuroChem in November 2017 as Chief Operating Officer, was appointed Chief Executive Officer on 1 July but stepped down due to personal reasons on 24 September. He was replaced on an acting basis by Mr. Marchuk.

EuroChem Group AG shareholders

	As of 31.12.2018		As of 31.12.2017	
	Shares No.	Share capital %	Shares No.	Share capital %
AIM Capital SE	900	90	900	90
Midstream Group Limited	100	10	100	10

Board committees and attendance

In 2018, the Board held six meetings in person and twelve in absentia.

	Board attendance			Committee attendance (meetings and teleconferences)		
Director	Attended/ held in 2018	In person	In absentia	Audit	Nomination and Remuneration	Strategy
Non-executive directors						
Andrey Melnichenko	18/18	6/6	12/12	–	–	6/6
Dmitry Strezhnev	18/18	6/6	12/12	–	4/6	6/6
Alexander Landia	18/18	6/6	12/12	–	6/6	6/6
Clark Dillon Bailey[1]	8/18	2/6	6/12	–	1/6	3/6
Independent directors						
Samir Brikho[2]	14/18	5/6	9/12	–	5/6	5/6
Geoffery Merszei[2]	15/18	6/6	9/12	9/10	3/6	6/6
Jürg Seiler	18/18	6/6	12/12	10/10	3/6	6/6
Sergey Vasnetsov	18/18	6/6	12/12	–	6/6	6/6

1. Mr. Bailey joined the Board in June 2018.
2. Mr. Brikho and Mr. Merszei joined the Board in February 2018.

2018 Board agenda

Key agenda items discussed by the Board of Directors during the year included:

Strategic development

The annual review of the Group's business and strategy indicated that EuroChem will continue focusing its efforts on the same strategic goals. Specifically, these include sustaining global competitiveness through vertical integration and continuous performance enhancement, expanding the portfolio of industrial and value added products, and developing further international distribution capabilities in target markets.

The main objective for the next two to three years is to continue developing efficient procedures for the production and processing of potash at the Group's two potash projects in Usolskiy, Perm Region, and VolgaKaliy, Volgograd Region, and to reach designed capacity. The launch of potash means that EuroChem has become one of just three companies worldwide to have in-house production of all three NPK nutrients and will therefore be able to offer customers all types of fertilizers.

EuroChem exited the oil and gas business in late 2017 with the sale of Severneft-Urengoy, its gas exploration and production company.

This leaves EuroChem better positioned to focus on the commercial optimisation of the existing business, reducing costs, building an efficient supply chain management process and enhancing product management.

The Group will continue growing its presence in the premium products segment, including developing new water-soluble and specialty fertilizers, as well as other compound NPK products. Growing market interest in products with a reduced environmental footprint and on specialty products for high-value crops represents a significant opportunity for EuroChem as the Company broadens its research and development activities, allying with partners where appropriate to meet the changing needs of farmers around the world.

Elsewhere, development of a project in Kazakhstan for the extraction of phosphate raw materials and construction of a chemical complex will reduce the Group's dependence on third parties for raw materials procurement. Management will also work on defining options for expanding EuroChem's presence in the phosphate segment.

Vertical integration

The backbone of EuroChem's strategy remains its vertical integration, from production of natural resources to the sale of finished products to end consumers. This:

- Allows the Group to have high-quality, competitive assets and be a reliable, long-term partner in the fertilizer industry
- Reduces the risks related to supply of raw materials and services by third parties
- Enables the Group to develop a better understanding of buyers' needs and adapt more quickly to changing market conditions
- Ensures efficient supply of all products to customers
- Delivers synergies in cases of further business expansion

Strategic priorities

Strategic priorities underpinning EuroChem's ongoing development:

- In-house production of all three NPK nutrients
- Offering customers all types of fertilizers
- Ongoing work to increase efficiency, global cost efficiency
- Expanding the portfolio of industrial and value-added products
- Extending global presence and developing distribution in target markets
- Research and investment into new products and technologies, working with partners where appropriate

Maintaining effective stewardship continued

Financial stability and investment control

The Board monitored the Group's 2018 financial planning and approved its consolidated budget for 2019. It also regularly reviewed the Company's performance (management accounts and flash reports).

To ensure financing of the Group for current operations, repayment of loans and other corporate business, a number of key financing transactions were approved during the year, including:

- Entry into a US$200 million facility agreement with Nordea Bank AB (publ) in March 2018
- Entry into a facility agreement of US$820 million with a syndicate of banks signed in June 2018
- Full repayment of the US$750 million Usolye Project finance facility

The Group substantially deleveraged its debt profile during the latter part of the year, allowing it to focus on the further ramp-up of its mining activities and other strategic priorities. The Group ended the year with net leverage of 2.29x on covenant net debt of US$3.45 billion and 12-month rolling EBITDA of US$1.52 billion.

Health, Safety and Environment (HSE)

Health, safety and environmental issues are a key priority at EuroChem – and the Board is regularly updated on the HSE status at Group companies. In 2018, the Group experienced 53 work-related accidents (LTIs), including two fatalities. Of these, 42 incidents involved Group employees and 11 involved contractors.

Throughout the year, EuroChem pursued the implementation of its 2020 HSE Master Plan, approved by the Directors in 2017. Management took a number of additional steps aimed at strengthening the HSE function and promoting a strong safety culture. These included putting the Group CEO directly in charge of HSE, embedding requirements for timely and accurate information to be provided on workplace incidents in the Company's internal rules and regulations (including in the Short Term Incentive Plan (STIP) where a zeroing factor applies for any failure to disclose information on accidents in the workplace), and developing a pilot IT module for incident registration and management (InSighT).

Certain environmental strategies were developed and approved in 2018 including for the Usolskiy Potash Complex and EuroChem Antwerpen. The Company assessed in detail the environmental performance of these production sites, including risks and opportunities, environmental compliance and environmental action plans. The same approach will be used to assess all other production sites in 2019.

In July 2018, the HR function implemented a worldwide Employee Survey, which included a series of questions related to the Company's safety culture. The Survey was administered by an external third party to assure staff of its independence. The Survey results will serve as a valuable input for management in strengthening the HSE function further.

The Framework HSE Communication Plan was developed and used to disseminate relevant information to staff by key personnel in 2018. The Plan, which outlines measures being implemented across the Group and what steps employees themselves should take to ensure a safe workplace, focuses on achieving 'Vision Zero': incident re-occurrence prevention.

Risks and internal control

The Group maintains an effective system of risk oversight, risk management and internal control. The Board reviews the policies and procedures relating to risk oversight and management on an annual basis via the Audit Committee.

The Audit Committee oversees the following processes:

(i) Regular reviews of the key business risks, and control measures to mitigate/minimise such risks; the status of overall risk management and internal control systems and action plans to address the risks or to improve the assessment process;

(ii) Regular reviews of Internal Audit reports on business processes, including action plans to address any identified control weaknesses, as well as status updates on the implementation of audit recommendations; and

(iii) Regular reports by the external auditor of any control issues identified in the course of their work and evaluation of their respective review and findings.

In 2018, the Board received an overview of the 2019 risk assessment process and of certain changes to the Group risk map compared with the previous year. All divisions and Group functions participated in risk assessment interviews, conducted jointly by Group Quality Management and the Internal Audit Function.

The updated map covers all of EuroChem's inherent risks, including those that emerged or increased during 2018 in the context of a challenging business environment. The identified risks are evaluated according to their potential impact in 2019. The risk evaluation follows an assessment of the respective impact and probability, with both qualitative and quantitative criteria used. As part of the risk assessment process, the Risk Mitigation Process Owners were confirmed and mitigation action plans developed. Internal Audit will review progress further in 2019.

Key audit priorities for 2019, based on the risk assessment, include:

- Production – including repair and maintenance with a focus on unplanned shutdowns
- Personal safety
- Process safety
- Environmental compliance
- Project management
- General IT controls

Appointments and incentives

One of the Board's principal objectives is to ensure continuity of strong leadership. The Board oversees the appointment of Directors and key management – and reviews their performance and compensation.

In 2018, several new appointments and departures of key Group personnel were approved by the Board.

Dmitry Strezhnev announced his desire to step aside as Chief Executive Officer in early 2018 after 15 years in the role, though he remains a member of the Group's Board of Directors. He was succeeded by Dmitry Strashnov, who joined EuroChem in November 2017 as Chief Operating Officer.

Kuzma Marchuk stepped down from the Board to take over as Chief Financial Officer following the departure of Andrey Ilyin, who left EuroChem at the end of June after ten years in the role.

Mr. Marchuk was appointed Acting CEO in September after Mr. Strashnov resigned for personal reasons.

In November 2018, the Company appointed Stefan Judisch as deputy Chief Executive Officer and Chief Commercial Officer as part of a drive to bring a stronger, more holistic focus on commercial optimisation.

In 2018, the Incentive Programme for key personnel, both long-term (LTIP) and short-term (STIP), was revised. The main purpose of the new incentive system is to ensure the required differentiation between more and less efficient managers given their performance over the year, and to facilitate a more equitable approach towards motivating key management for long-term, efficient performance.

The strong growth of EuroChem and the continued international spread of its business activities, combined with growing market challenges and a shortage of high-potential professionals – both in Russia and globally – requires a comprehensive succession plan. This is essential to develop high-potential individuals for senior leadership roles within business units (BUs) as well as across the whole EuroChem Group. The Board considered this in 2018.

The Board also reviewed the Group's business model and the target management structure, taking into account the diversity of sales management models, specific features of the product ranges, customers and markets.

Board assessment

The Board assesses its own performance on a regular basis. In June, Directors conducted an annual appraisal exercise to measure their own performance by completing a Board Self-Assessment Questionnaire, followed by interviews with the Chairman. The Questionnaire is designed to provide Directors with an opportunity to examine how well the Board is operating and to make suggestions for improvement. While the Board continues to perform effectively with good leadership and competent and engaged members, a number of focus areas in both in-year performance and strategy for the future were identified. The focus in 2019 will therefore be on extending the Board's involvement with EuroChem's core business activities and strategic direction.

As part of this assessment exercise, the Board reviewed its curatorship activity over the last couple of years. Curatorship takes a Board member's engagement with the business to a deeper level. It is the most intense method of a Board member's participation in a given aspect of the business or in a specific project – and involves a significant time commitment beyond that usually required of Directors. Led by the Chairman, the Board revised a list of topics where curatorship was needed and redistributed tasks among its members accordingly. The Potash projects, Supply Chain and Commercial Excellence all fell under the curatorship review of the Board members.

Corporate governance

EuroChem is subject to the laws of Switzerland. We apply the Swiss Code of best practice for Corporate Governance, as well as the principles recommended by the UK Corporate Governance Code.

EuroChem is committed to robust corporate governance through compliance with all applicable laws, rules and regulations wherever it operates. All employees are responsible for respecting applicable laws and following the principles of our Code of Conduct and associated Compliance Policies.

In 2018, we communicated the CEO's message promoting the Group's 'zero tolerance to non-compliance' culture. This encourages dialogue and openness, including through the established Whistleblower system, which enables colleagues to report potential problems, anonymously if they prefer.

Directors' remuneration

Matters concerning Directors' remuneration are referred to the General Meeting of Shareholders. The Board Member Remuneration Regulations allow payment of additional remuneration to the Board members by resolution of either the General Meeting of Shareholders or the Board of Directors. Unless a Director is performing an individual assignment, remuneration is fixed and adjusted according to Committee membership, Chairmanship and Curatorship. As set out in the Board Member Remuneration Regulations, only non-executive Directors are entitled to remuneration.

The total amount of remuneration paid to Directors for their contribution in 2018 amounted to US$1.46 million, including US$1.23 million in compensation for work-related expenses.

	2018 US$k	2017 US$k
Total remuneration paid to the members of the Board	**1,459**	1,479
Total compensation for work-related expenses	**1,226**	1,061

The Company does not have a long-term incentive programme (stock options plan). Liability insurance costs for the Board of Directors and Management Board are paid by the Group.

EuroChem Group AG Committees

Audit Committee

Geoffery Merszei (IND) Chairman

The Audit Committee supervises EuroChem's financial and sustainability reporting and the integrity of information disclosure. The Committee ensures the adequacy of the Company's compliance activities, including risk management. The Committee oversees the Company's relationship with its external auditor and directs and monitors the performance of the Internal Audit function.

The Audit Committee's role, responsibilities, composition and membership requirements are documented in the Committee Regulations approved by the Board and available in the Corporate Governance section of our website (www.eurochemgroup.com).

2018 Audit Committee meetings and attendance

As at 31 December 2018, the Committee had two members: Committee Chairman Geoffery Merszei and Jürg Seiler (IND).

In 2018, the Committee held a total of ten meetings, six in person and four in the form of conference calls. The 2018 attendance table is on page 71.

The Group CFO, General Counsel and Chief Compliance Officer, as well as senior representatives from PwC and Internal Audit, attended every scheduled meeting of the Audit Committee throughout the period.

The Audit Committee's role, responsibilities, composition and membership requirements are documented in the Committee Regulations approved by the Board and available in the Corporate Governance section of our corporate website.

Priorities

Key priorities for 2018	Overview of activity
Oversee the Company's tax policy, further development of efficient tax planning	■ Addressed the main aspects of the Group tax and transfer compliance processes ■ Held several in-depth discussions and workshops on tax management and financial risk management with the Company's senior personnel
Review the Company's treasury policies, including hedging	■ Reviewed the efficiency of the Group's hedging strategy ■ Analysed the Group approach to foreign exchange (FX) hedging ■ Reviewed the effectiveness of the Group hedging performance
Further strengthen the Group's Compliance Function	■ Reviewed the status of the Compliance Programme development regularly, including Sanctions Compliance ■ Held regular meetings with the Chief Compliance Officer and General Counsel on pertinent issues
Drive the Group Global Internal Audit function to play a more prominent role and continue to focus on key strategic and operational risks	■ Reviewed the effectiveness of the Internal Audit Function, focusing on improving the implementation rate of corrective actions. Relevant reporting and escalation procedures were introduced

> "We strengthened the Group's Compliance Function, recognising the importance of reporting, control and compliance procedures in the Group."

Audit Committee activity in 2018

External auditor

- Reviewing the performance of the Group's external auditor and its independence status
- Reviewing the annual plans of the external auditor, and overseeing the auditors' work throughout the year, including the assessment of their effectiveness
- Approving annual fee for audit services; overseeing compliance with the policy for non-audit services
- Holding regular private meetings with the external auditor

Financial reporting and budgeting

- Reviewing and making recommendations to the Board for approval of the annual audited consolidated financial statements; approving consolidated interim financial statements
- Monitoring evolution of accounting standards and expected relevant changes in legislation
- Reviewing significant accounting, financial reporting and other issues raised by management, internal and external auditors
- Reviewing budgeting process and annual budget for 2019

Risk management and internal control

- Reviewing the Group's risk map, risk management framework and strategy
- Reviewing existing internal controls and their efficiency
- Reviewing the Group's insurance policy including D&O coverage
- Reviewing compliance issues on a regular basis, overseeing development of the Group compliance programme
- Reviewing the Group tax planning strategy

Internal Audit

- Reviewing the performance and effectiveness of the Internal Audit function.
- Approving the Internal Audit plan and budget for 2019
- Assessing the independence of the Internal Audit function and the adequacy of its resources and funds
- Considering key findings of Internal Audit reviews and management's response to these
- Holding regular private meetings with the Head of Internal Audit

Information disclosure

- Reviewing the quality and integrity of financial and non-financial data, including the annual report, as well as financial press releases published during the period
- Reviewing and endorsing the risk management and corporate governance sections of the annual report

Committee membership:

Geoffery Merszei (IND), **Jürg Seiler** (IND)

Members	Number of meetings
2	10

EuroChem Group AG Committees
Strategy Committee

Andrey Melnichenko (NED) Chairman

The Committee's principal role is to protect the interests of EuroChem's shareholders by monitoring its strategic development and the legal entities that are directly or indirectly controlled by the Group. The Committee considers the strategic plans of business divisions, major investment projects, M&A transactions and project management. It prepares required recommendations that fall within the terms of reference of the Board of Directors and are delegated by the Board to the Committee.

As at 31 December 2018, the Committee had five members: Committee Chairman Andrey Melnichenko (NED), Alexander Landia (NED), Sergey Vasnetsov (IND), Samir Brikho (IND) and Dmitry Strezhnev (NED).

The CEO, CFO, Divisional Heads and the Head of Strategy and Investment regularly attend meetings by invitation of the Chairman.

The Strategy Committee's role, responsibilities, composition and membership requirements are documented in the Committee Regulations approved by the Board and available in the Corporate Governance section of our website (www.eurochemgroup.com).

Strategy Committee meetings and attendance

In 2018, the Committee held six in-person meetings. The 2018 attendance table is on page 71.

Priorities

Key priorities for 2018	Overview of activity
Drive the development of EuroChem's product regional strategies	■ Reviewed the Sales and Distribution strategy in Latin America ■ Considered the Industrial Products sales strategy ■ Reviewed the product and regional sales strategies (MAP/DAP, potash, industrial)
Pursue the development of modelling methodology	■ Reviewed proposals on improving the process of investment project management and Group evaluation
Refine the Group's business model. Review the target management structure	■ Reviewed business model optimisation options, including in detail, development of the Marketing function, Marketing process in Sales ■ Approved the target management structure
Oversee the strategic business development	■ Assessed the Group's business and overall development strategy for 2018-2022 ■ Reviewed the Group's potash strategy ■ Oversaw implementation of the strategic investment projects (Kovdorskiy GOK, Usolskiy Potash Complex, EuroChem-VolgaKaliy and EuroChem-Northwest project). ■ Reviewed GR strategies in various regions

"Strong strategic focus has enabled EuroChem to deliver against its long-term investment objectives. The Committee will continue to ensure long-term value creation as EuroChem becomes a true global leader."

Strategy Committee activity in 2018

Strategy and development
- Guiding the annual strategic planning process, assessing the Group's overall business and development strategy for 2019-2022
- Reviewing the strategies of individual divisions
- Reviewing the product and regional sales strategies (MAP/DAP, potash, industrial)
- Reviewing regional GR strategies (Russia and CIS)

Investment activity and strategic projects
- Assessing new strategic initiatives and those supporting existing facilities
- Reviewing M&A initiatives and disposal of assets

Financing and budgeting
- Reviewing the 2018 consolidated budget and its execution progress; reviewing the 2019 budget
- Analysing approaches to forecasting prices and macro parameters
- Overseeing improvement of investment projects' management process and Group evaluation

Committee membership:

Andrey Melnichenko (NED), **Alexander Landia** (NED), **Sergey Vasnetsov** (IND), **Samir Brikho** (IND), **Dmitry Strezhnev** (NED)

Members	Number of meetings
5	6

EuroChem Group AG Committees

Nomination and Remuneration Committee

Sergey Vasnetsov (IND) Chairman

The Committee assists the Board in fulfilling its corporate governance responsibilities with regard to remuneration and nomination matters. It focuses on the Company's overall remuneration and incentive framework, remuneration packages for senior executives, strategic human resources policies, Board appointments, re-elections and performance, Directors' induction programmes and continuing development and endorsement of senior executives' appointments, as well as management succession planning.

The Nomination and Remuneration Committee's role, responsibilities, composition and membership requirements are documented in the Committee Regulations approved by the Board and available in the Corporate Governance section of our corporate website (www.eurochemgroup.com).

Nomination and Remuneration Committee meetings and attendance

As at 31 December 2018, the Committee had three members: Committee Chairman Sergey Vasnetsov (IND), Alexander Landia (NED) and Samir Brikho (IND).

In 2018, the Committee held six meetings in person. The 2018 attendance table is on page 71.

Priorities

Key priorities for 2018	Overview of activity
Finalise the development of the short- and long-term incentive system for key personnel	■ Reviewed and approved the revised short-term and long-term incentive programmes
Oversee the Group management structure development	■ Oversaw the amendments to the Group management structure
Oversee the Group HR function development	■ Reviewed a number initiatives to develop the HR function, including enhancing recruitment, talent management and internal communication functions, developing and implementing talent management and career planning systems, developing a unified job grading and base salaries' systems
Oversee development of the Succession Planning system	■ Reviewed the implementation plan for 2018-2028, and the budget
Review the HSE processes, implementation of the HSE development programme	■ Oversaw the development of a three-year HSE development programme for the Group

"The Committee continued to focus on the reorganisation of key processes and functions, with a view to driving further performance and productivity improvement in line with the KPI system."

Nomination and Remuneration Committee activity in 2018

Corporate governance

- Ensuring regular cooperation of the Committee with executive bodies and HR service via business meetings and joint sessions on the Committee's operational issues
- Reviewing amendments to the management structure
- Assessing Board performance, evaluating Board composition and required skills/diversity, redistributing tasks among Board members

HSE performance

- Reviewing HSE performance at Group companies on a regular basis
- Overseeing the development of the HSE programme and the implementation of agreed action plan

Personnel strategy and policy

- Endorsing HR budget for 2019
- Overseeing development of short- and long-term incentive programmes
- Reviewing 2019 targets for key personnel, evaluating results of individual target delivery by key personnel and providing recommendations to the Board
- Overseeing the job evaluation project (grading)
- Reviewing the recruitment and career planning projects

Appointments and incentives

- Endorsing appointments and incentives for key personnel, dismissals and terms of termination contracts (CEO, CFO)
- Reviewing amendments to the terms of employment contracts with key personnel

Induction and professional development

- Assessing succession planning including requirements and development plans
- Overseeing development of the Group internal communications and a new intranet site.

Committee membership:

Sergey Vasnetsov (IND), **Alexander Landia** (NED), **Samir Brikho** (IND)

Members	Number of meetings
3	6

Financial Statements

Independent Auditors' Report

Report of the statutory auditor

to the General Meeting of EuroChem Group AG, Zug

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of EuroChem Group AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, (pages 86 to 154), including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: US$39.8 million

- We conducted full scope audit work at 9 significant reporting units audited by component teams in 6 countries.
- In addition, we performed an audit of significant financial statement line items of 8 reporting units, with the involvement of component teams in 4 countries.
- Our audit scope addressed 81% of the Group's total revenue and 78% of the Group's total assets.

As key audit matter the following area of focus has been identified:

- Impairment assessment of potash mine projects and related mineral rights

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement.

Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	US$39.8 million
How we determined it	5% of average profit before tax for the last three years
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. The use of the average number for the last three years helps dampen the potential effect of short-term volatility in fertiliser prices and foreign currency rates.

Independent Auditors' Report
Report of the statutory auditor continued
to the General Meeting of EuroChem Group AG, Zug

Audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made by management; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The Group's consolidated financial statements are prepared based on the financial information of its components, i.e. individual companies of the Group, and represent a consolidation of over 80 companies in over 20 countries comprising the Group's operating business and head office functions.

For the purpose of the Group audit, the significance of components was assessed based on the component's individual share (more than 10%) of the Group's revenue, expenses, total assets or total liabilities.

If we considered a component to be significant, we performed a full scope audit, which involved an audit of its financial information based on the materiality level determined for the component in the context of the Group audit. In certain cases, when additional audit evidence for the purpose of expressing our opinion on the consolidated financial statements was required, we performed audit procedures for individual financial statement line items and types of transactions on selected components of the Group. We selected these components for audit procedures on individual balances and types of transactions separately for each financial statement line item included in the scope of our audit, considering the level of audit evidence obtained from the audit of the financial information of significant components.

In the audit process, the group engagement team worked closely with component audit teams in Germany, Belgium, Russian Federation, United States of America, Brazil and Lithuania. As part of providing direction and supervision over the work of the component auditors, we determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the consolidated financial statements as a whole.

For the purpose of our audit procedures over certain complex and specific areas, we also engaged specialists in taxation, IFRS application, as well as experts in the valuation of non-current assets and pension liabilities.

Overall, audit procedures performed at the level of significant components and other components of the Group, including testing of selected controls, detailed testing, analytical procedures and procedures on the consolidation provided us with a coverage of 81% of the Group's total revenue and 78% of the Group's total assets.

By performing the procedures at components, combined with additional procedures at the Group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

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

Impairment assessment of potash mine projects and related mineral rights

Key audit matter	How our audit addressed the key audit matter
As at 31 December 2018, the carrying amount of non-current assets (property, plant and equipment, construction in progress and mineral rights) related to two potash mine projects, Verkhnekamskoe in the Perm and Gremyachinskoe in the Volgograd region (the "Potash mine projects"), is US$3,246 million, including mineral rights of US$130 million. We continued to focus on the impairment assessment of the Potash mine projects and related mineral rights due to the significance of these assets to the consolidated financial statements (about 42% of total non-current assets as at 31 December 2018) and the subjective nature of judgements and assumptions that management are required to make in determining whether there are impairment indicators and in performing an impairment assessment, which are affected by the projected future market and economic terms that are inherently uncertain. In 2018, production commenced at Verkhnekamskoe field, while Gremyachinskoe field continued to be under construction as at 31 December 2018. Management considered the long-term development period, requirements for timely completion of projects, possible delays in reaching full production capacity and license compliance as potential impairment indicators as at 31 October 2018 and therefore proceeded with a full impairment assessment of these assets. Under the impairment assessment, management updated value in use models based on discounted cash flows (DCF). The Group's management performed analysis of the business performance, industry outlook and operational plans and calculated the recoverable amounts of non-current assets including mineral rights by cash generating unit. Management assessed the risk of possible delays in: • the construction and development of the potash deposits including the ones resulting from the water inflow at one of the shafts at Gremyachinskoe field, and • the production reaching full capacity at Verkhnekamskoe field, which may result in the risk of non-compliance with the terms of the mining licenses and potential impairment of the related non-current assets. Management has compared the recoverable amount of non-current assets related to the two potash mine projects, including mineral rights, determined as their value in use, with the carrying amount of these assets and concluded that no impairment should be recognised in respect of these assets as at 31 December 2018. Refer to Note 2 'Basis of preparation and significant accounting policies', 9 'Mineral rights' and Note 8 'Property, plant and equipment' for more information.	We obtained the valuation models for each Potash mine project (discounted cash flow models) used by management to determine the recoverable amount of the relevant assets. We engaged our internal valuation experts to assist us in evaluating the methodology and assumptions used in the impairment assessment described below. Our audit procedures related to management's assessment of non-current assets impairment of Potash mine projects and related mineral rights included: • analysis of the methodology used by management for the impairment test; • examination of the mathematical accuracy of the valuation models for each potash mine project; • assessment of key assumptions such as macroeconomic forecasts: inflation rates, foreign exchange rates, future market potash prices, and those specific to the Group: capital investments, sales volumes and discount rate (weighted average cost of capital (WACC)) applied and whether these are in line with the approved budgets and strategy – the Group's potash strategy for 2019-2023, external available and reliable sources (including macroeconomic forecasts); • comparison, on a sample basis and with the benefit of hindsight, of the accuracy of budgets used in prior year valuation models with the actual results of the current year; • re-performance of sensitivity analysis around the key assumptions such as future market potash prices, discount rate, sales volume, capital investments, foreign exchange rates and inflation rates to ascertain the extent of change in those assumptions that either individually or collectively would be required for the non-current assets and mineral rights to be impaired; • obtaining management's and Board of Directors' written representations related to the impairment test including their position in relation to the partial water inflow and its effect for the overall development of the potash mine project in the Volgograd region. Our audit procedures in relation to management's assessment of the risk of possible delays in the construction and development of the potash deposits and production reaching full capacity at Verkhnekamskoe field, which may result in the risk of non-compliance with the terms of the mining licenses and potential impairment of the related non-current assets and mineral rights, comprised: • testing of compliance with the key terms of the licenses, including analysis of supporting documentation provided by management to confirm that all key dates and key terms stated in the licenses have been complied with, on a sample basis; • interviews with geologists responsible for the potash projects and discussion of the stage of the mining processes, as well as the current estimate of reserves; • obtaining confirmation from management and the Board of Directors that they regularly monitor the status of the development and production stages of the potash mine projects, the companies are ready to execute the terms of the licenses with respect to mining conditions, all required reports have been submitted on a timely basis and there have been no issues of non-compliance with the terms of mining licenses. Based on the above procedures, we found that the key assumptions and judgements used for the assessment of impairment for the potash mine projects in the Perm and Volgograd regions are reasonable, consistently applied and supported by the available evidence. Finally, we compared the recoverable amount of the non-current assets related to the Potash mine projects, including mineral rights, determined as their fair value in use, with the carrying amount of these assets. As a result of the performed procedures we concur with the conclusion that an impairment is not required.

Report of the statutory auditor continued

to the General Meeting of EuroChem Group AG, Zug

Other information in the annual report

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

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Joanne Burgener
Audit expert
Auditor in charge

Christopher Vohrer
Audit expert

Zug, 6 February 2019

Enclosure: Consolidated financial statements (consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and notes)

Consolidated Statement of Financial Position

as at 31 December 2018

	Note	31 December 2018	31 December 2017, adjusted	1 January 2017, adjusted
ASSETS				
Non-current assets:				
Property, plant and equipment	8	**6,666,090**	6,918,004	5,297,313
Mineral rights	9	**315,753**	372,809	455,488
Goodwill	10	**475,797**	516,830	468,223
Intangible assets	11	**102,838**	142,924	163,625
Investment in associates and joint ventures	12	**38,198**	43,152	36,500
Originated loans		**3,864**	51,046	53,178
Restricted cash	15	**2,276**	22,345	18,170
Derivative financial assets	21	**–**	7,189	–
Deferred income tax assets	31	**82,613**	55,360	112,517
Other non-current assets		**71,011**	52,199	83,690
Total non-current assets		**7,758,440**	8,181,858	6,688,704
Current assets:				
Inventories	13	**1,044,690**	781,622	713,919
Trade receivables	14	**366,836**	288,959	267,786
Prepayments, other receivables and other current assets	14	**289,201**	326,637	315,185
Income tax receivable		**15,428**	58,999	32,133
Originated loans		**–**	–	412
Restricted cash	15	**2,850**	20,101	45,994
Derivative financial assets	21	**1,126**	18,955	13,602
Fixed-term deposits	15	**1,801**	151	294
Cash and cash equivalents	15	**341,911**	228,613	285,605
Total current assets		**2,063,843**	1,724,037	1,674,930
TOTAL ASSETS		**9,822,283**	9,905,895	8,363,634

The accompanying notes on pages 93-154 are an integral part of these consolidated financial statements.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

	Note	31 December 2018	31 December 2017, adjusted	1 January 2017, adjusted
LIABILITIES AND EQUITY				
Equity attributable to owners of the parent:				
Share capital	17	**111**	111	111
Cumulative currency translation differences		**(2,403,963)**	(1,347,833)	(1,749,745)
Retained earnings and other reserves		**6,578,487**	5,442,999	4,993,073
		4,174,635	4,095,277	3,243,439
Non-controlling interests		**117**	165	1,371
Total equity		**4,174,752**	4,095,442	3,244,810
Non-current liabilities:				
Bank borrowings and other loans received	18	**2,003,275**	1,110,205	1,305,671
Project Finance	19	**420,070**	959,373	573,022
Bonds issued	20	**1,211,261**	1,512,413	824,848
Derivative financial liabilities	21	**57,103**	–	75,209
Deferred income tax liabilities	31	**212,721**	231,259	214,290
Other non-current liabilities and deferred income	22	**178,057**	192,401	166,456
Total non-current liabilities		**4,082,487**	4,005,651	3,159,496
Current liabilities:				
Bank borrowings and other loans received	18	**371,133**	770,405	1,075,418
Project Finance	19	**21,612**	–	–
Bonds issued	20	**215,850**	87,091	323,856
Derivative financial liabilities	21	**12,629**	61,821	703
Trade payables	24	**470,264**	513,004	284,549
Other accounts payable and accrued expenses	24	**407,191**	334,519	221,396
Income tax payable		**37,539**	10,909	18,912
Other taxes payable		**28,826**	27,053	34,494
Total current liabilities		**1,565,044**	1,804,802	1,959,328
Total liabilities		**5,647,531**	5,810,453	5,118,824
TOTAL LIABILITIES AND EQUITY		**9,822,283**	9,905,895	8,363,634

The accompanying notes on pages 93-154 are an integral part of these consolidated financial statements.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Consolidated Statement of Profit or Loss

for the year ended 31 December 2018

	Note	2018	2017
Sales	25	**5,577,472**	4,865,664
Cost of sales	26	**(3,437,727)**	(3,079,029)
Gross profit		**2,139,745**	1,786,635
Distribution costs	27	**(744,985)**	(701,487)
General and administrative expenses	28	**(208,292)**	(217,775)
Other operating income/(expenses), net	29	**2,956**	(35,100)
Operating profit		**1,189,424**	832,273
Share of profit/(loss) from associates and joint ventures, net		**3,395**	(2,803)
Gain/(loss) from disposal of subsidiaries, net		**(45,753)**	(60,205)
Interest income		**8,130**	11,864
Interest expense		**(94,480)**	(131,393)
Financial foreign exchange gain/(loss), net		**(162,070)**	569
Other financial gain/(loss), net	30	**(159,804)**	46,305
Profit before taxation		**738,842**	696,610
Income tax expense	31	**(200,421)**	(243,244)
Profit		**538,421**	453,366
Profit/(loss) attributable to:			
Owners of the parent		**538,448**	453,466
Non-controlling interests		**(27)**	(100)
		538,421	453,366
Earnings per share – basic and diluted	32	**538.45**	453.47

The accompanying notes on pages 93-154 are an integral part of these consolidated financial statements.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	Note	2018	2017
Profit		**538,421**	453,366
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods			
Currency translation differences		**(1,080,523)**	402,254
Share of other comprehensive income/(loss) of associates and joint ventures, net	12	**(917)**	(247)
Currency translation differences on disposed subsidiaries reclassified to profit or loss	16	**25,289**	–
Total other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**(1,056,151)**	402,007
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods			
Remeasurements of post-employment benefit obligations, net of tax		**1,361**	(390)
Change in fair value of financial assets measured at fair value through other comprehensive income		**(4,321)**	–
Total other comprehensive income/(loss) for the period that will not be reclassified to profit or loss in subsequent periods		**(2,960)**	(390)
Total other comprehensive income/(loss)		**(1,059,111)**	401,617
Total comprehensive income/(loss)		**(520,690)**	854,983
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**(520,642)**	854,988
Non-controlling interests		**(48)**	(5)
		(520,690)	854,983

The accompanying notes on pages 93-154 are an integral part of these consolidated financial statements.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Note	2018	2017
Operating profit		**1,189,424**	832,273
Income tax paid		**(140,364)**	(177,255)
Operating profit less income tax paid		**1,049,060**	655,018
Depreciation and amortisation	28	**308,336**	277,090
(Gain)/loss on disposals, impairment and write-off of property, plant and equipment, net		**7,570**	10,314
Change in ECL allowance of receivables and provision for obsolete and damaged inventories, net		**18,276**	19,953
Other non-cash (income)/expenses, net		**(41,820)**	(18,384)
Gross cash flow		**1,341,422**	943,991
Cash proceeds/(payments) on operation derivatives, net		**(38,935)**	25,155
Changes in operating assets and liabilities:			
Trade receivables		**(119,787)**	(7,547)
Advances to suppliers		**14,282**	(49,582)
Other receivables		**(16,228)**	(13,257)
Inventories		**(403,778)**	(35,587)
Trade payables		**46,425**	104,735
Advances from customers		**90,563**	16,961
Other payables		**49,809**	22,603
Restricted cash		**17,942**	41,148
Net cash – operating activities		**981,715**	1,048,620
Cash flows from investing activities			
Capital expenditure on property, plant and equipment and intangible assets		**(1,100,134)**	(1,479,152)
Purchase of mineral rights		**(357)**	–
Other payments related to mineral rights		**(10,913)**	(10,374)
Deferred payment for investment in associate/Investment in associate		**(2,769)**	(4,517)
Investment in joint venture		**–**	(1,997)
Proceeds from sale of interest in associate	33	**–**	60,749
Acquisition of subsidiaries, net of cash acquired		**–**	(3,204)
Deferred compensation related to business combination, paid		**(3,004)**	(6,795)
Proceeds from sale of property, plant and equipment		**589**	4,828
Proceeds from sale of subsidiary		**–**	225,174
Net change in fixed-term deposits		**(1,701)**	137
Originated loans		**(503)**	(38,554)
Repayment of originated loans		**24,100**	11,963
Interest received		**7,783**	13,488
Other investing activities		**11,369**	(9,414)
Net cash – investing activities		**(1,075,540)**	(1,237,668)
Free cash inflow/(outflow)		**(93,825)**	(189,048)

The accompanying notes on pages 93-154 are an integral part of these consolidated financial statements.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

	Note	2018	2017
Cash flows from financing activities			
Proceeds from bank borrowings and other loans received		**2,723,656**	3,128,323
Funds received under the Project Finance Facilities		**219,309**	416,938
Repayment of bank borrowings and other loans		**(2,136,094)**	(3,655,674)
Repayment of Project Finance Facility	19	**(750,000)**	–
Proceeds from bonds, net of transaction costs		**–**	767,522
Repayment of bonds		**(79,697)**	(324,033)
Prepaid and additional transaction costs related to bank borrowings and bonds		**(10,898)**	(17,129)
Prepaid and additional transaction costs related to Project Finance Facilities		**(5,285)**	(4,463)
Interest paid		**(219,873)**	(210,585)
Cash proceeds/(payments) on derivatives, net	21	**(110,572)**	24,316
Capital contribution	17	**600,000**	–
Dividends paid to non-controlling interests in subsidiary		**–**	(598)
Other financial activities		**(3,972)**	(3,214)
Net cash – financing activities		**226,574**	121,403
Effect of exchange rate changes on cash and cash equivalents		**(19,451)**	10,653
Net increase/(decrease) in cash and cash equivalents		**113,298**	(56,992)
Cash and cash equivalents at the beginning of the period	15	**228,613**	285,605
Cash and cash equivalents at the end of the period	15	**341,911**	228,613

The accompanying notes on pages 93-154 are an integral part of these consolidated financial statements.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Attributable to owners of the parent					
	Share capital	Cumulative currency translation differences	Retained earnings and other reserves	Total	Non-controlling interests	Total equity
Balance at 31 December 2016 as previously reported	**111**	**(1,749,745)**	**4,966,855**	**3,217,221**	**1,371**	**3,218,592**
Adjustment due to change in accounting policy for transportation expenses (Note 2)	–	–	26,218	26,218	–	26,218
Balance at 1 January 2017, adjusted	**111**	**(1,749,745)**	**4,993,073**	**3,243,439**	**1,371**	**3,244,810**
Comprehensive income/(loss)						
Profit/(loss)	–	–	453,466	453,466	(100)	453,366
Other comprehensive income/(loss)						
Currency translation differences	–	402,159	–	402,159	95	402,254
Share of other comprehensive income/(loss) of associates and joint ventures, net	–	(247)	–	(247)	–	(247)
Remeasurements of post-employment benefit obligations, net of tax	–	–	(390)	(390)	–	(390)
Total other comprehensive income/(loss)	**–**	**401,912**	**(390)**	**401,522**	**95**	**401,617**
Total comprehensive income/(loss)	**–**	**401,912**	**453,076**	**854,988**	**(5)**	**854,983**
Transactions with owners						
Dividends paid to non-controlling interests in subsidiaries	–	–	–	–	(598)	(598)
Acquisition of additional interest in subsidiary	–	–	–	–	(603)	(603)
Total transactions with owners	**–**	**–**	**–**	**–**	**(1,201)**	**(1,201)**
Balance at 31 December 2017	**111**	**(1,347,833)**	**5,446,149**	**4,098,427**	**165**	**4,098,592**
Adjustment due to adoption of IFRS 9 (Note 2)	–	–	(3,150)	(3,150)	–	(3,150)
Balance at 1 January 2018, adjusted	**111**	**(1,347,833)**	**5,442,999**	**4,095,277**	**165**	**4,095,442**
Comprehensive income/(loss)						
Profit/(loss)	–	–	538,448	538,448	(27)	538,421
Other comprehensive income/(loss)						
Currency translation differences	–	(1,080,502)	–	(1,080,502)	(21)	(1,080,523)
Share of other comprehensive income/(loss) of associates and joint ventures, net	–	(917)	–	(917)	–	(917)
Currency translation differences on disposed subsidiaries reclassified to profit or loss	–	25,289	–	25,289	–	25,289
Change in fair value of financial assets measured at fair value through other comprehensive income	–	–	(4,321)	(4,321)	–	(4,321)
Remeasurements of post-employment benefit obligations, net of tax	–	–	1,361	1,361	–	1,361
Total other comprehensive income/(loss)	**–**	**(1,056,130)**	**(2,960)**	**(1,059,090)**	**(21)**	**(1,059,111)**
Total comprehensive income/(loss)	**–**	**(1,056,130)**	**535,488**	**(520,642)**	**(48)**	**(520,690)**
Transactions with owners						
Capital contribution (Note 17)	–	–	600,000	600,000	–	600,000
Total transactions with owners	**–**	**–**	**600,000**	**600,000**	**–**	**600,000**
Balance at 31 December 2018	**111**	**(2,403,963)**	**6,578,487**	**4,174,635**	**117**	**4,174,752**

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

1. EuroChem Group and its operations

EuroChem Group comprises the parent entity, EuroChem Group AG (the "Company") and its subsidiaries (collectively the "Group" or "EuroChem Group"). The Company was incorporated under the laws of Switzerland on 16 July 2014 and has its registered office at: Baarerstrasse 37, 6300, Zug, Switzerland.

These consolidated financial statements were authorised for issue by the Board of Directors of the Company on 6 February 2019.

A company that holds business interests beneficially for Mr. Andrey Melnichenko indirectly owns 100% of AIM Capital S.E., registered in the Republic of Cyprus (31 December 2017: 100%), which in turn owns 90% (31 December 2017: 90%) of the share capital of EuroChem Group AG. The remaining 10% of the Company are held indirectly by Mr. Dmitry Strezhnev (31 December 2017: 10%).

The Group's principal activity is the production of mineral fertilizers (nitrogen- and phosphate-based) as well as mineral extraction (apatite, phosphate rock, iron-ore, baddeleyite and potash), and the operation of a distribution network. The Group is developing two potassium salts deposits. Test production of potassium fertilizer began at EuroChem Usolskiy, from the Verkhnekamskoe deposit, in the first half of 2018.
The Group's main production facilities are located in Russia, Lithuania, Belgium, Kazakhstan and China (the joint venture's production facilities). The Group's distribution assets are located globally across Europe, Russia, North and Latin America, and Central and South-East Asia.

2. Basis of preparation and significant accounting policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and derivative financial instruments, which are accounted for at fair value.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018 and amendments to the accounting policy for transportation expenses, these policies have been consistently applied to all periods presented, unless otherwise stated. The principal accounting policies in respect of financial instruments and revenue recognition applied till 31 December 2017 are presented accordingly.

Disclosure of changes in applying accounting policies

Effective 1 January 2018, the Group applies changes in accounting policy for transportation expenses which are to be capitalised as a part of inventory until the moment of sale. This change in approach is driven by the global expansion of the Group's distribution network and the increasing share of sales to the final end users of its products.

The Group adopted the following new and amended standards effective 1 January 2018:

IFRS 9, Financial Instruments. The Group used an exemption in IFRS 9 allowing it not to restate prior periods presented as a result of adoption of the new measurement requirements, but rather recognise any differences in the retained earnings as at 1 January 2018. The standard requires the financial assets to be classified in the following measurement categories: those to be measured subsequently at amortised cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The initial application of the standard did not result in any reclassifications of the Group's financial instruments or any material changes in their measurement, therefore, the opening retained earnings were not adjusted. The standard also introduces the expected credit losses impairment model, which means that anticipated as opposed to incurred credit losses will be recognised resulting in earlier recognition of impairment.

IFRS 15, Revenue from Contracts with Customers. The standard outlines the principles an entity must apply to measure and recognise revenue. As the majority of the Group's revenue is derived from arrangements in which the transfer of control coincides with the transfer of risk and rewards, the changes in respect of the timing and amount of revenue recognised do not have a material impact on these consolidated financial statements.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies continued

At 1 January 2017, the effect of changes was as follows:

	Balance at 31 December 2016, as previously reported	Adjustment, accounting policy	**Balance at 1 January 2017, adjusted**
Inventories/finished goods	678,754	35,165	**713,919**
Deferred income tax assets	121,464	(8,947)	**112,517**
Retained earnings and other reserves	4,966,855	26,218	**4,993,073**
Total equity attributable to owners of the parent	3,217,221	26,218	**3,243,439**

At 1 January 2018, the effect of changes was as follows:

	Balance at 31 December 2017, as previously reported	Adjustment, accounting policy	Adjustment, IFRS 9	**Balance at 1 January 2018, adjusted**
Trade receivables/ (ECL allowance)	293,101	–	(4,142)	**288,959**
Inventories	746,457	35,165	–	**781,622**
Deferred income tax assets	63,315	(8,947)	992	**55,360**
Retained earnings and other reserves	5,419,931	26,218	(3,150)	**5,442,999**
Total equity attributable to owners of the parent	4,072,209	26,218	(3,150)	**4,095,277**

The adjusted consolidated statements of financial position as of 1 January 2017 and 1 January 2018 are presented in these consolidated financial statements as a result of the above changes.

Changes in presentation

For the segment reporting, sales to Mexico are reallocated from Latin America to North America (Note 7).

Since 2018 the Group has elected to present a statement of profit or loss and a statement of comprehensive income, rather than a single statement of profit or loss and other comprehensive income combining the two elements. Comparatives are presented in two statements accordingly.

Functional and presentation currency

The functional currency of each of the Group's entities is the currency of the primary economic environment in which the entity operates.

While the Company's functional currency is the US dollar ("US$"), the functional currency for each of the Group's subsidiaries is determined separately. The functional currency of subsidiaries located in Russia is the Russian rouble ("RUB"); the functional currency of subsidiaries located in the Eurozone is the Euro ("EUR"), the functional currency of subsidiaries in North America and in Switzerland carrying trading activities is the US$.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate 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 are recognised in profit and loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss are recognised in profit and loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as financial instruments measured at fair value through other comprehensive income are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to bank borrowings, third party loans, intragroup loans and deposits are presented in the consolidated statement of profit or loss in a separate line "Financial foreign exchange gain/(loss), net". All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within "Other operating income/(expenses), net".

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

The presentation currency of the Group is the US$ since the management considers the US$ to be more appropriate for the understanding and comparability of consolidated financial statements. The results and financial position of each of the Group's subsidiaries were translated to the presentation currency as required by IAS 21, The Effects of Changes in Foreign Exchange Rates:

(i) assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;

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

(iii) components of equity are translated at a historical rate; and

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

At 31 December 2018, the official exchange rates were: US$1 = RUB 69.4706, US$1 = EUR 0.8743 (31 December 2017: US$1 = RUB 57.6002, US$1 = EUR 0.8364). Average rates for the year ended 31 December 2018 were: US$1 = RUB 62.7078, US$1 = EUR 0.8465 (2017: US$1 = RUB 58.3529, US$1 = EUR 0.8855).

Consolidated financial statements

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest on a transaction-by-transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill" or "bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests

The Group applies the economic entity model to account for transactions with owners of non-controlling interests that do not result in a loss of control. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

Disposals of subsidiaries and associates

When the Group ceases to have control or significant influence, any retained interest is remeasured to its fair value at the date when control or significant influence is lost, with the change in carrying amount recognised in profit or loss.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies continued

Property, plant and equipment

Property, plant and equipment are stated at historical cost, less accumulated depreciation and a provision for impairment, where required.

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. The cost of replacing major parts or components of property, plant and equipment items is capitalised and the replaced part is retired. Minor repair and maintenance costs are expensed when incurred.

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

Capitalisation of borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

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

Depreciation

Land as well as assets under construction are not depreciated. Depreciation of other items of property, plant and equipment (other than oil and gas and mining assets) is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives from the time they are ready for use:

	Depreciation method	Useful lives in years (for straight-line method)
Buildings and land improvements	straight-line/unit-of-production	15 to 85
Transfer devices	straight-line/unit-of-production	25 to 50
Machinery and equipment	straight-line	2 to 35
Transport	straight-line	5 to 40
Other items	straight-line	1 to 15

Depreciation of oil and gas and mining assets is calculated using the unit-of-production method.

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

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 the estimated period during which these assets will bring economic benefit to the Group.

Development expenditures

Development expenditures incurred by the Group are capitalised and accumulated separately in the assets under construction category for each area of interest in which economically recoverable resources have been identified. Such expenditures comprise cost directly attributable to the construction of a mine and the related infrastructure.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Exploration assets

Exploration and evaluation costs related to an area of interest are written off as incurred except where they are carried forward as an asset in the consolidated statement of financial position if the rights of the area of interest are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area of interest. Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. In accordance with IFRS 6, 'Exploration for and Evaluation of Mineral Resources', exploration assets are measured applying the cost model described in IAS 16, 'Property, Plant and Equipment' after initial recognition. Depreciation and amortisation are not calculated for exploration assets because the economic benefits that the assets represent are not consumed until the production phase. Capitalised exploration and evaluation expenditure is written off where the above conditions are no longer satisfied.

All capitalised exploration and evaluation expenditures are assessed for impairment if facts and circumstances indicate that impairment may exist. Exploration and evaluation assets are also tested for impairment once commercial reserves are found, before the assets are transferred to development properties.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. The carrying value of CGU containing goodwill is compared to the relevant amount, which is the higher of value in use and the fair value less cost of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Mineral rights

Mineral rights include rights for evaluation, exploration and production of mineral resources under the licences or agreements. Such assets are carried at cost, amortisation is charged on a straight-line basis over the shorter of the valid period of the license or the agreement, or the expected life of mine, starting from the date when production activities commence. The costs directly attributable to acquisition of rights for evaluation, exploration and production or related costs unavoidably arising from licences and related agreements (such as social and infrastructure objects construction) are capitalised as a part of the mineral rights. If the reserves related to the mineral rights are not economically viable, the carrying amount of such mineral rights is written off.

Mineral resources are recognised as assets when acquired as part of a business combination and then depleted using the unit-of-production method based on total proved mineral reserves. Proved mineral reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits and are determined by independent professional appraisers when acquired as part of a business combination and are subject to updates in future periods.

Intangible assets other than goodwill

The Group's intangible assets other than goodwill have definite useful lives and primarily include acquired core process technology, distribution agreements, customer relationships, trademarks, capitalised computer software costs and other intangible assets.

These assets are capitalised on the basis of the costs incurred to acquire and bring them to use.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies continued

Intangible assets other than goodwill continued

Intangible assets with definite useful lives are amortised using the straight-line method over their useful lives:

	Useful lives in years
Land use rights	50
Know-how and production technology	5 to 18
Trademarks	15
Customer relationships	10
Distribution agreement	8
Software licences	5

The Group tests intangible assets for impairment whenever there are indications that intangible assets may be impaired.

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

Impairment of non-financial assets

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Financial instruments – key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

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

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification and subsequent measurement of financial assets

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or profit or loss), and
- those to be measured at amortised cost.

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

For debt instruments, the recognition of gains and losses depends on the business model in which the investment is held: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gains or losses arising from derecognition are recognised directly in profit or loss.

Assets that are held for collection of contractual cash flows and for sale, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI).

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss (FVPL).

For investments in equity instruments that are not held for trading, when the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI, there is no subsequent reclassification of gains and losses to profit or loss. Dividends from such investments are recognised in profit or loss, when the Group's right to receive payments is established. There are no impairment requirements for equity investments measured at FVOCI.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less ECL allowance.

Initial recognition of financial instruments

Derivatives are initially recorded at their fair value. All other financial assets and liabilities are initially recorded at their fair value plus transaction costs. The fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between the fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All 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 their trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the Group becomes a party to the contractual provisions of the instrument.

Reclassification of financial assets

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL

The Group has changed the accounting policy for impairment losses of financial assets held at amortised cost by replacing the incurred loss model with an ECL model following the transition to IFRS 9.

Under IFRS 9, loss allowances are measured on either of the following bases: 12-month ECLs that result from default events that are possible within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies continued

Financial assets impairment – credit loss allowance for ECL continued

As permitted by IFRS 9, the Group measures loss allowances for trade receivables applying a simplified approach at an amount equal to lifetime ECL. In calculating the expected credit loss, the Group considers the credit rating for each counterparty, adjusted with forward-looking factors specific to the debtors and economic environment in which they operate, and historical credit loss experience.

For other financial assets loss allowances are measured as 12-month ECL unless there has been a significant increase in credit risk since initial recognition or if the instrument contains a significant financing component. In those cases the allowance is based on the lifetime ECL.

The loans granted are analysed individually based on credit history of each borrower with the Group, financial performance and external credit ratings. The amount of ECL is assessed based on market risk premium that is taken as probability of default.

The Group recognises a loss allowance based on the difference between the contractual cash flows and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Group has exhausted all practical recovery efforts and concluded that there is no reasonable expectation of recovery. The Group may write off financial assets that are still subject to enforcement activity when it seeks to recover amounts that are contractually due but there is no reasonable expectation of recovery.

Modification of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the risks and rewards of the modified asset are substantially different as a result of the contractual modification by comparing the original and revised expected cash flows to assets. If the modified terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at its fair value. If the risks and rewards do not change, the modification does not result in derecognition, the Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or loss.

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.

Previous accounting policy applied to financial assets under IAS 39 till 31 December 2017

Classification of financial assets

The Group classified its financial assets into the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss had two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Loans and receivables represented unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intended to sell in the near term. They were included in the current assets, except for those with maturities greater than 12 months after the reporting date, which were classified as non-current assets.

Reclassification of financial assets

The Group might choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that was unusual and highly unlikely to reoccur in the near term. Financial assets that met the definition of loans and receivables might be reclassified if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Impairment of financial assets carried at amortised cost

Impairment losses were recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. If the Group determined that no objective evidence existed that impairment had been incurred for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics, and collectively assessed them for impairment. The primary factors that the Group considered in determining whether a financial asset was impaired were its overdue status and realisability of related collateral, if any. The following other principal criteria were also used to determine whether there was objective evidence that an impairment loss had occurred:

- the counterparty experienced a significant financial difficulty as evidenced by its financial information that the Group obtained;
- the counterparty considered bankruptcy or a financial reorganisation;
- there was adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impacted the counterparty; or
- the value of collateral, if any, significantly decreased as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets were grouped on the basis of similar credit risk characteristics. Those characteristics were relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows, in a group of financial assets that were collectively evaluated for impairment, were estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts would become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience was adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that did not exist.

Impairment losses were always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which excluded future credit losses that had not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflected the cash flows that might result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss was reversed by adjusting the allowance account through profit or loss for the year.

Financial assets – write-off

Uncollectible assets were written off against the related impairment loss provision after all the necessary procedures to recover the asset had been completed and the amount of the loss had been determined.

Modification of financial assets

If the terms of an impaired financial asset held at amortised cost were renegotiated or were otherwise modified because of financial difficulties of the counterparty, impairment was measured using the original effective interest rate before the modification of terms. The renegotiated asset was then derecognised and a new asset was recognised at its fair value only if the risks and rewards of the asset had substantially changed. This was normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Classification and derecognition of financial liabilities

The Group's financial liabilities have the following measurement categories: (a) derivative liabilities (see Derivative financial instruments below) and (b) other financial liabilities. Other financial liabilities are carried at amortised cost. The Group's other financial liabilities comprise "trade and other payables", "borrowings and bonds" and "Project Finance" in the consolidated statement of financial position. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Group's derivative financial instruments comprise forwards, options and swap contracts in foreign exchange, securities and commodities. Derivative financial instruments, including forward rate agreements, options and interest rate swaps, are carried at their fair value. All derivative instruments are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss (as financial gain/loss or operating income/expense) in the period in which they arise (Note 21).

The Group has no derivatives accounted for as hedges.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies continued

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right to offset (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of results of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint arrangements

Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses, or movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with tax legislation enacted or substantively enacted by the reporting date for each country where the Group companies are registered. The income tax expense comprises current tax and deferred tax and is recognised in profit or loss unless it relates to transactions that are recognised in other comprehensive income or directly in equity.

The Group companies are subject to tax rates depending on the country of domicile (Note 31).

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred

(all amounts are presented in thousands of US dollars, unless otherwise stated)

income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not be reversed through dividends or upon disposal in the foreseeable future.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in associates and joint arrangements except for deferred income tax liabilities for which the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary differences will not be reversed in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference, a deferred income tax liability is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in associates and joint arrangements only to the extent that it is probable the temporary difference will be reversed in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge.

Inventories

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

Factoring arrangements

The Group enters into non-recourse factoring arrangements under which trade receivables can be sold and therefore are derecognised in the full amount from trade receivables as the Group does not retain substantially all risks and rewards of ownership and no longer retains control over the asset sold. The Group continues to collect and service the receivables and then transfers to the purchaser the collected amounts of the trade receivables sold less loss reserve. Loss reserve is recognised as other receivable. Factoring fees (e.g. running costs etc.) are recognised as other financial expense.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are recognised in profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment is recognised in profit or loss for the year.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Term deposits for longer than three months that are repayable on demand within one working day without penalties or that can be redeemed/withdrawn, subject to the interest income being forfeited, are classified as cash equivalents if the deposit is held to meet short-term cash needs and there is no significant risk of a change in value as a result of an early withdrawal. Other term deposits are included in fixed-term deposits.

Cash and cash equivalents are carried at amortised cost using the effective interest method.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies continued

Cash and cash equivalents continued

Restricted balances are excluded from cash and cash equivalents. Balances restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date are included in non-current assets in the consolidated statement of financial position.

In managing the business, management focuses on a number of cash flow measures including "gross cash flow" and "free cash flow". Gross cash flow refers to the operating profit after income tax and adjusted for items which are not of a cash nature, which have been charged or credited to profit and loss. The gross cash flow is available to finance movements in operating assets and liabilities, investing and financing activities.

Free cash flows are the cash flows available to the debt or equity holders of the business.

Since these terms are not standard IFRS measures EuroChem Group's definition of gross cash flow and free cash flow may differ from that of other companies.

Fixed-term deposits

Fixed-term deposits are deposits held with banks and have various original maturities and can be withdrawn with early notification and/or with penalty accrued or interest income forfeited. They are included in the current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets.

Share capital

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

Capital contribution

Capital contributions received from shareholders in a form of a perpetual loan which does not require repayment, or for which the Group will be able to avoid any payments is classified as a component of equity within retained earnings and others reserves in the consolidated statement of changes in equity.

Dividends

Dividends are recognised as a liability and deducted from equity in the period in which they are declared and approved. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Value added tax ("VAT")

Output VAT related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. VAT incurred on purchases may be offset, subject to certain restrictions, against VAT related to revenues, or can be reclaimed in cash from the tax authorities under certain circumstances. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost using the effective interest method.

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Investment grants

Investment grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Investment grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit and loss on a straight-line basis over the expected lives of the related assets.

Provisions for liabilities and charges

Provisions for liabilities and charges 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. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

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.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

Asset retirement obligations

The Group's mining, extraction and processing activities are subject to requirements under federal, state and local environmental regulations which result in asset retirement obligations. Such retirement obligations include restoration costs primarily relating to mining and drilling operations, decommissioning of underground and surfacing operating facilities.

The present value of a liability for asset retirement obligation is recognised in the period in which it is incurred if respective costs could be reliably estimated. The estimated future land restoration costs discounted to present value are capitalised in underlying items of property, plant and equipment and then depreciated over the useful life of such assets based on the unit-of-production method for oil and gas assets and on the straight-line basis for other assets. The unwinding of the obligation is recognised in profit or loss as part of other financial gain/loss. Actual restoration costs are recognised as expenses against the provision when incurred.

Changes to estimated future costs are recognised in the consolidated statement of financial position by either increasing or decreasing the provision for land restoration and the asset to which it relates. The Group reassesses its estimation of land restoration provision as at the end of each reporting period.

Revenue recognition

Revenue from contracts with customers is recognised when control of the goods or services is transferred to a customer. The amount of revenue recognised reflects the consideration the Group expects to receive in exchange for goods or services, taking into account any trade, volume and other discounts. Advances received before the control passes to a customer are recognised as the contract liabilities. There are no other contract liabilities. The amount of consideration does not contain a significant financial component as payment terms for the majority of contracts are less than one year.

Contracts with customers for the supply of products use a variety of delivery terms. In a number of contracts the Group is responsible for providing shipping services after the date at which control of the goods passes to the customer at the loading point. Under IFRS 15 such shipping revenue is required to be accounted for as a separate performance obligation and should be recognised over time as the service is rendered. The Group allocates the transaction price to each performance obligation based on the relative stand-alone selling prices of the product and shipping services.

In the sales disclosure the revenue of certain product groups includes the proceeds from shipping services presented in the note as well. Costs related to rendering of shipping services are mainly represented by transportation expenses and included in distribution costs disclosed in the corresponding note.

Sales are shown net of VAT and other sales taxes.

Interest income is recognised on a time-proportion basis using the effective interest method.

Previous accounting policy applied under IAS 18, 'Revenue' till 31 December 2017

Revenues from sales of goods were recognised at the point of transfer of risks and rewards of ownership of the goods. If the Group agreed to transport goods to a specified location, revenue was recognised when the goods were passed to the customer at the destination point. Revenues from sales of services were recognised in the period the services were provided, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies continued

Employee benefits

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

A number of the Group's European subsidiaries operate defined benefit pension plans, which represent 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 defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Remeasurements of post-employment benefit obligations are recognised in other comprehensive income. The defined pension obligation of the Group is not material.

Earnings/(loss) per share

Earnings/(loss) per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

Segment reporting

A segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

3. Critical accounting estimates and judgements in applying accounting policies

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

Taxation

Judgements are required in determining tax liabilities (Note 34). The Group recognises liabilities for taxes based on estimates of whether additional taxes will be due. Where the final outcome of various tax matters is different from the amounts that were initially recorded, such differences will impact the tax assets and liabilities in the period in which such determination is made.

Deferred income tax asset recognition

The recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances (Note 31).

Related party transactions

The Group enters into transactions with related parties in the normal course of business (Note 33). These transactions are priced at market rates. Judgement is applied in determining whether transactions are priced at market or non-market rates where there is no active market for such transactions. Judgements are made by comparing prices for similar types of transactions with unrelated parties.

Capital contribution

The Group classified the capital contribution received from a shareholder in a form of perpetual loan which does not require repayment, or for which the Group will be able to avoid any payments as a component of equity.

Recognition of 100% interest in Fertilizantes Tocantins Ltda.

In 2016, the Group entered into agreement with Fertilizantes Tocantins Ltda, according to which the Group acquired 50% interest plus one share and entered into put and call options for the remaining 50% interest minus one share to be executed in 2022. Since put and call options will be executed simultaneously at the same exercise price, the judgement was applied that the risks and rewards associated with a 100% interest in Fertilizantes Tocantins Ltda were transferred to the Group on 1 September 2016, thus, no non-controlling interest was recognised and the transaction was accounted for as the acquisition of a 100% interest in the company. The liability under the put and call options scheme payable in 2022 is assessed on an annual basis and subject to unwinding. The valuation technique used to measure the liability arising from contingent consideration is based on calculating the present value of the future expected cash flows.

4. Adoption of new or revised standards and interpretations

In addition to those disclosed in note 2, other new amendments and improvements to standards set out below became effective 1 January 2018 and did not have any impact or did not have a material impact on the Group's consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture;
- Amendments to IFRS 2, Share-based Payment;
- Amendments to IFRS 4, Applying IFRS 9 Financial instruments with IFRS 4, Insurance contracts;
- Annual Improvements to IFRSs 2014-2016 cycle – amendments to IFRS 1 and IAS 28;
- IFRIC 22, Foreign Currency Transactions and Advance Consideration;
- Amendments to IAS 40, Transfers of Investment property.

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2018, and have not been early adopted by the Group:

- IFRS 16, Leases. The standard provides a comprehensive model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset. Under the new standard, the Group is required to recognise the present value of the unavoidable lease payments as a lease liability in the statement of financial position (including those currently classified as operating leases) with a corresponding right of use asset. The unwinding of the financial charge on the lease liability and amortisation of the right-of-use asset are recognised in the statement of profit or loss based on the implied interest rate and contract term respectively. The Group envisages adopting the modified retrospective approach, through which the cumulative effect of the initial application will be recognised as at 1 January 2019 without any restatement of comparative information. Thus the Group will recognise a right-of-use asset for operating lease at the date of initial application at an amount equal to the lease liability, adjusted by the amount of any prepaid payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The Group has finalised its review of the impact of IFRS 16 and assessed that the amount of right of use assets and lease liabilities that will be recognised upon adoption as at 1 January 2019 is estimated to be US$65 million.
- IFRS 17, Insurance contracts;
- IFRIC 23, Uncertainty over Income Tax Treatments;
- Amendments to IFRS 9, Prepayment Features with Negative Compensation;
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures;
- Annual improvements to IFRSs 2015-2017 cycle;
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement;
- Amendments to the Conceptual Framework for Financial Reporting;
- Amendments to IFRS 3, Definition of a business;
- Amendments to IAS 1 and IAS 8; Definition of materiality.

Unless otherwise described above, the new standards, amendments to standards and interpretations are expected to have no impact or to have a non-material impact on the Group's consolidated financial statements.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

5. Principal subsidiaries, associates and joint ventures

The Group had the following principal subsidiaries, associates and joint ventures as at 31 December 2018:

Name	Nature of business	Percentage of ownership	Country of registration
EuroChem Group AG	Holding company	–	Switzerland
Subsidiaries:			
Industrial Group Phosphorite, LLC	Manufacturing	100%	Russia
Novomoskovsky Azot, JSC	Manufacturing	100%	Russia
Novomoskovsky Chlor, LLC	Manufacturing	100%	Russia
Nevinnomyssky Azot, JSC	Manufacturing	100%	Russia
EuroChem-Belorechenskie Minudobrenia, LLC	Manufacturing	100%	Russia
Kovdorsky GOK, JSC	Mining	100%	Russia
Lifosa AB	Manufacturing	100%	Lithuania
EuroChem Antwerpen NV	Manufacturing	100%	Belgium
EuroChem-VolgaKaliy, LLC	Potash project under development	100%	Russia
EuroChem-Usolsky potash complex, LLC	Potash project under development	100%	Russia
EuroChem-ONGK, LLC	Gas project under development	100%	Russia
EuroChem Northwest, JSC	Ammonia project under development	100%	Russia
EuroChem-Fertilizers, LLP	Mining	100%	Kazakhstan
Astrakhan Oil and Gas Company, LLC	Gas project under development	100%	Russia
Sary-Tas Fertilizers, LLP	Other service	85.79%	Kazakhstan
EuroChem Karatau, LLP	Manufacturing	100%	Kazakhstan
Kamenkovskaya Oil and Gas Company LLP	Gas project under development	100%	Kazakhstan
EuroChem Trading GmbH	Trading	100%	Switzerland
EuroChem Trading USA Corp	Trading	100%	USA
Ben-Trei Ltd.	Distribution	100%	USA
EuroChem USA, LLC	Ammonia project	100%	USA
EuroChem Agro SAS	Distribution	100%	France
EuroChem Agro Asia Pte. Ltd.	Distribution	100%	Singapore
EuroChem Agro Iberia SL	Distribution	100%	Spain
EuroChem Agricultural Trading Hellas SA	Distribution	100%	Greece
EuroChem Agro Spa	Distribution	100%	Italy
EuroChem Agro GmbH	Distribution	100%	Germany
EuroChem Agro México SA de CV	Distribution	100%	Mexico
EuroChem Agro Hungary Kft	Distribution	100%	Hungary
Agrocenter EuroChem Srl	Distribution	100%	Moldova
EuroChem Agro Bulgaria Ead	Distribution	100%	Bulgaria
EuroChem Agro doo Beograd	Distribution	100%	Serbia
EuroChem Agro Turkey Tarım Sanayi ve Ticaret Ltdşti.	Distribution	100%	Turkey
Emerger Fertilizantes S.A.	Distribution	100%	Argentina
EuroChem Comercio de Produtos Quimicos Ltda.	Distribution	100%	Brazil
Fertilizantes Tocantins Ltda	Distribution	50% plus 1 share	Brazil
EuroChem Agro Trading (Shenzhen) Co., Ltd.	Distribution	100%	China

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Name	Nature of business	Percentage of ownership	Country of registration
EuroChem Trading RUS, LLC	Distribution	100%	Russia
Ural-RemStroiService, LLC	Repair and constructions	100%	Russia
Kingisepp RemStroiService, LLC	Repair and constructions	100%	Russia
Novomoskovsk RemStroiService, LLC	Repair and constructions	100%	Russia
Nevinnomyssk RemStroiService, LLC	Repair and constructions	100%	Russia
Volgograd RemStroiService, LLC	Repair and constructions	100%	Russia
Berezniki Mechanical Works, JSC	Repair and constructions	100%	Russia
Tulagiprochim, JSC	Design engineering	100%	Russia
TOMS-project, LLC	Design engineering	100%	Russia
Harvester Shipmanagement Ltd.	Logistics	100%	Cyprus
EuroChem Logistics International, UAB	Logistics	100%	Lithuania
EuroChem Terminal Sillamäe Aktsiaselts	Logistics	100%	Estonia
EuroChem Terminal Ust-Luga, LLC	Logistic project under development	100%	Russia
Tuapse Bulk Terminal, LLC	Logistics	100%	Russia
Murmansk Bulkcargo Terminal, LLC	Logistics	100%	Russia
Depo-EuroChem, LLC	Logistics	100%	Russia
EuroChem-Energo, LLC	Other service	100%	Russia
EuroChem Usolsky Mining S.à r.l.	Holding company	100%	Luxemburg
EuroChem International Holding B.V.	Holding company	100%	Netherlands
MCC EuroChem JSC	Holding company	100%	Russia
EuroChem SaratovKaliy, LLC	Manufacturing	100%	Russia
EuroChem-Terminal Nevinnomyssk, LLC	Logistics	100%	Russia
Associates:			
Hispalense de Líquidos S.L.	Distribution	50% minus 1 share	Spain
Azottech, LLC	Blasting and drilling	24.89%	Russia
Joint ventures:			
EuroChem – Migao Ltd.	Holding company	50.0%	Hong Kong[1]
Thyssen Schachtbau EuroChem Drilling, LLC	Drilling	45.0%	Russia
Biochem Technologies LLC	Research in biotechnology	10.0%	Russia

1. Represents the country of incorporation of the holding company which owns manufacturing facilities located in Yunnan, China.

During the year ended 31 December 2018, the main changes in Group's structure were as follows:

Name	Nature of business	Main changes in 2018	Percentage of ownership as at 31 December 2018
Subsidiaries:			
AgroCenter EuroChem-Ukraine, LLC	Distribution	Disposal of 100% interest (Note 16)	–
AgroCenter Ukraine, LLC	Distribution	Disposal of 100% interest (Note 16)	–
EuroChem USA, LLC	Ammonia project	Acquisition of assets (Note 33)	100%
Associates:			
Agrinos AS	Holding company	Derecognition of interest as an associate (Note 12)	13.70%

(all amounts are presented in thousands of US dollars, unless otherwise stated)

6. Fair value of financial instruments

Management applies judgement in categorising financial instruments using the fair value hierarchy. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period.

(a) Financial instruments carried at fair values

The recurring fair value measurements are included in Level 2 of the fair value hierarchy and are as follows.

	31 December 2018	31 December 2017
Financial assets		
Current financial assets		
Non-deliverable foreign exchange forward contracts	74	2,530
Deliverable foreign exchange forward contracts	806	954
Swap contracts	246	–
Cross-currency interest swaps	–	15,471
Total current financial assets	1,126	18,955
Non-current financial assets		
Non-deliverable foreign exchange forward contracts	–	645
Cross-currency interest swaps	–	6,544
Total non-current financial assets	–	7,189
Total assets recurring fair value measurements	1,126	26,144
Financial liabilities		
Current financial liabilities		
Non-deliverable foreign exchange forward contracts	6,752	–
Deliverable foreign exchange forward contracts	1,278	–
Commodity swaps	–	30
Cross-currency interest swaps	4,599	61,791
Total current financial liabilities	12,629	61,821
Non-current financial liabilities		
Non-deliverable foreign exchange forward contracts	6,869	–
Cross-currency interest swaps	50,234	–
Total non-current financial liabilities	57,103	–
Total liabilities recurring fair value measurements	69,732	61,821

For derivative financial instruments at fair value through profit or loss, which typically include foreign exchange forward contracts, cross currency interest rate swaps, commodity swaps etc., the fair values are based on recurring mark-to-market valuations provided by the financial institutions which deal in these financial instruments.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Financial assets and liabilities carried at amortised cost

The carrying amounts of trade and other receivables, trade and other payables, contingent consideration related to business combinations and originated loans approximate their fair values and are included in level 3 of fair value hierarchy. Cash and cash equivalents and fixed-term deposits are carried at amortised cost which approximates their current fair value, included in level 2 of fair value hierarchy. The fair values in level 2 and level 3 of the fair value hierarchy were estimated using the discounted cash flows valuation technique.

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

Fair values analysed by level in the fair value hierarchy and the carrying value of liabilities not measured at fair value are as follows:

	31 December 2018			
	Level 1 Fair value	Level 2 Fair value	Level 3 Fair value	Carrying value
Financial liabilities				
– RUB-denominated bonds payable	435,810	–	–	431,332
– US$-denominated bonds payable	979,785	–	–	995,779
– Long-term US$-denominated fixed interest loans	–	–	545,297	550,000
– Long-term RUB-denominated fixed interest loans	–	–	61,267	66,863
– Long-term BRL-denominated fixed interest loans	–	–	1,837	2,019
Total financial liabilities	1,415,595	–	608,401	2,045,993

	31 December 2017			
	Level 1 Fair value	Level 2 Fair value	Level 3 Fair value	Carrying value
Financial liabilities				
– RUB-denominated bonds payable	626,654	–	–	606,790
– US$-denominated bonds payable	1,004,905	–	–	992,714
– Long-term RUB-denominated fixed interest loans	–	–	22,662	26,042
– Long-term BRL-denominated fixed interest loans	–	–	16,785	17,265
Total financial liabilities	1,631,559	–	39,447	1,642,811

The following information sets out the key inputs relevant to the determination of the fair value of the liabilities for which fair value information is provided as a disclosure only.

- For US$ and RUB-denominated bonds traded on organised financial markets (Irish stock exchange and Moscow Exchange), quotations or executable prices are used as the key inputs to fair value determination. These instruments are included in level 1 of the fair value hierarchy.
- The fair value of long-term loans and borrowings bearing a fixed interest rate is determined by a discounted cash flows method. The discount factor applied to principal and interest repayments in the valuation model is calculated as a risk free rate at the reporting date adjusted for the Group's credit risk. The Group's credit risk component in the discount factor at inception is assumed to remain unchanged on the reporting date and is calculated as a difference between the contract interest rate and the risk-free interest rate, in effect at loan inception date for debt instruments with similar maturities. These instruments are included in level 3 of the fair value hierarchy.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

6. Fair value of financial instruments continued

During the years ended 31 December 2018 and 31 December 2017 there were no transfers between levels 1, 2 and 3 of the fair value hierarchy.

The Group's financial assets and liabilities were as follows:

	Measurement categories as at 31 December 2018	31 December 2018	Measurement categories as at 31 December 2017	31 December 2017, adjusted
Financial assets				
Non-current financial assets				
Restricted cash	AC[1]	2,276	LR[4]	22,345
Originated loans	AC[1]	3,864	LR[4]	51,046
Derivative financial assets	FVPL[2]	–	FVPL[2]	7,189
Other non-current assets including:				
Long-term other receivables	AC[1]	–	LR[4]	2,514
Interest receivables	AC[1]	–	LR[4]	698
Long-term receivables due to sale of subsidiaries	AC[1]	9,431	LR[4]	–
Other assets	FVOCI[3]	4,012	–	–
Total non-current financial assets		19,583		83,792
Current financial assets				
Restricted cash	AC[1]	2,850	LR[4]	20,101
Trade receivables	AC[1]	366,836	LR[4]	288,959
Derivative financial assets	FVPL[2]	1,126	FVPL[2]	18,955
Other receivables and other current assets including:				
Other receivables	AC[1]	27,426	LR[4]	3,316
Collateral held by banks to secure derivative transactions	AC[1]	–	LR[4]	672
Interest receivables	AC[1]	580	LR[4]	272
Fixed-term deposits	AC[1]	1,801	LR[4]	151
Cash and cash equivalents	AC[1]	341,911	LR[4]	228,613
Total current financial assets		742,530		561,039
Total financial assets		762,113		644,831

1. Financial assets measured at amortised cost.
2. Financial assets measured at fair value through profit or loss.
3. Financial assets measured at fair value through other comprehensive income.
4. Loans and receivables.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

	Measurement categories as at 31 December 2018	31 December 2018	Measurement categories as at 31 December 2017	31 December 2017
Financial liabilities				
Non-current financial liabilities				
Bank borrowings and other loans received	AC[1]	2,003,275	LR[3]	1,110,205
Bonds issued	AC[1]	1,211,261	LR[3]	1,512,413
Project Finance	AC[1]	420,070	LR[3]	959,373
Derivative financial liabilities	FVPL[2]	57,103	FVPL[2]	–
Other non-current liabilities including:				
Contingent liability related to business combination	AC[1]	122,866	LR[3]	123,001
Long-term portion of deferred payables related to acquisition of additional interest in subsidiary	AC[1]	1,821	LR[3]	3,000
Long-term portion of deferred payables related to mineral rights acquisition	AC[1]	11,088	LR[3]	11,785
Total non-current financial liabilities		3,827,484		3,719,777
Current financial liabilities				
Bank borrowings and other loans received	AC[1]	371,133	LR[3]	770,405
Project Finance	AC[1]	21,612	LR[3]	–
Bonds issued	AC[1]	215,850	LR[3]	87,091
Derivative financial liabilities	FVPL[2]	12,629	FVPL[2]	61,821
Trade payables	AC[1]	470,264	LR[3]	513,004
Other accounts payable and accrued expenses including:				
Interest payables	AC[1]	27,457	LR[3]	29,604
Payable for acquisition of associate	AC[1]	–	LR[3]	3,229
Short-term portion of deferred payables related to business combinations and acquisition of additional interest in subsidiary	AC[1]	1,500	LR[3]	4,697
Short-term portion of deferred payables related to mineral rights acquisition	AC[1]	1,460	LR[3]	1,875
Total current financial liabilities		1,121,905		1,471,726
Total financial liabilities		4,949,389		5,191,503

1. Financial liabilities measured at amortised cost.
2. Financial liabilities measured at fair value through profit or loss.
3. Loans and receivables.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

6. Fair value of financial instruments continued

As required by the amendment of IAS 7 the Group presents the reconciliation of movements in liabilities arising from financing activities:

	Bank borrowings and other loans received	Bonds issued	Project Finance	Interest payable	Total
Balance at 1 January 2018	**1,880,610**	**1,599,504**	**959,373**	**29,604**	**4,469,091**
Cash flows					
Proceeds from bank borrowings and other loans received	2,723,656	–	–	–	**2,723,656**
Funds received under the Project Finance Facility	–	–	219,309	–	**219,309**
Repayment of bank borrowings and other loans	(2,136,094)	–	–	–	**(2,136,094)**
Repayment of Project Finance Facility	–	–	(750,000)	–	**(750,000)**
Repayment of bonds	–	(79,697)	–	–	**(79,697)**
Prepaid and additional transaction costs	(10,836)	(62)	(5,285)	–	**(16,183)**
Interest paid	–	–	–	(219,873)	(219,873)
Non-cash flows					
Interest expenses accrued	–	–	–	220,473	**220,473**
Amortisation of transaction costs	5,157	3,182	18,313	–	**26,652**
Financial foreign exchange (gain)/loss, net	(70,068)	93,037	126,370	1,286	**150,625**
Currency translation difference, net	(18,017)	(188,853)	(126,398)	(4,033)	**(337,301)**
Balance at 31 December 2018	**2,374,408**	**1,427,111**	**441,682**	**27,457**	**4,270,658**

	Bank borrowings and other loans received	Bonds issued	Project Finance	Interest payable	Other non-current assets	Total
Balance at 1 January 2017	2,381,089	1,148,704	573,022	18,003	(49,134)	4,071,684
Cash flows						
Proceeds from bank borrowings and other loans received	3,128,323	–	–	–	–	3,128,323
Funds received under the Project Finance Facilities	–	–	416,938	–	–	416,938
Proceeds from bonds, net of transaction costs	–	767,522	–	–	–	767,522
Repayment of bank borrowings and other loans	(3,655,674)	–	–	–	–	(3,655,674)
Repayment of bonds	–	(324,033)	–	–	–	(324,033)
Prepaid and additional transaction costs	(11,566)	(5,563)	(4,463)	–	–	(21,592)
Interest paid	–	–	–	(210,585)	–	(210,585)
Non-cash flows						
Loans acquired in a business combination	6,585	–	–	–	–	6,585
Interest expenses accrued	–	–	–	220,733	–	220,733
Amortisation of transaction costs	16,567	2,728	15,050	–	–	34,345
Financial foreign exchange gain/(loss), net	15,388	(33,317)	(30,338)	(344)	–	(48,611)
Currency translation difference, net	(102)	43,463	40,603	1,797	(2,305)	83,456
Reclassification of prepaid and additional transaction costs related to Project Finance Facilities	–	–	(51,439)	–	51,439	–
Balance at 31 December 2017	1,880,610	1,599,504	959,373	29,604	–	4,469,091

(all amounts are presented in thousands of US dollars, unless otherwise stated)

7. Segment information

The Group has a vertically integrated business model conducted by four operating divisions, representing reportable segments, which are Mining, Fertilizers, Logistics and Sales:

- **Mining Division** encompasses the extraction of ores to obtain apatite, baddeleyite, iron-ore concentrates and phosphorite; as well as the potash production at the Verkhnekamskoe deposit that started in 2018 and the development of the second potassium salt deposit (potash) at the Gremyachinskoe deposit;
- **Fertilizers Division** includes the production of mineral fertilizers (nitrogen, phosphate and complex and industrial products;
- **Logistics Division** covers all supply chain operations including transportation services, purchase and delivery of raw materials and finished goods, as well as freight forwarding and other logistics services;
- **Sales Division** is responsible for the sale of the complete range of products produced by the Group as well as third-party products through the Group's global distribution network spanning across Europe, Russia, North and Latin America, and Central and South East Asia.

Activities not assigned to a particular division are reported in "Other". These include certain service activities, central management and other items. Effective 1 January 2018, the Oil & Gas division was removed from the Group's corporate structure. The operating results of this division for the year ended 31 December 2017 reported in "Other" also included results of the company that was engaged in production of hydrocarbons and sold at the end of 2017.

All intersegment transactions and unrealised profit in inventory from intragroup sales are eliminated through "Elimination".

The review of financial reports of the Group, evaluation of the operating results and allocation of resources between the operating divisions are performed by the Management Board (considered to be the chief operating decision-maker in the Group). The development and approval of strategies, market and risk analysis, investment focus, and technological process changes are undertaken mostly in accordance with the operating divisions. Budgets and financial reports are prepared in a standard format according to the IFRS accounting policy adopted by the Group. Sales between divisions are carried out on an arm's length basis.

The Management Board assesses the performance of the operating divisions based on, among other factors, a measure of EBITDA (profit before taxation adjusted by interest expense, depreciation and amortisation, financial foreign exchange gain or loss, other non-cash and one-off items, excluding profit attributed to non-controlling interests), allocated by division according to internal rules. Since the EBITDA term is not a standard IFRS measure, EuroChem Group's definition of EBITDA may differ from that of other companies.

The division results for the year ended 31 December 2018 were:

	External sales	**Internal sales**	**Total sales**	**EBITDA**
Mining	11,601	675,608	687,209	304,401
Fertilizers	66,653	3,364,594	3,431,247	1,032,777
Logistics	46,298	195,799	242,097	93,887
Sales	5,450,384	11,198	5,461,582	207,918
Other	2,536	14,259	16,795	(39,336)
Elimination	–	(4,261,458)	(4,261,458)	(82,721)
Total	**5,577,472**	**–**	**5,577,472**	**1,516,926**

The division results for the year ended 31 December 2017 were:

	External sales	Internal sales	Total sales	EBITDA
Mining	11,067	630,163	641,230	287,268
Fertilizers	54,743	2,892,290	2,947,033	690,165
Logistics	39,003	187,489	226,492	96,342
Sales	4,727,633	9,738	4,737,371	90,836
Other	33,218	116,056	149,274	(22,656)
Elimination	–	(3,835,736)	(3,835,736)	(11,517)
Total	4,865,664	–	4,865,664	1,130,438

(all amounts are presented in thousands of US dollars, unless otherwise stated)

7. Segment information continued

A reconciliation of EBITDA to profit before taxation is provided below:

	Note	2018	2017
EBITDA		**1,516,926**	1,130,438
Depreciation and amortisation	28	**(308,336)**	(277,090)
(Impairment)/reversal of impairment/(write-off) of idle property, plant and equipment		**(1,459)**	(4,971)
Non-recurring income/(expenses), net	29	**(6,155)**	(6,943)
Gain/(loss) from disposal of subsidiaries, net		**(45,753)**	(60,205)
Interest expense		**(94,480)**	(131,393)
Financial foreign exchange gain/(loss), net		**(162,070)**	569
Other financial gain/(loss), net	30	**(159,804)**	46,305
Non-controlling interests		**(27)**	(100)
Profit before taxation		**738,842**	696,610

The divisional capital expenditure on property, plant and equipment, intangible assets and mineral rights for the years ended 31 December 2018 and 31 December 2017 were:

	2018	2017
Mining	**594,559**	770,106
Fertilisers	**447,863**	634,805
Logistics	**34,828**	17,414
Sales	**35,093**	27,608
Other	**19,431**	43,224
Elimination	**(20,370)**	(3,631)
Total capital expenditure	**1,111,404**	1,489,526

The analysis of non-current assets other than financial instruments, deferred income tax assets and other non-current assets by geographical location was:

	31 December 2018	31 December 2017
Russia	**6,236,501**	6,576,921
Europe	**806,921**	837,556
Brazil	**241,154**	256,642
Kazakhstan	**221,441**	179,345
Other countries	**92,659**	143,439
Total	**7,598,676**	7,993,903

The main Group's manufacturing facilities are based in Russia, Lithuania, Belgium, Kazakhstan and China (joint venture's production facilities).

(all amounts are presented in thousands of US dollars, unless otherwise stated)

The analysis of Group sales by region was:

	2018	2017
Europe	**1,600,106**	1,534,840
Latin America	**1,154,193**	780,256
Russia	**1,062,519**	965,249
North America	**841,997**	618,099
Asia Pacific	**526,780**	490,088
CIS[1]	**262,158**	362,579
Africa	**129,719**	114,553
Total sales	**5,577,472**	4,865,664

1. Including associate states.

The sales are allocated to regions based on the destination country. During the year ended 31 December 2018, the Group had sales in excess of 10% to Russia, Brazil and the United States of America, representing 19.1%, 16.5% and 12.8% of total revenues, respectively (2017: sales to Russia, Brazil and the United States of America, represented 19.9%, 12.5% and 11.0% of the total revenues, respectively).

During the years ended 31 December 2018 and 31 December 2017, there were no sales in excess of 10% to one customer.

8. Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were:

	Buildings	Land and land improvements	Transfer devices	Machinery and equipment	Transport	Other	Assets under construction	Total
Cost								
Balance at 1 January 2018	**615,509**	**648,835**	**312,685**	**2,067,848**	**300,785**	**145,970**	**4,469,708**	**8,561,340**
Additions and transfers from assets under construction	400,607	459,387	34,396	372,155	35,257	17,810	(12,627)	1,306,985
Disposal due to sale of subsidiaries	(2,052)	(1,140)	–	(1,815)	(29,652)	(309)	(1,321)	(36,289)
Disposals	(9,866)	(5,633)	(2,249)	(23,257)	(6,176)	(1,978)	(186)	(49,345)
Changes in estimates of asset retirement obligations (Note 23)	–	(6,138)	–	–	–	–	–	(6,138)
(Impairment)/reversal of impairment/ (write-off) of idle property, plant and equipment	(67)	–	(7)	(396)	(18)	(521)	(1,323)	(2,332)
Currency translation difference	(115,019)	(142,392)	(49,358)	(322,073)	(47,079)	(24,180)	(757,220)	(1,457,321)
Balance at 31 December 2018	**889,112**	**952,919**	**295,467**	**2,092,462**	**253,117**	**136,792**	**3,697,031**	**8,316,900**
Accumulated Depreciation								
Balance at 1 January 2018	**(168,789)**	**(153,046)**	**(146,030)**	**(963,000)**	**(130,602)**	**(81,869)**	**–**	**(1,643,336)**
Charge for the year	(31,207)	(37,501)	(23,585)	(183,636)	(23,467)	(15,870)	–	(315,266)
Disposal due to sale of subsidiaries	289	184	–	742	3,873	135	–	5,223
Disposals	7,322	5,128	2,097	21,022	5,502	1,684	–	42,755
(Impairment)/reversal of impairment/ (write-off) of idle property, plant and equipment	33	–	7	326	18	489	–	873
Currency translation difference	25,842	25,748	22,807	147,812	22,457	14,275	–	258,941
Balance at 31 December 2018	**(166,510)**	**(159,487)**	**(144,704)**	**(976,734)**	**(122,219)**	**(81,156)**	**–**	**(1,650,810)**
Net Carrying Value								
Balance at 1 January 2018	**446,720**	**495,789**	**166,655**	**1,104,848**	**170,183**	**64,101**	**4,469,708**	**6,918,004**
Balance at 31 December 2018	**722,602**	**793,432**	**150,763**	**1,115,728**	**130,898**	**55,636**	**3,697,031**	**6,666,090**

(all amounts are presented in thousands of US dollars, unless otherwise stated)

8. Property, plant and equipment continued

	Buildings	Land and land improvements	Transfer devices	Machinery and equipment	Transport	Other	Assets under construction	Total
Cost								
Balance at 1 January 2017	549,402	620,761	299,921	1,671,370	244,569	125,182	3,130,257	6,641,462
Additions through business combinations	1,088	458	–	308	–	–	–	1,854
Additions and transfers from assets under construction	49,016	125,541	27,802	319,406	54,668	16,648	1,216,313	1,809,394
Disposal due to sale of subsidiary	(7,889)	(136,632)	(35,325)	(15,141)	(739)	(2,300)	(51,022)	(249,048)
Disposals	(4,623)	–	(1,589)	(29,101)	(11,759)	(872)	(3,961)	(51,905)
Changes in estimates of asset retirement obligations (Note 23)	–	4,350	–	–	–	–	–	4,350
(Impairment)/reversal of impairment/ (write-off) of idle property, plant and equipment	(3,424)	(1,383)	(224)	(1,935)	30	(156)	1,205	(5,887)
Currency translation difference	31,939	35,740	22,100	122,941	14,016	7,468	176,916	411,120
Balance at 31 December 2017	615,509	648,835	312,685	2,067,848	300,785	145,970	4,469,708	8,561,340
Accumulated Depreciation								
Balance at 1 January 2017	(138,104)	(123,421)	(123,777)	(780,770)	(113,865)	(64,212)	–	(1,344,149)
Charge for the year	(27,192)	(38,273)	(23,761)	(155,829)	(21,353)	(15,791)	–	(282,199)
Disposal due to sale of subsidiary	2,427	15,791	9,314	6,082	587	1,595	–	35,796
Disposals	3,324	–	1,122	25,742	10,813	733	–	41,734
(Impairment)/reversal of impairment/ (write-off) of idle property, plant and equipment	46	7	–	849	(3)	17	–	916
Currency translation difference	(9,290)	(7,150)	(8,928)	(59,074)	(6,781)	(4,211)	–	(95,434)
Balance at 31 December 2017	(168,789)	(153,046)	(146,030)	(963,000)	(130,602)	(81,869)	–	(1,643,336)
Net Carrying Value								
Balance at 1 January 2017	411,298	497,340	176,144	890,600	130,704	60,970	3,130,257	5,297,313
Balance at 31 December 2017	446,720	495,789	166,655	1,104,848	170,183	64,101	4,469,708	6,918,004

Evaluation and exploration expenditures

Potash fields

At 31 December 2018, the Group has capitalised expenses relating to the evaluation and exploration stages of the potash fields of US$42,108 thousand, including borrowing costs capitalised of US$4,809 thousand (31 December 2017: US$34,213 thousand, including borrowing costs capitalised of US$4,468 thousand).

Hydrocarbon fields

At 31 December 2018, the Group has capitalised expenses relating to the evaluation and exploration stages of the hydrocarbon fields of US$25,475 thousand (31 December 2017: US$20,463 thousand).

These expenses were included in the assets under construction of “Property, plant and equipment” in the consolidated statement of financial position. Substantially, these costs have been paid in the same period when incurred.

Borrowing costs capitalised

During the year ended 31 December 2018, borrowing costs totalling US$151,465 thousand were capitalised in property, plant and equipment at an average interest rate of 5.66% p.a. (2017: US$123,692 thousand capitalised at an average interest rate of 5.42% p.a.).

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Operating leases

As at 31 December 2018 and 31 December 2017, the land plots under the main production facilities were owned by the Group. Also, several Group subsidiaries occupied the land under non-cancellable operating lease agreements, for which the future minimum payments are as follows:

	31 December 2018	31 December 2017
Less than 1 year	3,381	3,798
Between 1 and 5 years	12,208	13,677
More than 5 years	90,219	96,465
Total payments	**105,808**	113,940

9. Mineral rights

	31 December 2018	31 December 2017
Rights for exploration and production:		
Verkhnekamskoe potash deposit	63,775	75,456
Gremyachinskoe potash deposit	66,611	75,397
Kok-Jon and Gimmelfarbskoe phosphate deposits	11,417	13,842
Kovdorsky apatite deposit	2,016	2,541
Rights for exploration, evaluation and extraction:		
Belopashninskiy potash deposit	12,741	15,366
Ozinsky hydrocarbon deposit	3,549	4,281
Perelyubsko-Rubezhinskiy hydrocarbon deposit	318	383
Vostochno-Perelyubskiy potash deposit	432	521
Zapadno-Perelyubskiy potash deposit	337	406
Rights for proven and unproven mineral resources:		
Astrakhan hydrocarbon deposit	123,298	148,708
Kamenkovsky hydrocarbon deposit	31,259	35,908
Total mineral rights	**315,753**	372,809

Under the terms of valid licences for the exploration and development of mineral resource deposits, the Group is required to comply with a number of conditions, including preparation of design documentation, commencement of the construction of mining facilities and commencement of the extraction of mineral resources by certain dates. If the Group fails to materially comply with the terms of the licence agreements there are circumstances whereby the licences can be revoked. Management of the Group believes that the Group faces no material regulatory risks in relation to the validity and operation of any of its licences.

Verkhnekamskoe and Gremyachinskoe potash deposits

In accordance with the conditions of licence agreements and related licence amendments for developing the potash deposits, the Group has major commitments in respect of the timing for the construction of the mining facilities and for the potash extraction.

The Group is in compliance with the licence terms and continues with construction of the mining and surface facilities at both sites.

Management believes that each stage under the current licence terms for both of the Verkhnekamskoe and the Gremyachinskoe potash deposits development will be completed according to the schedules.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

9. Mineral rights continued

Verkhnekamskoe and Gremyachinskoe potash deposits continued

As at 31 December 2018, both of the Verkhnekamskoe and Gremyachinskoe potash deposits were in the development phase with the shaft sinking completed for the first two shafts at Verkhnekamskoe and two shafts at Gremyachinskoe while the third shaft has been delayed due to a water inflow which is being managed. Management has worked out a program which will allow the Group to continue sinking at the third shaft without breaching any of the terms of the licence agreement for the Gremyachinskoe deposit.

As at 31 December 2018, the carrying amount of property, plant and equipment (including construction in progress) related to Verkhnekamskoe and Gremyachinskoe potash deposits was US$3,116 million (2017: US$3,174 million).

For the purpose of impairment testing of the Verkhnekamskoe and Gremyachinskoe potash deposits, management has compared the recoverable amount of the non-current assets related to these projects, determined as their value in use with consideration of a recent industry outlook and the operational plans, with the carrying amount of these assets and concluded that no impairment should be recognised in respect of these assets as at 31 December 2018 and 31 December 2017.

10. Goodwill

Movements in goodwill arising from the acquisition of subsidiaries are:

	2018	2017
Carrying amount at 1 January	**516,830**	468,223
Acquisition of subsidiaries	**–**	11,580
Disposal of subsidiaries	**(60)**	–
Currency translation difference	**(40,973)**	37,027
Carrying amount at 31 December	**475,797**	516,830

Goodwill impairment test

Goodwill is allocated to cash-generating units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment, as follows:

	31 December 2018	31 December 2017
EuroChem Antwerpen NV	**295,050**	308,412
EuroChem Agro	**19,880**	20,781
Ben-Trei Ltd.	**20,803**	20,803
Fertilizantes Tocantins Ltda	**123,123**	144,265
TOMS-project, LLC	**10,089**	11,753
Emerger Fertilizantes S.A.	**2,632**	5,301
Other	**4,220**	5,515
Total carrying amount of goodwill	**475,797**	516,830

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on development strategy and financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Management determined budgeted prices and expenses based on past performance and market expectations. The weighted average growth rate used is consistent with the forecasts included in industry reports.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Assumptions used for value-in-use calculations are listed below:

	31 December 2018	31 December 2017
Adjusted US$ WACC rates, % p.a.	**6.50%-9.27%**	6.50%-9.27%
Adjusted BRL WACC rates, % p.a.	**9.95%**	8.21%
Long-term EUR annual inflation rate, % p.a.	**1.50%-2.10%**	1.40%-1.90%
Long-term US$ annual inflation rate, % p.a.	**2.10%-2.40%**	2.10%-2.30%
Long-term BRL annual inflation rate, % p.a.	**4.21%**	4.00%
Estimated nominal growth rate beyond the five-year period, % p.a.	**2.10%**	2.30%

The Group did not recognise any goodwill impairment at 31 December 2018 and 31 December 2017.

11. Intangible assets

Movements in the carrying amount of intangible assets were:

	Know-how and production technology	Customer relationships	Acquired software and licences	Trademarks and others	Total
Cost					
Balance at 1 January 2018	105,587	134,984	34,576	44,159	**319,306**
Additions	–	–	263	2,551	**2,814**
Disposals	–	–	–	(186)	**(186)**
Currency translation difference	(4,592)	(10,275)	(2,482)	(4,807)	**(22,156)**
Balance at 31 December 2018	**100,995**	**124,709**	**32,357**	**41,717**	**299,778**
Accumulated Depreciation					
Balance at 1 January 2018	(73,431)	(53,635)	(31,866)	(17,450)	**(176,382)**
Charge for the year	(11,992)	(13,857)	(1,157)	(5,618)	**(32,624)**
Disposals	–	–	–	76	**76**
Currency translation difference	3,568	3,599	2,306	2,517	**11,990**
Balance at 31 December 2018	**(81,855)**	**(63,893)**	**(30,717)**	**(20,475)**	**(196,940)**
Net Carrying Value					
Balance at 1 January 2018	32,156	81,349	2,710	26,709	**142,924**
Balance at 31 December 2018	**19,140**	**60,816**	**1,640**	**21,242**	**102,838**

(all amounts are presented in thousands of US dollars, unless otherwise stated)

11. Intangible assets continued

	Know-how and production technology	Customer relationships	Acquired software and licences	Trademarks and others	Total
Cost					
Balance at 1 January 2017	93,508	125,801	30,396	41,491	291,196
Additions	–	276	598	870	1,744
Disposal due to sale of subsidiary	–	–	(12)	–	(12)
Disposals	–	–	–	(1,206)	(1,206)
Currency translation difference	12,079	8,907	3,594	3,004	27,584
Balance at 31 December 2017	105,587	134,984	34,576	44,159	319,306
Accumulated Depreciation					
Balance at 1 January 2017	(54,128)	(32,875)	(27,330)	(13,238)	(127,571)
Charge for the year	(11,469)	(16,042)	(1,281)	(3,493)	(32,285)
Disposal due to sale of subsidiary	–	–	12	–	12
Disposals	–	–	–	4	4
Currency translation difference	(7,834)	(4,718)	(3,267)	(723)	(16,542)
Balance at 31 December 2017	(73,431)	(53,635)	(31,866)	(17,450)	(176,382)
Net Carrying Value					
Balance at 1 January 2017	39,380	92,926	3,066	28,253	163,625
Balance at 31 December 2017	32,156	81,349	2,710	26,709	142,924

12. Investment in associates and joint ventures

The Group's investment in associates and joint ventures was as follows:

	31 December 2018	31 December 2017
Investment in joint venture EuroChem-Migao Ltd.	**23,019**	20,845
Investment in associate Agrinos AS	**–**	5,401
Others	**15,179**	16,906
Total	**38,198**	43,152

The category "Others" includes investments in joint ventures Thyssen Schachtbau EuroChem Drilling LLC, Biochem Technologies LLC and associates Hispalense de Liquidos S.L., and Azottech LLC, which are individually immaterial.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Movements in the carrying amount of the Group's investment in associates and joint ventures were:

	2018	2017
Carrying amount at 1 January	**43,152**	36,500
Acquisition of interest in associates and joint ventures	**–**	9,347
Other movement of investment in associate	**(201)**	–
Disposal of interest held in associate due to loss of significant influence	**(5,401)**	–
Share of profit/(loss) of associates and joint ventures, net	**3,395**	(2,803)
Share of other comprehensive income/(loss) of associates and joint ventures, net	**(917)**	(247)
Currency translation difference	**(1,830)**	355
Carrying amount at 31 December	**38,198**	43,152

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in associates and joint ventures as at 31 December 2018 and 31 December 2017:

	EuroChem-Migao Ltd.	**Others**
Opening net assets at 1 January 2018	**41,690**	**19,598**
Profit/(loss) for the period, net	**5,943**	**456**
Other comprehensive income/(loss) for the period, net	**(1,596)**	**(237)**
Disposal of net assets of Agrinos AS due to loss of significant influence	**–**	**5,864**
Currency translation difference arising on consolidation	**–**	**(3,369)**
Closing net assets at 31 December 2018	**46,037**	**22,312**
Interest, %	**50.00%**	**N/a**
Interest in associates and joint ventures	**23,019**	**9,870**
Currency translation difference	**–**	**(425)**
Goodwill	**–**	**5,734**
Carrying value at 31 December 2018	**23,019**	**15,179**

	EuroChem-Migao Ltd.	Others
Opening net assets at 1 January 2017	41,033	32,693
Net assets at acquisition date	–	8,801
Profit/(loss) for the period	1,481	(23,345)
Other comprehensive income/(loss) for the period, net	(824)	592
Currency translation difference arising on consolidation	–	857
Closing net assets at 31 December 2017	41,690	19,598
Interest, %	50.00%	N/a
Interest in associates and joint ventures	20,845	10,120
Goodwill	–	12,187
Carrying value at 31 December 2017	20,845	22,307

(all amounts are presented in thousands of US dollars, unless otherwise stated)

12. Investment in associates and joint ventures continued

Investments in associate Agrinos AS

Since acquisition of interest in Agrinos AS in January 2016, the Group accounted for this as an investment in associate due to the fact that the Group was able to influence the business decisions of Agrinos AS through representation on the Board of Directors and potential voting rights. Effective 1 January 2018, the Group does not have significant influence over the company, hence the investment in Agrinos AS is no longer accounted for as an investment in associate and is instead recognised as a financial instrument measured at fair value through OCI.

Investments in joint venture EuroChem-Migao Ltd.

The aggregated assets, liabilities of the joint venture were as follows:

	31 December 2018	31 December 2017
Current assets	54,712	49,084
Non-current assets	29,269	31,420
Current liabilities	(32,760)	(38,576)
Non-current liabilities	(246)	(238)
Non-controlling interest	(4,938)	–
Net assets	**46,037**	41,690

The joint venture's revenues and results were as follows:

	2018	2017
Sales	77,237	48,553
Profit	5,943	1,481

13. Inventories

	31 December 2018	31 December 2017, adjusted
Finished goods	682,656	465,967
Materials	225,227	184,245
Catalysts	79,667	80,329
Work in progress	63,921	59,366
Less: provision for obsolete and damaged inventories	(6,781)	(8,285)
Total inventories	**1,044,690**	781,622

(all amounts are presented in thousands of US dollars, unless otherwise stated)

14. Trade receivables, prepayments, other receivables and other current assets

	31 December 2018	31 December 2017, adjusted
Trade receivables		
Trade receivables denominated in US$	**233,414**	184,312
Trade receivables denominated in EUR	**59,214**	57,624
Trade receivables denominated in RUB	**64,082**	31,171
Trade receivables denominated in other currencies	**32,460**	24,211
Less: credit loss allowance	**(22,334)**	(8,359)
Total trade receivables	**366,836**	288,959
Prepayments, other receivables and other current assets		
Advances to suppliers	**96,722**	133,052
VAT recoverable and receivable	**134,110**	165,713
Other taxes receivable	**4,032**	13,434
Other receivables and other current assets	**67,080**	25,552
Collateral held by banks to secure derivative transactions	**–**	672
Interest receivable	**580**	272
Less: provision for impairment	**(13,323)**	(12,058)
Total prepayments, other receivables and other current assets	**289,201**	326,637
Total trade receivables, prepayments, other receivables and other current assets	**656,037**	615,596

Management believes that the fair value of accounts receivable does not differ significantly from their carrying amounts.

During the years ended 31 December 2018 and 31 December 2017, the Group entered into a number of non-recourse factoring arrangements according to which the trade receivables were sold to a factoring company and, thus, derecognised in the consolidated statement of financial position. As at 31 December 2018, trade receivables of US$120,899 thousand remain sold (31 December 2017: US$107,062 thousand).

As at 31 December 2018, the loss allowance for trade receivables, prepayments, other receivables and other current assets amounted to US$35,657 thousand (31 December 2017: US$20,417 thousand). The ageing of these receivables is as follows:

	31 December 2018	31 December 2017, adjusted
Less than 3 months	**11,121**	9,288
From 3 to 12 months	**6,565**	2,473
Over 12 months	**17,971**	8,656
Total gross amount of impaired trade receivables, prepayments and other receivables	**35,657**	20,417

(all amounts are presented in thousands of US dollars, unless otherwise stated)

14. Trade receivables, prepayments, other receivables and other current assets continued

As at 31 December 2018, trade receivables of US$58,654 thousand (31 December 2017: US$38,655 thousand) were past due but not impaired. Of this amount US$35,318 thousand (31 December 2017: US$19,540 thousand) were covered either by bank guarantees or backed by solid ratings from independent rating agencies or by internal creditworthiness rating and internal payment discipline rating (Note 35). The ageing analysis of these trade receivables from past due date is:

	31 December 2018	31 December 2017
Less than 3 months	54,627	25,329
From 3 to 12 months	2,504	6,710
Over 12 months	1,523	6,616
Trade accounts receivable past due not impaired	**58,654**	38,655

Analysis of the credit quality of trade receivables is presented in Note 35.

The movements in the ECL allowance/provision for impairment of accounts receivable are:

	Trade receivables	Other receivables
As at 1 January 2018	**8,359**	**12,058**
ECL allowance	15,888	4,534
Write-offs	(272)	(244)
ECL allowance reversed	(1,031)	(1,047)
Disposal of ECL allowance due to sale of subsidiary	(64)	–
Currency translation difference	(546)	(1,978)
Total ECL allowance and provision for impairment of accounts receivable as at 31 December 2018	**22,334**	**13,323**

	Trade receivables	Other receivables
As at 1 January 2017	5,429	7,670
Provision charged	14,958	7,103
Provision used	(14,854)	(1,082)
Provision reversed	(919)	(899)
Disposal of provision due to sale of subsidiary	(588)	(933)
Currency translation difference	191	199
Total provision for impairment of accounts receivable as at 31 December 2017	4,217	12,058
Adjustment due to adoption of IFRS 9	4,142	–
Total ECL allowance and provision for impairment of accounts receivable as at 31 December 2017, adjusted	8,359	12,058

(all amounts are presented in thousands of US dollars, unless otherwise stated)

15. Cash and cash equivalents, fixed-term deposits and restricted cash

	31 December 2018	31 December 2017
Cash on hand[1]	5,777	1,798
Bank balances denominated in US$	96,829	80,898
Bank balances denominated in RUB	16,827	11,174
Bank balances denominated in EUR	91,140	48,726
Bank balances denominated in other currencies	10,110	9,016
Term deposits denominated in US$	77,214	42
Term deposits denominated in RUB	9,467	26,479
Term deposits denominated in Euro	296	–
Term deposits denominated in other currencies	34,251	50,480
Total cash and cash equivalents	**341,911**	228,613
Fixed-term deposits in different currencies	1,801	151
Total fixed-term deposits	**1,801**	151
Current restricted cash	2,850	20,101
Non-current restricted cash	2,276	22,345
Total restricted cash	**5,126**	42,446

1. Includes cash on hand denominated in different currencies.

Term deposits as at 31 December 2018 and 31 December 2017 were held to meet short-term cash needs and had various original maturities but could be withdrawn on request without any restrictions.

Fixed-term deposits have various original maturities and can be withdrawn with an early notification and/or with a penalty accrued or interest income forfeited.

No bank balances, term or fixed-term deposits are past due or impaired. The credit quality of bank balances, term and fixed-term deposits which is based on the credit ratings of independent rating agencies, Standard & Poor's and Fitch Ratings, is as follows[2]:

	31 December 2018	31 December 2017
A to AAA rated	76,970	67,384
BB- to BBB+ rated	251,675	190,222
B- to B+ rated	2,491	6,342
C to CCC rated	2,293	13
Unrated	9,632	5,451
Total[3]	**343,061**	269,412

2. Credit ratings as at 16 January 2019 and 17 January 2018, respectively.
3. The rest of the consolidated statement of financial position item 'cash and cash equivalents' is cash on hand.

At 31 December 2018, non-current restricted cash consisted of US$1,865 thousand held in bank accounts as security deposits for third parties (31 December 2017: US$2,153 thousand) and US$411 thousand held in deposit against possible environmental obligations in compliance with the statutory rules of the Republic of Kazakhstan (31 December 2017: US$459 thousand). In June 2018, cash held in a debt service reserve account as required by the Usolsky Project Finance Facility Agreement was released due to early repayment of the Facility (31 December 2017: US$19,733 thousand) (Note 19).

At 31 December 2018, current restricted cash consisted of US$954 thousand received under targeted loan agreements with a state industrial development fund (31 December 2017: US$18,166 thousand) and of US$1,896 thousand held at banks under regulatory requirements for state contracts (31 December 2017: US$1,935 thousand).

(all amounts are presented in thousands of US dollars, unless otherwise stated)

16. Disposal of subsidiaries

In May 2018, the Board of Directors of the Group made a decision to sell two subsidiaries, within the Sales division, located in Ukraine. By the end of May 2018, the Group sold a 100% share in both companies to third parties for a consideration of US$53,064 thousand payable in five years in the form of promissory notes denominated in the Ukrainian hryvnia which were discounted to US$29,397 thousand. In the third quarter 2018, a portion of the promissory notes with the carrying value of US$18,043 thousand was sold to a related party for a consideration of US$28,638 thousand denominated in the Ukrainian hryvnia. The result from the sale of promissory notes was recognised within “Gain/(loss) from disposal of subsidiaries, net” in the consolidated statement of profit or loss. The respective receivable was accounted for within “Prepayments, other receivables and other current assets” as at 31 December 2018. In the fourth quarter 2018, the portion of receivable of US$3,768 thousand was repaid. The remaining part was accounted for within “Other non-current assets” in the consolidated statement of financial position.

As at date of disposal the assets and liabilities of subsidiaries were as follows:

Cash and cash equivalents	3,477
Trade receivables	5,957
Prepayments, other receivables and other current assets	13,047
Inventories	34,891
Total current assets	**57,372**
Goodwill	60
Property, plant and equipment	5,541
Total non-current assets	**5,601**
Trade payables	(5,756)
Other accounts payable and accrued expenses	(1,892)
Income tax payable	(551)
Total current liabilities	**(8,199)**
Deferred income tax liabilities	(114)
Total non-current liabilities	**(114)**
Net assets	**54,660**
Discounted consideration	(29,397)
Currency translation differences reclassified to profit or loss	25,289
Loss on disposal	**50,552**

The Group recognised a loss on disposal of US$50,552 thousand.

17. Equity

Share capital

As at 31 December 2018 and 31 December 2017, the nominal registered amount of the Company’s issued share capital in Swiss francs (“CHF”) was CHF 100 thousand (US$111 thousand). The total authorised number of ordinary shares is 1,000 shares with a par value of CHF 100 (US$111) per share. All authorised shares were issued and fully paid in 2014.

Dividends

During 2018 and 2017 the Group did not declare or pay dividends.

Capital contribution

In 2016, the Group signed an agreement and subsequently several amendments with AIM Capital S.E. to receive a capital contribution in a form of a perpetual loan up to US$1 billion with the availability period to 31 December 2020. In 2016 and in June 2018 the Group received funds of US$250 million and US$600 million, respectively.

Other reserves within “Retained earnings and other reserves”

At 31 December 2018 and 31 December 2017, other reserves of the Company included a cash contribution of US$5,000 thousand from AIM Capital S.E., the parent company.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

18. Bank borrowings and other loans received

Currency and rate	Interest rate 2018[1]	Interest rate 2017[1]	31 December 2018	31 December 2017
Current loans and borrowings				
Short-term unsecured bank loans				
US$ with floating rate	**4.11% – 5.42%**	3.18% – 5.51%	**85,402**	114,559
US$ with fixed rate	**3.08% – 4.85%**	2.75%	**171,363**	50,000
RUB with fixed rate	**8.30% – 10.20%**	8.56% – 8.90%	**11,152**	597,988
Current portion of unsecured long-term bank loans				
US$ with floating rate	**4.67%**	–	**45,955**	–
RUB with fixed rate	**7.60%**	11.05%	**45,703**	5,309
ARS with fixed rate	**19.00% – 36.50%**	18.00% – 19.50%	**213**	11
Current portion of secured long-term bank loans				
BRL with floating rate	**10.13%**	10.15%	**59**	107
BRL with fixed rate	**2.94% – 6.80%**	2.94% – 12.17%	**13,550**	2,598
Less: short-term portion of transaction costs			**(2,264)**	(167)
Total current loans and borrowings			**371,133**	770,405

Currency and rate	Interest rate 2018[1]	Interest rate 2017[1]	31 December 2018	31 December 2017
Non-current loans and borrowings				
Long-term unsecured bank loans				
US$ with floating rate	**3.98% – 4.01%**	3.60% – 3.85%	**1,020,000**	1,080,000
US$ with fixed rate	**3.45% – 4.75%**	–	**550,000**	–
Long-term unsecured targeted loans				
RUB with fixed rate	**5.00%**	5.00%	**21,592**	26,042
Long-term portion of unsecured bank loans				
US$ with floating rate	**4.67%**	–	**379,053**	–
RUB with fixed rate	**7.70%**	–	**45,271**	–
ARS with fixed rate	**22.00%**	19.00% – 22.00%	**2**	16
Long-term portion of secured bank loans				
BRL with floating rate	**–**	10.65%	**–**	44
BRL with fixed rate	**2.94%**	2.94% – 12.17%	**1,504**	14,667
Less: long-term portion of transaction costs			**(14,147)**	(10,564)
Total non-current loans and borrowings			**2,003,275**	1,110,205
Total loans and borrowings			**2,374,408**	1,880,610

1. Contractual interest rate on 31 December 2018 and 31 December 2017, respectively.

According to IFRS 7, Financial Instruments: Disclosures an entity shall disclose the fair value of financial liabilities. The fair value of short-term bank borrowings and borrowings bearing floating interest rates is not materially different from their carrying amounts.

The fair value of the long-term borrowings bearing a fixed interest rate is estimated based on expected cash flows discounted at a prevailing market interest rate. As at 31 December 2018 the total fair value of long-term loans with fixed interest rates was less than their carrying amount by US$10,481 thousand (31 December 2017: the fair value of long-term loans was less than their carrying amount by US$3,830 thousand).

Under the terms of the loan agreements, the Group is required to comply with a number of covenants and restrictions, including the maintenance of certain financial ratios and financial indebtedness and cross-default provisions. The Group was in compliance with covenants during the periods and as at 31 December 2018 and 31 December 2017.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

18. Bank borrowings and other loans received continued

Interest rates and outstanding amounts of major loans and borrowings

In December 2018, the Group signed an uncommitted revolving credit facility with a Russian bank. The funds through this facility may be obtained in multiple currencies. As at 31 December 2018, the outstanding amount was US$150 million.

In June 2018, the Group signed a US$820 million committed credit facility bearing a floating interest rate and maturing in July 2021. As at 31 December 2018, the outstanding amount was US$820 million.

In March 2018, the Group signed a US$200 million committed credit facility bearing a floating interest rate and maturing in April 2021. As at 31 December 2018, the outstanding amount was US$200 million.

In 2017, the Group signed a 3-year uncommitted facility agreement with a Russian bank. The funds through this facility may be obtained in multiple currencies with a credit limit up to US$550 million. As at 31 December 2018, the outstanding amount was RUB 6,320 million (31 December 2017: RUB 14,250 million).

In 2017, the Group signed a US$750 million unsecured credit facility bearing a floating interest rate and maturing in September 2022. As at 31 December 2018, the outstanding amount was US$425 million (31 December 2017: US$750 million).

In 2014, the Group signed an uncommitted revolving credit facility with a Russian bank. The funds through this facility may be obtained in multiple currencies. As at 31 December 2018, the outstanding amount was US$500 million (31 December 2017: US$330 million).

Undrawn facilities

As at 31 December 2018, the below facilities had no outstanding balances and are available to the Group:

- US$125 million uncommitted revolving credit facility bearing a floating interest rate, signed in April 2016, maturing in April 2019;
- US$100 million committed credit facility bearing a floating interest rate, signed in December 2018, maturing in December 2023. The drawdown was made in the full amount in January 2019.
- US$100 million uncommitted revolving credit facility bearing a floating interest rate, signed in May 2012, maturing in May 2020.
- RUB 20 billion uncommitted revolving credit agreement, signed in September 2016, maturing in September 2019.

Collaterals and pledges

As at 31 December 2018, loans of a Brazilian subsidiary totalling US$15,113 thousand were collateralised by property, plant and equipment with a carrying value of US$17,155 thousand (31 December 2017: loans of US$17,416 thousand were collateralised by property, plant and equipment with a carrying value of US$30,748 thousand).

As at 31 December 2018 and 31 December 2017, all other bank borrowings and loans received listed in Note 18 were not secured.

19. Project Finance

Due to the non-recourse nature of the Project Finance facilities they are excluded from financial covenant calculations in accordance with the Group's various debt, project, finance, legal and other documents and are presented as a separate line "Project Finance" in the consolidated statement of financial position.

Usolskiy potash project

In 2014, the Group signed a US$750 million Non-recourse Project Finance Facility Agreement ("Project Financing" or the "Facility") maturing at the end of 2022 with a floating interest rate based on 3-month Libor for financing the Usolskiy potash project located in the Perm region of Russia.

In June 2018, the Project Finance Facility was repaid. As at 31 December 2017, the outstanding balance was US$732,255 thousand shown net of transaction costs of US$17,745 thousand.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Ammonia project in Kingisepp

In 2015, the Group signed a EUR 557 million Non-recourse 13.5-year Project Finance Facility with a floating interest rate based on 3-month Euribor to finance the construction of an ammonia plant in Kingisepp, Russia.

During the year ended 31 December 2018, the Group received funds under the Facility of EUR 186,292 thousand (US$219,309 thousand) (2017: EUR 220,588 thousand (US$257,383 thousand)).

As at 31 December 2018, the outstanding balance was US$441,682 thousand shown net of transaction costs of US$98,916 thousand (31 December 2017: US$227,118 thousand shown net of transaction costs of US$115,232 thousand). The contractual interest rate as at 31 December 2018 was 1.3% p.a. (31 December 2017: 1.3% p.a.).

The fair value of this Facility was not materially different from its carrying amount.

As at 31 December 2018 and 31 December 2017, under the terms of the facility agreement 100% of the shares in EuroChem Northwest JSC, the project owner and wholly-owned subsidiary of the Group, were pledged as collateral. The carrying value of the total assets of the company pledged under the Facility related to the project amounted to US$946,059 thousand as at 31 December 2018 (31 December 2017: US$895,680 thousand).

During the years ended 31 December 2018 and 31 December 2017 the EBITDA of the subsidiary under the Ammonia project was negative of US$4,360 thousand and of US$6,324 thousand, respectively.

20. Bonds issued

				31 December 2018		31 December 2017	
Currency	Rate	Coupon rate, p.a.	Maturity	**Fair value**	**Carrying amount**	Fair value	Carrying amount
Current bonds							
RUB	Fixed	12.40%	2018	**–**	**–**	90,017	86,805
RUB	Fixed	8.25%	2018	**–**	**–**	310	310
RUB	Fixed	10.60%	2019	**217,948**	**215,919**	–	–
Less: transaction costs				**–**	**(69)**	–	(24)
Total current bonds issued				**217,948**	**215,850**	90,327	87,091
Non-current bonds							
US$	Fixed	3.80%	2020	**493,520**	**500,000**	502,145	500,000
US$	Fixed	3.95%	2021	**486,265**	**500,000**	502,760	500,000
RUB	Fixed	10.60%	2019	**–**	**–**	269,661	260,416
RUB	Fixed	8.75%	2020	**217,862**	**215,919**	266,666	260,416
Less: transaction costs				**–**	**(4,658)**	–	(8,419)
Total non-current bonds issued				**1,197,647**	**1,211,261**	1,541,232	1,512,413
Total bonds issued				**1,415,595**	**1,427,111**	1,631,559	1,599,504

US$-denominated bonds and RUB-denominated bonds were listed on the Irish Stock Exchange and the Moscow Exchange, respectively. The fair value of the bonds was determined with reference to their market quotations or executable prices.

On 26 June 2018 12.40% RUB-denominated bonds were redeemed at maturity in the full amount of US$79,428 thousand or RUB 5,000 million.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

21. Derivative financial assets and liabilities

At 31 December 2018, net derivative financial assets and liabilities were:

	Assets		Liabilities	
	Non-Current	Current	Non-Current	Current
RUB/US$ deliverable forward contracts with a nominal amount of RUB 8,287 million	–	806	–	1,278
RUB/US$ non-deliverable forward contracts with a nominal amount of RUB 1,500 million	–	–	–	1,101
EUR/US$ non-deliverable forward contracts with a nominal amount of EUR 164 million	–	–	6,869	3,187
BRL/US$ non-deliverable forward contracts with a nominal amount of US$145 million	–	74	–	2,464
RUB/US$ swap contracts with a nominal amount of RUB 2,000 million	–	246	–	–
Cross currency interest rate swaps	–	–	50,234	4,599
Total	–	1,126	57,103	12,629

At 31 December 2017, net derivative financial assets and liabilities were:

	Assets		Liabilities	
	Non-Current	Current	Non-Current	Current
Commodity swaps	–	–	–	30
RUB/US$ deliverable forward contracts with a nominal amount of RUB 2,470 million	–	954	–	–
RUB/US$ non-deliverable forward contracts with a nominal amount of RUB 5,500 million	–	2,530	–	–
EUR/US$ non-deliverable forward contracts with a nominal amount of EUR 67 million	645	–	–	–
Cross currency interest rate swaps	6,544	15,471	–	61,791
Total	7,189	18,955	–	61,821

Movements in the carrying amount of derivative financial assets/(liabilities) were:

	1 January 2018	Gain/(loss) from changes of fair value, net	Cash (proceeds) /payments on derivatives, net	Net results of notional set-offs	Currency translation difference	31 December 2018
Operating activities	3,454	(46,457)	38,935	–	167	(3,901)
Commodity swaps	(30)	30	–	–	–	–
Foreign exchange deliverable and non-deliverable forward contracts, net	3,484	(36,679)	29,127	–	167	(3,901)
Contingent premium put option contracts	–	(9,808)	9,808	–	–	–
Financing activities	(39,131)	(136,163)	110,572	–	17	(64,705)
Foreign exchange deliverable and non-deliverable forward contracts, net	645	(13,371)	(19)	2,610	17	(10,118)
Foreign exchange swap contracts, net	–	(797)	–	1,043	–	246
Cross currency interest rate swaps, net	(39,776)	(121,995)	110,591	(3,653)	–	(54,833)
Total derivative financial assets and liabilities, net	**(35,677)**	**(182,620)**	**149,507**	**–**	**184**	**(68,606)**

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Changes in the fair value of derivatives, which are entered into for the purpose of mitigating risks linked to cash flows from operating activities of the Group, are recognised in "Other operating income/(expenses), net" (Note 29), foreign currency derivative contracts and contingent premium put option contracts are recognised in "Foreign exchange gain/(loss) from operating activities, net" and commodity swaps are recognised in "Other operating income/(expenses), net".

Changes in the fair value of derivatives, which are entered into for the purpose of hedging the financing and investing cash flows, are recognised in "Other financial gain/(loss), net" (Note 30).

Cross currency interest rate swaps

In June 2018, the Group signed RUB/US$ cross currency interest rate swap agreements with a total notional amount of RUB 6,320 million, which mature in the period from June 2019 to September 2020.

Outstanding at the beginning of the year, RUB/US$ cross currency interest rate swap agreements with a total notional amount of RUB 34,250 million matured in the period from July to September 2018.

Outstanding at the beginning of the year, RUB/US$ cross currency interest rate swap agreements with a total notional amount of US$235 million matured in September 2018. Settlement of the swaps was performed subject to netting of RUB-denominated payments partly with RUB/US$ deliverable forward contracts signed in the period from August to September 2018 with a total notional amount of RUB 8,132 million that matured in September 2018 and partly with RUB/US$ swap contracts signed in September 2018 with a total notional amount of RUB 2,000 million, which mature in April 2019.

Foreign exchange non-deliverable forward contracts

Outstanding at the beginning of the year, RUB/US$ non-deliverable forward contracts with a total notional amount of RUB 5,500 million matured in the period from January to April 2018.

In the period from January to May 2018, the Group signed EUR/US$ non-deliverable forward contracts with a total notional amount of EUR 97 million, which mature in the period from May 2020 to November 2021.

In the period from February to April 2018, the Group signed RUB/US$ non-deliverable forward contracts with a total notional amount of RUB 23,598 million, out of which contracts with a total notional amount of RUB 22,098 million matured in the period from May to December 2018, and the outstanding contract matures in January 2019.

Foreign exchange deliverable forward contracts

Outstanding at the beginning of the year, RUB/US$ deliverable forward contracts with a total notional amount of RUB 2,470 million matured in the period from March to June 2018.

In the period from March to September 2018, the Group signed RUB/US$ deliverable forward contracts with a total notional amount of RUB 11,600 million, out of which contracts with a total notional amount of RUB 3,313 million matured in the period from June to October 2018, and the outstanding contracts mature in the period from March to April 2019.

Put option contracts

In the period from January to March 2018, the Group signed contingent premium RUB/US$ put option contracts with a total notional amount of US$249 million which matured in the period from July to October 2018.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

22. Other non-current liabilities and deferred income

	Note	31 December 2018	31 December 2017
Liability from contingent consideration related to business combination	33	**122,866**	123,001
Deferred payable related to acquisition of additional interest in subsidiary		**1,500**	3,000
Deferred payable related to business combination		**321**	–
Deferred payable related to mineral rights acquisition		**11,088**	11,785
Provisions for age premium, retirement benefits, pensions and similar obligations		**22,768**	25,683
Provision for land restoration	23	**17,625**	26,348
Deferred income – Investment grants received		**1,889**	2,584
Total other non-current liabilities and deferred income		**178,057**	192,401

23. Provision for land restoration

In accordance with federal, state and local environmental regulations the Group's mining, drilling and processing activities result in asset retirement obligations to restore the disturbed land in regions in which the Group operates.

Movements in the amount of provision for land restoration were as follows:

	Note	2018	2017
As at 1 January		**26,348**	21,433
Change in estimates	8	**(6,138)**	4,350
Unwinding of the present value discount	30	**1,903**	1,857
Disposal of provision due to sale of subsidiary		**–**	(2,486)
Currency translation difference		**(4,488)**	1,194
Total provision for land restoration as at 31 December		**17,625**	26,348

During the years ended 31 December 2018 and 31 December 2017, the Group reassessed estimates of provision for land restoration due to changes in inflation, discount rates and expected timing for land restoration. Therefore, the amount of provision for land restoration was recalculated and the appropriate changes were disclosed as a change in estimates.

The principal assumptions used for the calculation of land restoration provision were as follows:

	31 December 2018	31 December 2017
Discount rates	**8.18% – 8.95%**	6.97% – 9.10%
Expected inflation rates in Russia	**3.60% – 4.00%**	2.60% – 4.00%
Expected timing for land restoration	**2021 – 2070**	2021 – 2063

(all amounts are presented in thousands of US dollars, unless otherwise stated)

The present value of expected costs to be incurred for the settlement of land restoration obligations was as follows:

	31 December 2018	31 December 2017
Between 1 and 5 years	307	359
Between 6 and 10 years	–	1,369
Between 11 and 20 years	4,261	4,637
More than 20 years	13,057	19,983
Total provision for land restoration	**17,625**	26,348

24. Trade payables, other accounts payable and accrued expenses

	31 December 2018	31 December 2017
Trade payables		
Trade payables denominated in US$	136,147	170,190
Trade payables denominated in EUR	143,060	167,176
Trade payables denominated in RUB	86,380	127,298
Trade payables denominated in other currencies	23,972	10,257
Trade payables denominated in RUB with irrevocable documentary letter of credit	80,705	38,083
Total trade payables	**470,264**	513,004
Other accounts payable and accrued expenses		
Advances received	157,773	82,414
Payroll and social tax	14,933	13,082
Accrued liabilities and other creditors	204,068	199,618
Interest payable	27,457	29,604
Payables for acquisition of associate	–	3,229
Short-term part of deferred payable related to mineral rights acquisition	1,460	1,875
Short-term part of deferred payables related to business combination and acquisition of additional interest in subsidiary	1,500	4,697
Total other payables	**407,191**	334,519
Total trade payables, other accounts payable and accrued expenses	**877,455**	847,523

As at 31 December 2018, trade payables included payables to suppliers of property, plant and equipment and construction companies of US$123,116 thousand (31 December 2017: US$174,748 thousand). Trade payables included payables with irrevocable documentary letters of credit with a deferred term of payment opened in the amount of US$72,120 thousand (31 December 2017: US$38,083 thousand) under the contracts with the construction companies, of US$6,709 thousand under the contract with suppliers of property, plant and equipment (31 December 2017: nil) and of US$1,875 thousand under operating activities contracts (31 December 2017: nil).

(all amounts are presented in thousands of US dollars, unless otherwise stated)

25. Sales

The external sales by product group were:

	2018		2017	
	Sales volume (thousand metric tonnes)	Sales (thousand US$)	Sales volume (thousand metric tonnes)	Sales (thousand US$)
Nitrogen products	7,813	1,837,985	8,073	1,704,825
Nitrogen fertilizers	7,797	1,835,278	8,055	1,702,101
Other products	16	2,707	18	2,724
Phosphate and complex fertilizers	5,685	2,317,795	5,319	1,899,473
Phosphate fertilizers	2,379	1,044,475	2,304	848,918
Complex fertilizers	2,907	1,097,168	2,667	915,183
Feed phosphates	399	176,152	348	135,372
Potash fertilizers	632	235,705	454	148,590
Mining products	5,977	422,252	5,912	435,859
Iron ore concentrate	5,844	381,800	5,878	405,562
Other products	133	40,452	34	30,297
Industrial products	1,871	632,003	1,642	532,104
Hydrocarbons	–	–	74	24,860
Other sales	–	131,732	–	119,953
Logistic services	–	43,728	–	36,998
Other products	–	31,937	–	36,597
Other services	–	56,067	–	46,358
Total sales		5,577,472		4,865,664

The sales of fertilizers, mining and industrial products for year ended 31 December 2018 include US$273,449 thousand of revenues from delivery of these products to customers (2017: US$259,950 thousand).

26. Cost of sales

The components of cost of sales were:

	2018	2017
Raw materials	1,204,587	1,025,391
Goods for resale	1,403,816	1,024,779
Other materials	184,508	180,752
Energy	184,709	178,330
Utilities and fuel	84,542	73,478
Labour, including contributions to social funds	244,770	231,737
Depreciation and amortisation	255,366	227,348
Repairs and maintenance	53,253	55,725
Production overheads	78,756	70,150
Property tax, rent payments for land and related taxes	27,236	38,598
Impairment/(reversal of impairment)/write-off of idle property, plant and equipment, net	920	(480)
Provision/(reversal of provision) for obsolete and damaged inventories, net	(68)	(290)
Changes in work in progress and finished goods	(293,288)	(47,756)
Other costs/(compensations), net	8,620	21,267
Total cost of sales	3,437,727	3,079,029

(all amounts are presented in thousands of US dollars, unless otherwise stated)

27. Distribution costs

Distribution costs were:

	2018	2017
Transportation	530,320	511,379
Labour, including contributions to social funds	87,650	79,672
Depreciation and amortisation	41,511	37,414
Repairs and maintenance	8,033	7,140
Provision/(reversal of provision) for impairment of receivables, net	16,307	14,531
Other costs	61,164	51,351
Total distribution costs	**744,985**	701,487

28. General and administrative expenses

General and administrative expenses were:

	2018	2017
Labour, including contributions to social funds	122,366	122,130
Depreciation and amortisation	11,459	12,328
Audit, consulting and legal services	13,150	14,927
Rent	6,737	7,060
Bank charges	3,436	4,261
Social expenditure	3,227	4,272
Repairs and maintenance	2,401	2,359
Provision/(reversal of provision) for impairment of receivables, net	2,037	5,712
Other expenses	43,479	44,726
Total general and administrative expenses	**208,292**	217,775

The total depreciation and amortisation expenses included in the consolidated statement of profit or loss amounted to US$308,336 thousand (2017: US$277,090 thousand).

The total labour costs (including social expenses) included in the consolidated statement of profit or loss amounted to US$454,786 thousand (2017: US$433,539 thousand).

The total statutory pension contributions included in all captions of the consolidated statement of profit or loss amounted to US$64,837 thousand (2017: US$63,880 thousand).

The fees for the audit of the consolidated and statutory financial statements for the year ended 31 December 2018 amounted to US$3,063 thousand (2017: US$3,798 thousand). The auditors also provided the Group with other non-audit services amounting to US$152 thousand (2017: US$718 thousand).

(all amounts are presented in thousands of US dollars, unless otherwise stated)

29. Other operating income and expenses

The components of other operating (income) and expenses were:

	2018	2017
Sponsorship	**6,752**	21,013
(Gain)/loss on disposal of property, plant and equipment and intangible assets, net	**8,409**	8,708
Foreign exchange (gain)/loss from operating activities, net	**(3,676)**	5,758
Impairment/(reversal of impairment)/write-off of idle property plant and equipment, net	**539**	5,451
(Gain)/loss on sales and purchases of foreign currencies, net	**(4,780)**	(1,661)
Non-recurring (income)/expenses, net	**6,155**	6,943
Other operating (income)/expenses, net	**(16,355)**	(11,112)
Total other operating (income)/expenses, net	**(2,956)**	35,100

30. Other financial gain and loss

The components of other financial (gain) and loss were:

	Note	2018	2017
Changes in fair value of cross currency interest rate swaps	21	**121,995**	(58,970)
Changes in fair value of foreign exchange deliverable and non-deliverable forward contracts	21	**13,371**	(1,424)
Change in fair value of foreign exchange swap contracts		**797**	–
Unwinding of liability from contingent consideration related to business combination		**19,095**	18,879
Unwinding of discount on deferred payables		**707**	796
Unwinding of discount on land restoration obligation	23	**1,903**	1,857
Other financial (gain)/loss, net		**1,936**	(7,443)
Total other financial (gain)/loss, net		**159,804**	(46,305)

31. Income tax

	2018	2017
Income tax expense – current	**213,953**	148,216
Deferred income tax – origination and reversal of temporary differences, net	**(21,853)**	62,238
Prior periods adjustments for income tax	**2,163**	(6,339)
Reassessment of deferred tax assets/liabilities due to change in the tax rate	**6,158**	39,129
Income tax expense	**200,421**	243,244

(all amounts are presented in thousands of US dollars, unless otherwise stated)

A reconciliation between theoretical income tax charge calculated at the applicable tax rates enacted in the countries where Group companies are incorporated, and actual income tax expense calculated as follows:

	2018	2017
Profit before taxation	**738,842**	696,610
Theoretical tax charge at statutory rate of subsidiaries	**(176,315)**	(177,190)
Tax effect of items which are not deductible or assessable for taxation purposes:		
– Non-deductible expenses	**(16,189)**	(14,564)
– (Unrecognised tax loss for the year)/recovery of previously unrecognised tax loss carry forward, net	**2,169**	(6,596)
– Adjustment on deferred tax assets/liabilities on prior periods	**(1,765)**	(12,104)
– Reassessment of deferred tax assets/liabilities due to change in the tax rate	**(6,158)**	(39,129)
Prior periods adjustments recognised in the current period for income tax	**(2,163)**	6,339
Income tax expense	**(200,421)**	(243,244)

The Group companies are subject to tax rates depending on the country of domicile.

Subsidiaries located in Russia applied a tax rate of 20.0% on taxable profits during the year ended 31 December 2018 (2017: 20.0%). Reduced income tax rates are applied at several subsidiaries within a range from 15.5% to 19.3% according to regional tax law and agreements with regional authorities (2017: within a range from 15.5% to 19.3%).

In the third quarter 2018, the Group signed a special investment contract with the Russian authorities in respect of its ammonia project subsidiary, EuroChem Northwest, JSC enacted from 24 July 2018 and effective till 31 December 2025. Under the terms of the contract, the income tax rate is reduced to 5%, the respective effect from reassessment of deferred tax assets and liabilities amounted to US$6,158 thousand for the year ended 31 December 2018.

At the end of 2016, the Group signed special investment contracts with the Russian authorities in respect of its potash project subsidiaries, EuroChem-VolgaKaliy LLC and EuroChem-Usolsky potash complex LLC enacted from 1 January 2017 and effective till 31 December 2025. Under the terms of the contracts, the income tax rates may be reduced to 5% and 0% respectively for the above mentioned subsidiaries. As EuroChem-Usolsky potash complex LLC had a tax loss for the year ended 31 December 2018, the reduced income tax rate was not applied for the year 2018. Under the contract terms of EuroChem-VolgaKaliy LLC, the subsidiary needs to generate revenue from its primary activity to apply for the income tax rate reduction. As at 31 December 2018 the subsidiary did not generate revenue from the production, therefore the reduced income tax rate was not applied by EuroChem-VolgaKaliy LLC for the year 2018.

Subsidiaries located in Europe, North and Latin America and Asia are subject to income tax rates ranging from 7.8% to 34.0% (2017: 7.8% to 39.5%).

Starting 1 January 2018, income tax rates in the US and Belgium were decreased to 26.50% and 29.58%, respectively, following changes in tax legislation in December 2017 (2017: income tax rates in the US and Belgium were 39.50% and 33.99%, respectively). Starting 1 January 2020, the tax rate in Belgium will be decreased to 25.00%.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

31. Income tax continued

At 31 December 2018, the Group had US$171,681 thousand (31 December 2017: US$184,800 thousand) of unused accumulated tax losses carried forwards in respect of which a deferred tax asset of US$34,336 thousand (31 December 2017: US$36,960 thousand) had not been recognised as it is not probable that future taxable profit will be available against which the Group can utilise such benefits. These tax losses carried forward expire as follows:

	31 December 2018	31 December 2017
Tax losses carry forwards expiring by:		
– 31 December 2020	**1,901**	–
– 31 December 2021	**35,840**	35,490
– 31 December 2022	**37,224**	38,720
– 31 December 2025	**42,178**	66,050
– 31 December 2026	**44,565**	44,540
– 31 December 2027	**9,973**	–
Tax loss carry forwards	**171,681**	184,800

The movement in deferred tax (assets) and liabilities during 2018 was as follows:

	1 January 2018	Differences recognition and reversals	Disposal of subsidiaries	Reassessment of deferred tax assets/ liabilities due to change in the tax rate	Currency translation difference	31 December 2018
Tax effects of (deductible)/taxable temporary differences:						
Property, plant and equipment and Intangible assets	335,944	42,727	–	–	(50,916)	327,755
Accounts receivable	(4,207)	(4,346)	–	–	189	(8,364)
Accounts payable	(2,350)	3,868	–	–	314	1,832
Inventories	(14,491)	(19,054)	(114)	–	690	(32,969)
Other	9,787	(4,129)	–	–	432	6,090
Tax losses carried forward	(185,744)	(38,750)	–	6,158	19,764	(198,572)
Less: Unrecognised deferred tax assets	36,960	(2,169)	–	–	(455)	34,336
Net deferred tax (asset)/liability	**175,899**	**(21,853)**	**(114)**	**6,158**	**(29,982)**	**130,108**
Recognised deferred tax assets	(55,360)	(33,827)	–	–	6,574	(82,613)
Recognised deferred tax liabilities	231,259	11,974	(114)	6,158	(36,556)	212,721
Net deferred tax (asset)/liability	**175,899**	**(21,853)**	**(114)**	**6,158**	**(29,982)**	**130,108**

(all amounts are presented in thousands of US dollars, unless otherwise stated)

The effect of changes in accounting policy and adoption of new standards was as follows as at 1 January 2018:

	31 December 2017, as previously reported	Adjustment, accounting policy	Adjustment, IFRS 9	1 January 2018, adjusted
Tax effects of deductible/taxable temporary differences:				
Property, plant and equipment and Intangible assets	335,944	–	–	335,944
Accounts receivable	(3,215)	–	(992)	(4,207)
Accounts payable	(2,350)	–	–	(2,350)
Inventories	(23,438)	8,947	–	(14,491)
Other	9,787	–	–	9,787
Tax losses carried-forward	(185,744)	–	–	(185,744)
Less: Unrecognised deferred tax assets	36,960	–	–	36,960
Net deferred tax (asset)/liability	**167,944**	**8,947**	**(992)**	**175,899**
Recognised deferred tax assets	(63,315)	8,947	(992)	(55,360)
Recognised deferred tax liabilities	231,259	–		231,259
Net deferred tax (asset)/liability	**167,944**	**8,947**	**(992)**	**175,899**

The movement in deferred tax (assets) and liabilities during 2017 was as follows:

	31 December 2016, as previously reported	Differences recognition and reversals	Business combinations	Disposal of subsidiary	Reassessment of deferred tax assets/liabilities due to change in the tax rate	Currency translation difference	31 December 2017, as previously reported
Tax effects of (deductible)/taxable temporary differences:							
Property, plant and equipment and Intangible assets	298,373	60,081	(16)	(40,019)	(11,973)	29,498	335,944
Accounts receivable	(5,713)	2,792	–	243	73	(610)	(3,215)
Accounts payable	609	(78)	–	153	50	(3,084)	(2,350)
Inventories	(28,216)	5,853	–	(46)	98	(1,127)	(23,438)
Other	997	8,535	–	98	(3)	160	9,787
Tax losses carried forward	(203,470)	(21,541)	–	9,577	50,884	(21,194)	(185,744)
Less: Unrecognised deferred tax assets	30,246	6,596	–	–	–	118	36,960
Net deferred tax (asset)/liability	**92,826**	**62,238**	**(16)**	**(29,994)**	**39,129**	**3,761**	**167,944**
Recognised deferred tax assets	(121,464)	24,016	(16)	–	41,722	(7,573)	(63,315)
Recognised deferred tax liabilities	214,290	38,222	–	(29,994)	(2,593)	11,334	231,259
Net deferred tax (asset)/liability	**92,826**	**62,238**	**(16)**	**(29,994)**	**39,129**	**3,761**	**167,944**

(all amounts are presented in thousands of US dollars, unless otherwise stated)

31. Income tax continued

The effect of changes in accounting policy was as follows as at 1 January 2017:

	31 December 2016, as previously reported	Adjustment, accounting policy	1 January 2017, adjusted
Tax effects of deductible/taxable temporary differences:			
Property, plant and equipment and intangible assets	298,373	–	298,373
Accounts receivable	(5,713)	–	(5,713)
Accounts payable	609	–	609
Inventories	(28,216)	8,947	(19,269)
Other	997	–	997
Tax losses carried forward	(203,470)	–	(203,470)
Less: Unrecognised deferred tax assets	30,246	–	30,246
Net deferred tax (asset)/liability	**92,826**	**8,947**	**101,773**
Recognised deferred tax assets	(121,464)	8,947	(112,517)
Recognised deferred tax liabilities	214,290	–	214,290
Net deferred tax (asset)/liability	**92,826**	**8,947**	**101,773**

The total amount of the deferred tax charge for 2018 and 2017 is recognised in profit or loss.

32. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. The Company has no dilutive potential ordinary shares and, therefore, the diluted earnings per share equals the basic earnings per share.

	2018	2017
Profit for the period attributable to owners of the parent	**538,448**	453,466
Weighted average number of ordinary shares outstanding	**1,000**	1,000
Earnings per share – basic and diluted	**538.45**	453.47

(all amounts are presented in thousands of US dollars, unless otherwise stated)

33. Balances and transactions with related parties

The Group's related parties are considered to include the ultimate beneficiaries, affiliates and entities under common ownership and control within the Group and/or entities having common principal ultimate beneficiaries. The relationships with those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below:

Financial statements caption	Nature of relationship	31 December 2018	31 December 2017
Consolidated statement of financial position			
Assets			
Non-current originated loans	Associates	–	4,024
Non-current originated loans	Other related parties[1]	–	43,501
Other non-current assets including:			
Interest receivable	Other related parties[1]	–	655
Other non-current assets	Other related parties[1]	9,431	–
Trade receivables	Joint ventures	272	1,018
Trade receivables	Other related parties[1]	1,356	441
Other receivables	Other related parties[1]	24,176	–
Liabilities			
Liability from contingent consideration related to business combination (Note 22)	Other related parties[1]	122,866	123,001
Non-current bonds issued	Parent company	27,864	–
Trade payables	Joint ventures	1,959	1,784
Trade payables	Other related parties[1]	2,846	1,277
Consolidated statement of profit or loss			
Sales	Joint ventures	7,327	3,533
Sales	Other related parties[1]	16,660	4,593
Cost of sales	Other related parties[1]	(13)	(792)
Distribution costs	Other related parties[1]	(4,502)	(7,897)
Interest income	Other related parties[1]	172	1,525
Gain/(loss) from disposal of subsidiaries, net	Other related parties[1]	4,799	–
Other financial gain	Other related parties[1]	–	7,356
Consolidated statement of cash flows			
(Increase)/decrease in trade receivables	Joint ventures	742	(1,011)
(Increase)/decrease in trade receivables	Other related parties[1]	(1,049)	–
Increase/(decrease) in trade payables	Other related parties[1]	1,825	1,250
Capital expenditure on property, plant and equipment and other intangible assets	Joint ventures	(3,609)	(10,762)
Proceeds from sale of interest in associate	Other related parties[1]	–	60,749
Originated loans	Associates	–	(4,024)
Originated loans	Other related parties[1]	–	(30,850)
Repayment of originated loans	Other related parties[1]	21,100	9,469
Interest received	Other related parties[1]	172	3,455
Other investing activities	Other related parties[1]	3,768	9,511
Capital contribution (Note 17)	Parent company	600,000	–

1. Other related parties are represented by the companies under common control with the Group and/or by the company ultimately controlled by one of the Group's shareholders or key management personnel.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

33. Balances and transactions with related parties continued

In the first quarter 2018, the Group acquired from the parent company of the Group, AIM Capital S.E., a company owning a land plot for a project to construct a nitrogen fertilizers plant. The company is located in the US. The Group treats this transaction as an asset acquisition.

In November 2018, the Group sold two subsidiaries, each owning a bulk carrier sea vessel, to a company which is a related party of the Group.

Management compensation

The total key management personnel compensation amounted to US$16,496 thousand and US$17,933 thousand for the year ended 31 December 2018 and 31 December 2017, respectively. This compensation relates to individuals, who are members of the Management Board, for their services in full time positions. Compensation is made up of an annual fixed remuneration plus a performance bonus accrual.

34. Contingencies, commitments and operating risks

(i) Capital expenditure commitments

As at 31 December 2018, the Group had contractual commitments for capital expenditures of US$499,134 thousand (31 December 2017: US$846,280 thousand), including amounts denominated in RUB of US$253,368 thousand and in EUR of US$162,235 thousand, which will represent cash outflows in the next five years according to the contractual terms.

US$130,154 thousand and US$166,135 thousand of the total amount relate to the development of potassium salt deposits and the construction of mining facilities at the Gremyachinskoe and Verkhnekamskoe potash licence areas, respectively (31 December 2017: US$184,809 thousand and US$253,578 thousand, respectively).

US$57,235 thousand of the total amount relates to the construction of the Ammonia Plant at Kingisepp, Russia (31 December 2017: US$212,928 thousand).

(ii) Tax legislation

Management of the Group believes that its interpretation of the tax legislation is appropriate and the Group's tax position will be sustained.

Given the scale and international nature of the Group's business, intra-group transfer pricing and issues such as controlled foreign corporations' legislation, beneficial ownership, permanent establishment and tax residence issues, are inherent tax risks just as they are for other international businesses. Changes in tax laws or their application with respect to tax matters in the countries where the Group has subsidiaries could increase the Group's effective tax rate.

The majority of the Group's production subsidiaries are located in Russia and are required to comply with Russian tax, currency and customs legislation. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments than the Management of the Group, and it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review with possible extension of this period under certain circumstances.

Where management believes that it is probable that certain tax positions taken by the Group may not be sustained if challenged by the tax authorities, the Group recognises provisions for related taxes, interest and penalties. There were no such provisions recorded by the Group at 31 December 2018 and 31 December 2017.

(iii) Insurance policies

The Group obtains risk insurance cover as mandated by statutory requirements. The Group also holds voluntary insurance policies covering directors' and officers' liability (D&O insurance), general third party and product liability, physical property damage and business interruption insurance at major production plants, as well as insurance policies related to trade operations, including export shipments, and credit insurance of certain trade debtors.

The Group also carries voluntary life and accident insurance for employees.

As part of the Verkhnekamskoe potash project, the Group has insured construction risks of all mining and surface facilities related to this project including third party liability during construction works. The insurance covers the risks of destruction and damage related to all facilities including those previously constructed starting from November 2014 to July 2020, which are not handed-over to date, including a two year guarantee period, which already started in respect of the handed-over facilities. The operational part of the project has been insured under property and business interruption cover.

As part of the ammonia project at Kingisepp, the Group has insured construction risks of all facilities related to this project including third party liability, project cargo, delay in start-up, insurance covering loan payments and compulsory insurance of hazardous objects.

(iv) Environmental matters

The Group's plants and operations are subject to numerous national, state and local environmental laws and regulations. The Group's management regularly evaluates its obligations under these laws and regulations and believes that the Group's plants and operations are in compliance with environmental laws and regulations. The estimated cost of known environmental obligations has been provided for in these consolidated financial statements in accordance with the Group's accounting policies.

The environmental laws and regulations are essentially complex and tend to change over time. The scope, extent and speed of this change may vary substantially in different jurisdictions. Accordingly, the Group's management system provides for ongoing monitoring of the key trends in applicable environmental laws and regulations, though it is inherently difficult to estimate precisely all costs associated with current and newly proposed environmental requirements. The Group's management does not expect these costs to have a material effect on the Group's financial position or liquidity.

(v) Legal proceedings

During the reporting period, 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 results of operations or the financial position of the Group.

(vi) Operating environment of the Group

The Group operates in the fertilizer industry with production assets in Russia, Lithuania, Belgium, Kazakhstan, China and sales networks in Europe, Russia, the CIS, North and Latin America and Central and South-East Asia. The highly competitive nature of the market makes prices of the Group's key products relatively volatile.

Possible deteriorating economic conditions may have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. Debtors of the Group may also become adversely affected by the financial and economic environment, which could in turn impact their ability to repay amounts owed or fulfil obligations undertaken.

Management is unable to predict all developments which could have an impact on the industry and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes all necessary measures are being taken to support the sustainability and growth of the Group's business in the current circumstances.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

35. Financial and capital risk management

35.1 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group.

(a) Market risk

(i) Foreign currency risk

The Group is exposed to foreign exchange risk to the extent that its future cash inflows and outflows over a certain period of time are denominated in different currencies.

The objective of the Group's foreign exchange risk management is to minimise the volatility of the Group's cash flows arising from fluctuations in exchange rates versus the US$ (which is viewed by the Group as its base currency), while simultaneously achieving at least average annual market exchange rates for the Group's non-US$ purchases. Management focuses on assessing the Group's future cash flows in currencies other than US$ and managing operational currency position – the gaps arising between inflows and outflows. Management also pursues to avoid open transactional currency positions by balancing non-dollar cash assets and liabilities.

The Group includes a number of subsidiaries with the Russian rouble as their functional currency and a significant volume of US$-denominated transactions as well as several subsidiaries with US$ functional currency having RUB-denominated transactions. At 31 December 2018, if the RUB had been down/up against the US$ by 10%, all other things being equal, the after tax result for the year and equity would have been US$59,378 thousand lower/higher (2017: US$60,086 thousand lower/higher), purely as a result of foreign exchange gains/losses on translation of US$-denominated assets and liabilities at subsidiaries with RUB as a functional currency and RUB-denominated assets and liabilities at subsidiaries with US$ as a functional currency and with no regard to the impact of this appreciation/depreciation on sales.

The Group is disclosing the impact of such a 10% shift in the manner set out above to ease the calculation for the users of these consolidated financial statements of the impact on the after tax profit and equity resulting from subsequent future exchange rate changes; this information is not used by the management for foreign currency risk management purposes.

The Group believes that it benefits from the strengthening of US$ exchange rate versus the RUB and the EUR, and the other way around. This is mainly due to the fact that in terms of economic substance, as opposed to purely settlement perspective, the Group's revenues are directly or indirectly, US$-denominated, whereas a significant portion of its operating and/or capital costs is denominated in RUB and EUR.

During 2018 and 2017, the Group entered into foreign exchange non-deliverable and deliverable forward contracts in order to achieve lower RUB and EUR exchange rates for its RUB and EUR purchases than the average annual exchange rates. The Group also routinely enters into forward and swap agreements aimed at lowering the cost of its debt portfolio in US$ terms.

The table below summarises the Group's financial assets and liabilities which are subject to foreign currency risk as at 31 December 2018:

Functional currency	RUB	US$	Other foreign currencies
Foreign currency	**US$**	**RUB**	**Other foreign currencies**
ASSETS			
Non-current financial assets:			
Restricted cash	–	–	876
US$/RUB cross currency swaps (gross amount)	–	273,182	–
Other non-current assets	–	–	9,431
Total non-current financial assets	**–**	**273,182**	**10,307**
Current financial assets:			
Trade receivables	–	–	106,223
Other receivables	–	–	24,176
US$/RUB cross currency swaps (gross amount)	–	98,746	–
RUB/US$ deliverable forward contracts	–	119,288	–
Cash and cash equivalents	17,258	3,760	117,394
Total current financial assets	**17,258**	**221,794**	**247,793**
Total financial assets	**17,258**	**494,976**	**258,100**
LIABILITIES			
Non-current financial liabilities:			
Bank borrowings	–	45,271	–
Bonds issued	500,000	–	–
Project Finance	–	–	509,460
EUR/US$ non-deliverable forward contracts	–	–	6,869
Liability from contingent consideration related to business combination	–	–	122,866
Deferred payable related to acquisition of additional interest in subsidiary	1,500	–	–
Deferred payable related to mineral rights acquisition	–	–	10,295
Total non-current financial liabilities	**501,500**	**45,271**	**649,490**
Current liabilities:			
Bank borrowings and loans received	–	45,703	106,765
Project Finance	–	–	31,138
EUR/US$ non-deliverable forward contracts	–	–	3,187
RUB/US$ non-deliverable forward contracts	–	1,101	–
BRL/US$ non-deliverable forward contracts	–	–	2,464
Trade payables	4,299	–	112,122
Interest payables	4,169	458	3,102
Deferred payable related to acquisition of additional interest in subsidiary	1,500	–	–
Deferred payable related to mineral rights acquisition	–	–	1,225
Total current financial liabilities	**9,968**	**47,262**	**260,003**
Total financial liabilities	**511,468**	**92,533**	**909,493**

(all amounts are presented in thousands of US dollars, unless otherwise stated)

35. Financial and capital risk management continued

35.1 Financial risk management continued

(a) **Market risk** continued

The Group's financial assets and liabilities subject to foreign currency risk as at 31 December 2017 are presented below:

Functional currency	RUB	US$	Other foreign currencies
Foreign currency	US$	RUB	Other foreign currencies
ASSETS			
Non-current financial assets:			
Restricted cash	19,733	–	1,024
Originated loans	43,501	–	–
US$/RUB cross currency swaps (gross amount)	–	294,564	–
EUR/US$ non-deliverable forward contracts	–	–	645
Total non-current financial assets	**63,234**	**294,564**	**1,669**
Current financial assets:			
Trade receivables	757	–	49,223
Interest receivables	655	–	–
US$/RUB cross currency swaps (gross amount)	–	840,232	–
RUB/US$ non-deliverable forward contracts	–	2,530	–
Cash and cash equivalents	25,028	274	55,066
Total current financial assets	**26,440**	**843,036**	**104,289**
Total financial assets	**89,674**	**1,137,600**	**105,958**
LIABILITIES			
Non-current financial liabilities:			
Bonds issued	500,000	–	–
Project Finance	750,000	–	342,350
Liability from contingent consideration related to business combination	–	–	123,001
Deferred payable related to acquisition of additional interest in subsidiary	3,000	–	–
Deferred payable related to mineral rights acquisition	–	–	10,656
Total non-current financial liabilities	**1,253,000**	**–**	**476,007**
Current liabilities:			
Bank borrowings and loans received	–	594,616	24,559
Trade payables	8,011	–	204,970
Interest payables	8,269	2,091	1,696
Deferred payable related to acquisition of additional interest in subsidiary	1,500	–	–
Deferred payable related to acquisition of associate	–	–	3,229
Deferred payable related to mineral rights acquisition	–	–	1,600
Total current financial liabilities	**17,780**	**596,707**	**236,054**
Total financial liabilities	**1,270,780**	**596,707**	**712,061**

(all amounts are presented in thousands of US dollars, unless otherwise stated)

The Group's sales for the years ended 31 December 2018 and 31 December 2017 are presented in the table below:

	US$	EUR	RUB	Other currencies	Total
2018	**2,802,514**	**1,120,085**	**1,091,677**	**563,196**	**5,577,472**
	50%	**20%**	**20%**	**10%**	**100%**
2017	2,370,967	974,492	985,285	534,920	4,865,664
	49%	20%	20%	11%	100%

In practice, as noted above, while assessing and managing its exposure to foreign currency risk, the Group's Treasury views most of the Group's sales as predominantly US$-denominated, regardless of the settlement currency. The Group's Treasury views all currencies other than the US$ as foreign currency risk exposures of the Group, while the US$ is viewed as the Group's base economic currency against which all exposures are measured.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's principal interest rate risk arises from long-term and short-term borrowings.

The Group is exposed to the risk from floating interest rates primary from borrowings and loans denominated in foreign currencies.

The Group had US$1,530,410 thousand of US$-denominated loans outstanding at 31 December 2018 (31 December 2017: US$1,944,559 thousand) bearing floating interest rates varying from 1-month Libor +1.55% to 1-month Libor +2.20%, 3-month Libor +2.00%, 6-month Libor +2.75% (2017: from 1-month Libor +1.65% to 1-month Libor +2.32%, from 3-month Libor +1.7% to 3-month Libor +3.5%, from 12-month Libor +2.95% to 12-month Libor +3.4%).

The Group's profit after tax for the year ended 31 December 2018 and equity would have been US$1,261 thousand, or 0.2 % lower/higher (2017: US$2,115 thousand, or 0.5 % lower/higher) if the US$ Libor interest rate was 10 bps higher/lower than its actual level during the year.

During 2018 and 2017, the Group did not hedge this exposure using financial instruments.

The Group has a formal policy of determining how much maximum unhedged exposure it should have to interest rate risk on the basis of the assessment of the likely interest rate changes on the Group's cash flows. The Group performs periodic analysis of the current interest rate environment on the basis of which management makes decisions on the appropriate mix of fixed-rate and variable-rate debt for both existing and planned new borrowings.

(iii) Financial investments risk

The Group can be exposed to equity securities price risk because of investments that can be held by the Group. As at 31 December 2018 and 31 December 2017, the Group was not exposed to equity securities price risk.

The Group does not enter into any transactions with financial instruments whose value is exposed to the value of any commodities traded on a public market.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

35. Financial and capital risk management continued

35.1 Financial risk management continued

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Financial assets, which potentially subject Group entities to credit risk, consist principally of originated loans, trade receivables, and advances to suppliers and contractors, as well as cash and bank deposits. The objective of managing credit risk is to prevent losses of liquid funds deposited with or invested in financial institutions or the loss in value of receivables.

The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets, which at 31 December 2018 amounted to US$762,113 thousand (31 December 2017: US$644,831 thousand). The Group has no significant concentrations of credit risk.

Cash and cash equivalents, restricted cash and fixed-term deposits

Cash and term deposits are mainly placed in major multinational banks and banks with independent credit ratings. No bank balances and term deposits are past due or impaired. (See the analysis by credit quality of bank balances, term and fixed-term deposits in Note 15).

Originated loans

Originated loans are issued to companies which are under common control with the Group and to associated Companies or joint ventures of the Group.

Trade receivables

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

Receivables management is geared towards collecting all outstanding accounts punctually and in full to avoid the loss of receivables. Additionally, the Group sells certain trade receivables to a factor on a non-recourse basis.

Advances to suppliers and contractors

Advances given to suppliers and contractors are subject to a policy of supplier credit risk management which focuses on ongoing credit limit evaluation and monitoring goods/services supply contract performance.

The monitoring and controlling of credit risk is performed by the corporate treasury function of the Group. The credit policy requires the performance of credit evaluations and ratings of all counterparties, including customers, suppliers and contractors. The credit quality of each new customer, supplier or contractor is analysed using internal credit rating before the Group provides it with the terms of delivery and payment, or terms of advance payments in the case of suppliers and contractors. The Group gives preference to counterparties with an independent credit rating. New counterparties without an independent credit rating are evaluated with reference to Group's credit policy which is based on a minimum of two ratings: internal creditworthiness rating and internal payment discipline rating. The credit quality of other counterparties is assessed taking into account their financial position, past experience and other factors.

Customers, suppliers and contractors that do not meet the credit quality requirements are supplied on a prepayment basis only and receive no advance payments.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 14).

(all amounts are presented in thousands of US dollars, unless otherwise stated)

The major part of trade receivables that is not impaired relates to wholesale distributors and steel producers for which the credit exposures and related ratings are presented below:

Group of customers	Rating agency	Credit rating/Other	31 December 2018	31 December 2017
Wholesale customers	–	Credit insurance	–	2,829
Wholesale customers	–	Letter of credit	2,713	19,337
Wholesale customers	–	Bank guarantee	2,152	2,362
Wholesale customers and steel producers	Fitch	2018: A+ to BBB- 2017: A+ to BBB-	21,988	18,594
Wholesale customers	Dun & Bradstreet Credibility Corp.[1]	Minimum risk of failure	36,359	18,425
Wholesale customers	Dun & Bradstreet Credibility Corp.[1]	Lower than average risk	45,316	6,482
Wholesale customers	Dun & Bradstreet Credibility Corp.[1]	Average risk of failure	25,389	50,462
Wholesale customers	CreditInfo	A-very good	3,814	1,627
Wholesale customers	CreditInfo	Lower than average risk	3,478	5,460
Wholesale customers	CreditInfo	Average risk of failure	3,418	1,212
Wholesale customers	Other local credit agencies	–	25,557	–
Wholesale customers	Counterparties with internal credit rating	Minimum risk of failure	1,250	10,868
Wholesale customers	Counterparties with internal credit rating	Lower than average risk	29,153	43,773
Wholesale customers	Counterparties with internal credit rating	Average risk of failure	3,701	13,733
Total			204,288	195,164

1. Independent credit rating agencies used by the Group for evaluation of customers' credit quality.

The rest of trade receivables is analysed by management who believes that the balance of the receivables is of good quality due to strong business relationships with these customers. The credit risk of every individual customer is monitored.

(c) Liquidity risk

Liquidity risk results from the Group's potential inability to meet its financial liabilities, such as settlements of financial debt and payments to suppliers. The Group's approach to liquidity risk management is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

While managing its liquidity, the Group aims to ensure that it is sufficient to meet its short-term existing and potential obligations. At the same time, the Group strives to minimise its idle cash balances. These goals are achieved by ensuring, among other things, that there is a sufficient amount of undrawn committed bank facilities at the Group's disposal at all times. This may result, from time to time, in the Group's current liabilities exceeding its current assets.

In order to take advantage of financing opportunities in the international capital markets, the Group maintains credit ratings from Standard & Poor's, Fitch and Moody's. As at 31 December 2018, Standard & Poor's affirmed the Group's rating at BB minus with positive outlook (31 December 2017: BB minus with stable outlook), Fitch affirmed at BB with stable outlook (31 December 2017: BB with negative outlook) and Moody's affirmed at Ba2 with stable outlook (31 December 2017: Ba2 with stable outlook).

Cash flow forecasting is performed throughout the Group. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 18) at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

35. Financial and capital risk management continued

35.1 Financial risk management continued

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the time remaining from the reporting date to the contractual maturity date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
As at 31 December 2018					
Trade payables	470,264	–	–	–	470,264
Gross-settled swaps:[2]					
– inflows	(98,746)	(273,182)	–	–	(371,928)
– outflows	90,815	316,070	–	–	406,885
Deliverable forward contracts:					
– inflows	(119,288)	–	–	–	(119,288)
– outflows	118,175	–	–	–	118,175
Non-deliverable forward contracts	6,752	4,030	2,839	–	13,621
Bank borrowings[1]	471,786	1,164,788	953,050	–	2,589,624
Project Finance[1]	41,223	65,270	196,253	294,256	597,002
Bonds issued[1]	285,262	754,487	519,805	–	1,559,554
Other current and non-current liabilities	2,811	2,811	216,545	13,058	235,225
Total	**1,269,054**	**2,034,274**	**1,888,492**	**307,314**	**5,499,134**
As at 31 December 2017					
Trade payables	513,004	–	–	–	513,004
Gross-settled swaps:[2]	–	–	–	–	–
– inflows	(840,232)	(22,785)	(271,779)	–	(1,134,796)
– outflows	849,615	9,218	264,382	–	1,123,215
Commodity swaps	30	–	–	–	30
Deliverable forward contracts:					
– inflows	(42,882)	–	–	–	(42,882)
– outflows	41,176	–	–	–	41,176
Bank borrowings[1]	855,982	130,507	1,072,831	7,510	2,066,830
Project Finance[1]	51,475	216,974	778,532	228,825	1,275,806
Bonds issued[1]	184,381	336,235	1,318,858	–	1,839,474
Other current and non-current liabilities	9,799	2,773	254,685	14,271	281,528
Total	**1,622,348**	**672,922**	**3,417,509**	**250,606**	**5,963,385**

1. The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as at 31 December 2018 and 31 December 2017, respectively.
2. Payments in respect of the gross settled swaps will be accompanied by related cash inflows.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

The Group controls the minimum required level of liquidity, consisting of cash balances, as well as committed undrawn bank facilities available for short-term payments in accordance with the financial policy of the Group. Such liquidity is represented by current cash balances on bank accounts, bank deposits, short-term investments, cash and other financial instruments, which may be classified as cash equivalents in accordance with IFRS, as well as undrawn committed bank facilities.

As at 31 December 2018, the Group had US$100 million in committed undrawn facilities with major international banks (31 December 2017: US$299 million).

The Group assesses liquidity on a weekly basis using a 12-month rolling cash flow forecast.

35.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, to have available the necessary financial resources for investing activities and to maintain an optimal capital structure in order to reduce the cost of capital. The Group considers total capital under management to be equity excluding cumulative currency translation differences as shown in the IFRS consolidated statement of financial position. This is considered more appropriate than alternatives, such as the value of equity shown in the Company's statutory financial (accounting) reports.

The Group monitors capital on the basis of the gearing ratio. Additionally, the Group monitors the adequacy of its debt levels using the net debt to EBITDA ratio.

Gearing ratio

The gearing ratio is determined as net debt to net worth. The net worth is calculated as shareholder equity excluding the cumulative currency translation differences as this component of equity has no economic or cash flow significance. For the purposes of the Group's covenants in its external borrowing agreements, where appropriate, net debt consists of the sum of short-term borrowings, long-term borrowings and bonds balance outstanding, less cash and cash equivalents, fixed-term deposits and current restricted cash.

The gearing ratio as at 31 December 2018 and 31 December 2017 is shown in the table below:

	31 December 2018	31 December 2017, adjusted
Total debt	**3,801,519**	3,480,114
Less: cash and cash equivalents and fixed-terms deposits and current restricted cash	**346,562**	248,865
Net debt	**3,454,957**	3,231,249
Share capital	**111**	111
Retained earnings and other reserves	**6,578,487**	5,442,999
Net worth	**6,578,598**	5,443,110
Gearing ratio	**0.53**	0.59

(all amounts are presented in thousands of US dollars, unless otherwise stated)

35. Financial and capital risk management continued

35.2 Capital risk management continued

Net Debt/EBITDA

The Group's covenants under the terms of loan agreements and issued Eurobonds stipulate that Net Debt/EBITDA should not exceed the level of three and a half times (3.5x). For the purpose of the ratio calculation, net debt is determined in the same way as described in the Gearing ratio section.

The ratio of net debt to EBITDA as at 31 December 2018 and 31 December 2017 is shown in the table below:

	Note	2018	2017
EBITDA	7	**1,516,926**	1,130,438
Elimination of EBITDA of subsidiaries under the Project Finance	19	**4,360**	5,015
Elimination of EBITDA of Ukrainian subsidiaries from 1 January 2018 to the date of disposal		**(3,755)**	–
Elimination of EBITDA of disposed shipping companies from 1 January 2018 to the date of disposal		**(6,352)**	–
Elimination of EBITDA of LLC Severneft-Urengoy from 1 January 2017 to the date of sale		**–**	(15,580)
EBITDA of acquired assets from 1 January 2017 to the date of acquisition		**–**	1,734
EBITDA of Hispalense de Liquidos SL from 1 January 2017 to the date of acquisition		**–**	481
Covenant EBITDA		**1,511,179**	1,122,088
Net debt		**3,454,957**	3,231,249
Net debt/Covenant EBITDA		**2.29**	2.88

For the purpose of this calculation, covenant EBITDA includes EBITDA of acquired associates and subsidiaries for the period from 1 January to the date of acquisition, excluding EBITDA of subsidiaries under the Project Finance for the year and EBITDA of subsidiaries from 1 January to the date of sale.

(all amounts are presented in thousands of US dollars, unless otherwise stated)

Exhibit III-16

Our operations

We are a major international agrochemical company with our own mining assets, fertilizer production facilities, logistics and distribution networks.

Share this

Print this

Related content

Our production assets

Nitrogen

We are the world's six largest producer by nutrient capacity.

We produce nitrogen fertilizers and organic synthesis products at our facilities:
- Novomoskovskiy Azot (Tula Region, Russia)
- Nevinnomysskiy Azot (Stavropol Territory, Russia)
- EuroChem Antwerpen (Belgium)

We own natural gas production facilities in Novy Urengoy (Yamalo-Nenets Autonomous Region). EuroChem is Russia's only producer of acetic acid and granulated urea.

In 2012 we launched the first melamine production line in Russia.

Phosphate

We are the seventh largest producer by nutrient capacity (phosphoric acid).

Apatite from our Kovdorskiy GOK mining facility and beneficiation plant supplies our three phosphate facilities:
- Phosphorit (Leningrad Region, Russia)
- Lifosa (Lithuania)
- EuroChem-BMU (Krasnodar Territory, Russia)

Annual Report 2012

View website

Download PDF

Reporting

Annual Report 2011
Annual Report 2010
Annual Report 2009
Annual Report 2008

Results

Quarter 4 - 2013
Quarter 3 - 2013

05 February 2014
EuroChem Reports IFRS Financial Information for 2013

28 January 2014
First results of an independent assessment confirm stable situation in the Luga River: phosphorus levels remain low in Kingisepp, Russia

28 November 2013
EuroChem and Migao Establish Joint Venture in China

All news

Subscribe to news feeds

Connect with us

Follow

Connect

Like us

Head Office
Email: info@eurochem.ru
Tel: (495) 545-39-69; 795-25-27
Fax: (495) 795-25-32

Media
Vladimir Torin
Head of Communications Department
Email: pr@eurochem.ru

Investor Relations
Olivier Harvey
Head of Investor Relations
Email: ir@eurochem.ru

More contacts

- three wholly-owned port facilities
  - Murmansk bulk terminal in Russia on the Berents Sea
  - Sillamae liquid terminal in Estonia on the Gulf of Finland
  - Tuapse transhipment terminal in Russia on the Black Sea
- ships on long-term and short-team leases
- rolling stock (6,800 rail cars and 44 locomotives) and rail service centres
- jetty access in the port of Antwerp, Belgium

Sales and distribution

We have more than a thousand customers worldwide and have developed sales and distribution networks to provide them with products and added value services.

Our focus is on helping our customers improve their crop yields rather than simply selling them products.

We have 25 distribution centres in Russia and Ukraine. This includes seven centres owned by us and 18 owned by third parties that sell our products exclusively. We also sell to third-party distributors.

Internationally, our EuroChem Agro network (formerly K+S Nitrogen, which we acquired in July 2012), sells products to more than 50 countries. It has distribution agreements with EuroChem Antwerpen and BASF Ludwigshafen. EuroChem Agro has a strong brand portfolio, including Nitrophoska and Entec. We have regional offices in Germany, France, Italy, Greece, Turkey, Singapore, China and Mexico.

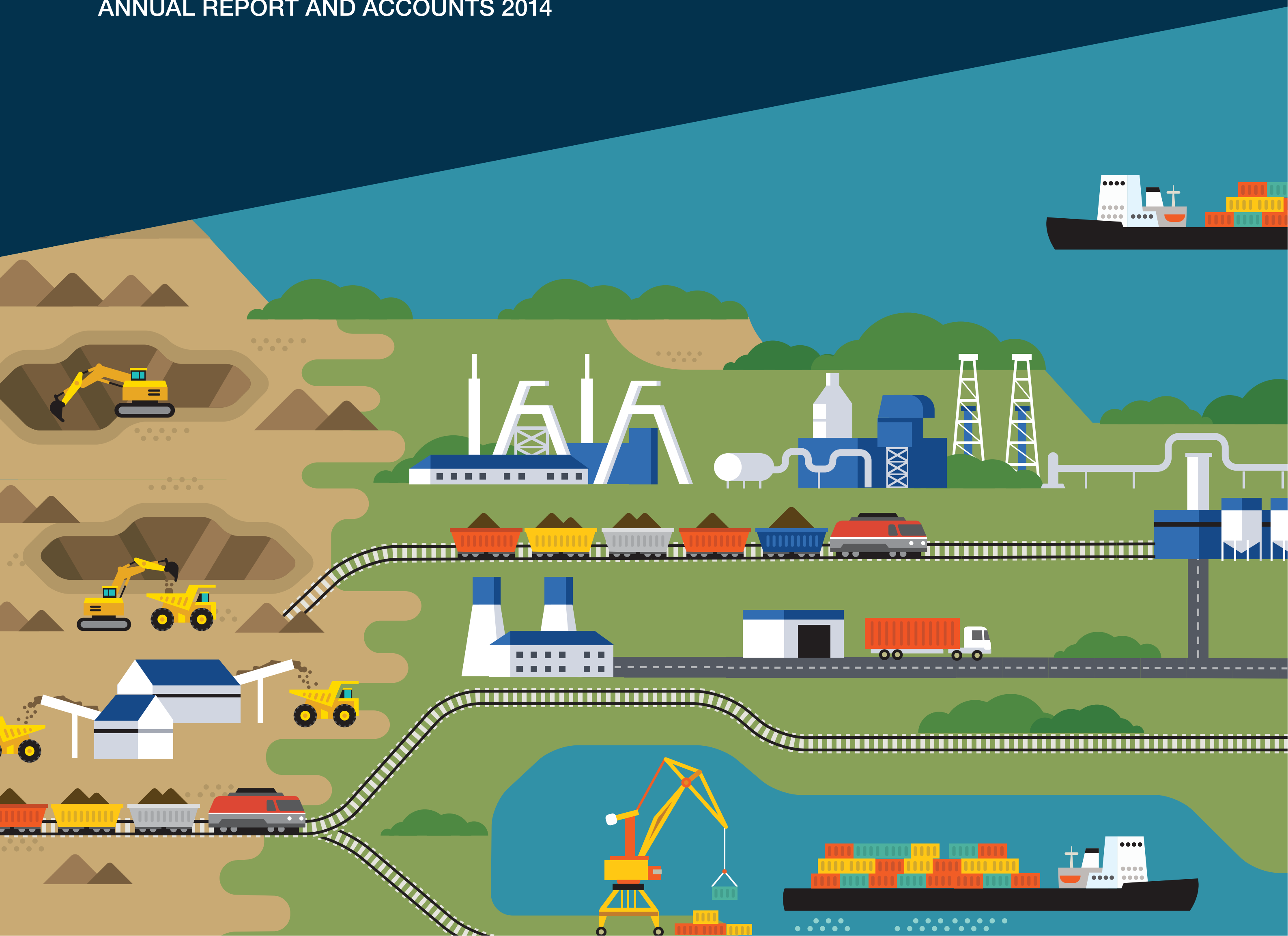
Share this

Exhibit III-17

EUROCHEM

Adding value+

ANNUAL REPORT AND ACCOUNTS 2014



A world leader

Our vertically integrated business and access to lower cost raw materials and energy provides distinct cost advantages over many of our competitors. Our investments in major potash reserves will place us at the forefront of global fertilizer production when they come on stream in 2017.

Who we are and what we do

EuroChem is a vertically integrated agrochemical company, combining low-cost natural resources and production bases supported by wholly-owned logistics assets and a global advisory, sales and distribution platform.

In 2014, we finalized the establishment of EuroChem Group AG, a new holding company for the Group based in Zug, Switzerland. This move, one of the last in our planned reorganization which we have carried out since 2012, lays the foundation for further international expansion and is a cornerstone of EuroChem's next growth phase. While at this level, the business will operate under Swiss law and financial regulations, operational functions will remain at the level of the operating companies, whether in Belgium or the CIS. Additionally, the reorganization and re-domiciliation of our headquarters will see all corporate-level decision making and strategic formulation done at EuroChem Group AG level.

We currently manufacture nitrogen and phosphate fertilizers and will soon launch potash operations to further enhance our product mix. Our range is of high-quality and includes standard and commodity products as well as a growing slow release and specialty fertilizer product offering, on which there is greater emphasis.

Our production base is becoming more international, with assets in Russia, Lithuania, Kazakhstan and Belgium, plus a joint venture recently launched in China. These assets have ready access to key markets through our logistics and distribution network that currently covers more than 25 countries.

We are one of the fastest growing fertilizer majors and plan to be a top five producer by nutrient capacity within the next three years.

We measure our performance in four reporting segments: Nitrogen, Phosphates, Potash and Distribution. In 2014 we have started to manage our business through five Business Divisions – Fertilizers, Mining, Logistics, Sales and Marketing, and Oil and Gas. These divisions may become our reporting segments in the future.

N Nitrogen

EuroChem is one of the world's largest producers of nitrogen-based fertilizers and organic synthesis products, with an ammonia capacity of 3.0 MMT pa. Our three nitrogen plants (two in Russia and one in Belgium) produce a wide range of mineral fertilizers such as urea, AN, UAN, CAN and a range of regular and tailored complex NPK grades. Our offering has continued to grow, now encompassing specialty products such as slow-release, non-chloride, and inhibitor-treated fertilizers. The latter products delay conversion of urea into ammonium and ammonia, leaving more nitrogen in the soil for crops.

We are Russia's only producer of melamine and produce industrial products such as nitric acid and methanol and industrial gases, including argon, nitrogen, and oxygen.

30%
of external sales

US$866m
EBITDA (57% of total)

30%
EBITDA margin

P Phosphates

The high-quality phosphate rock, mined and processed at our Kovdorskiy mine in Russia, is as a key component of our phosphate fertilizer production operations. Our manufacturing plants in Russia and Lithuania produce MAP, DAP, NP and feed phosphates. The start of our operations in Kazakhstan, where EuroChem has acquired mining rights on two deposits, will boost internal capacity while providing added flexibility to our raw material flows from mine to production. Our Kovdorskiy mine also produces iron ore concentrate that we sell on the open market and is the world's only producer of baddeleyite concentrate.

Our phosphate fertilizer plants have a combined 1.2 MMT pa of phosphoric acid capacity and 3.0 MMT pa of sulphuric acid capacity. Our plant in Lithuania also produces aluminium fluoride which is used in the manufacture of aluminium, glass and optics as well as the tanning industry.

While we are selling the first ore out of our new mine in Kazakhstan, from 2015/16 we will operate a beneficiation unit to further process the rock and begin shipments to the Group's phosphate plants in Southern Russia.

22%
of external sales

US$476m
EBITDA (31% of total)

30%
EBITDA margin

Exhibit III-18

Corporate governance

The Board and senior management of the Group set the tone at the top.

Introduction

EuroChem is subject to the laws of Switzerland. We apply the Swiss Code of best practice for Corporate Governance, as well as the principles recommended by the UK Corporate Governance Code.

EuroChem is committed to robust corporate governance through compliance with all applicable laws, rules and regulations wherever it operates. All employees are responsible for respecting applicable laws and following the principles of our **Code of Conduct** and associated Compliance Policies.

We strive to uphold the highest ethical standards across all our activities, in line with EuroChem's values, goals and objectives. The Board and senior management of the Group set the tone at the top, which is underpinned by the Code of Conduct.

Our corporate governance principles

1

Treating our shareholders fairly; recognizing and protecting their rights

2

Operating an effective system of internal control and audit

3

Ensuring access to the Company's information and financial transparency

4

Applying the highest levels of business ethics

5

Providing an excellent working environment, career progression and effective communication mechanisms for employees

Legal structure

A company that holds business interests beneficially for Mr. Andrey Melnichenko indirectly owns 100% of AIM Capital SE registered in Cyprus, which in its turn owns 90% of EuroChem Group AG.

Chartered capital

EuroChem Group AG share capital equals CHF 100,000 (one hundred thousand) and is divided into 1,000 (one thousand) registered shares with a par value of CHF 100 (one hundred) each.

Auditors

PricewaterhouseCoopers AG, in Zug is the Company's statutory auditor.

Grafenauweg 8
P.O. Box 7763
CH-6302 Zug
Tel. +41 58 792 68 00
www.pwc.ch

Exhibit III-19

EuroChem Group AG
Baarerstrasse 37, Zug 6300, Switzerland
Tel: +41 (41) 727 16 00 Fax: +41 (41) 727 16 16
www.eurochemgroup.com

LIST OF KEY GROUP COMPANIES

MCC EUROCHEM, JSC
KOVDORSKY GOK,
JSC AZOT, JSC
NEVINNOMYSSKY AZOT, JSC
INDUSTRIAL GROUP PHOSPHORITE, LLC
EUROCHEM-BELORECHENSKIE MINUDOBRENUA, LLC
LIFOSA, AB
EUROCHEM ANTWERPEN, NV
EUROCHEM-USOLSKIY POTASH COMPLEX, LLC
EUROCHEM-VOLGAKALIY, LLC

LIST OF GROUP COMPANIES

All the Companies directly or indirectly controlled by the Company

* * *

Exhibit III-20

Global operations

Headquartered in Zug, Switzerland, we are a global producer and supplier of a full range of fertilizers and industrial products, backed by production assets on four continents and a worldwide sales and distribution network.

Mining

Our raw material base provides for all key ingredients in fertilizer production. We have secured significant reserves of potash and phosphate rock, and benefit from access to an abundant supply of natural gas. Our reserve base also includes iron ore and baddeleyite.

Kovdorskiy GOK

Our integrated mining and processing facility in northern Russia underpins our phosphate production chain, and is the only phosphate mine in the world with iron ore and baddeleyite embedded in the same deposit.

EuroChem Usolskiy

EuroChem began test production at its Usolskiy potash mine in early 2018. The facility is currently producing potash at a rate of 1.1 million tonnes per year.

EuroChem VolgaKaliy

Situated at the Gremyachinskoe deposit, one of the four largest deposits of potassium ore in Russia, EuroChem VolgaKaliy has mining rights to more than 1.6 billion tonnes of total reserves and resources.

EuroChem Fertilizers

EuroChem Fertilizers mines phosphate rock from the Kok-Jon and Gimmelfarbskoe deposits in Kazakhstan's Zhambyl province.

Production

We own and operate plants in Russia, Belgium, Lithuania and China, and create an extensive mix of both standard and enhanced nitrogen, phosphate, potash and complex fertilizers, as well as several industrial product lines.

Novomoskovskiy Azot

Located in the town of Novomoskovsk in the Tula Oblast, approximately 220 kilometers south of Moscow, Novomoskovskiy Azot is one of Russia’s largest producers of nitrogen fertilizers and ranks first in Russia in urea volumes.

Nevinnomysskiy Azot

Nevinnomysskiy Azot makes a number of fertilizer and industrial products, including ammonia, nitrogen and compound fertilizers, industrial gases, and supplies a broad range of organic synthesis products.

EuroChem Antwerpen

Located in the heart of Europe, our Antwerp facility comprises nitric acid plants, NPK and AN/CAN units, and a nitrophosphoric acid plant, as well as multiple logistics assets.

General purchasing terms & conditions

Shipping instructions

NL EN FR DE

Contractor HSE information

Lifosa

The largest producer of phosphate mineral fertilizers in the Baltic States and an industry leader in the European Union. Lifosa produces premium-quality commercial DAP and feed phosphates.

Phosphorit

The leading producer of phosphate fertilizers and feed phosphates in northwest Russia. Phosphorit is located in the Kingisepp industrial zone adjacent to our EuroChem Northwest ammonia plant.

EuroChem-BMU

Located in southern Russia, EuroChem-BMU specializes in the production of phosphate and compound fertilizers. Recent investments have improved efficiency and boosted production output.

EuroChem Migao

A 50-50 joint venture between EuroChem and Migao producing potassium nitrate and complex fertilizers in Yunnan province, southern China.

EuroChem Northwest

Launched in June 2019, our EuroChem Northwest facility has an annual production capacity of 1 million tonnes of ammonia.

Logistics

Our sophisticated and flexible logistics infrastructure ensures our products are efficiently delivered to customers when and where needed. It comprises trucks, storage and port facilities, rail rolling stock and river barges across the globe.

Tuapse Bulk Terminal

Tuapse Bulk Terminal on the Black Sea is located in close proximity to EuroChem plants. The port infrastructure can accommodate large-tonnage vessels and the subtropical climate allows for year-round operations.

Murmansk Bulk Terminal

Our bulk terminal in the port of Murmansk, Russia's northernmost ice-free seaport, serves exports of mining products, including iron ore, baddeleyite, apatite, as well as potash.

Sillamae Terminal

Our transhipment operations in Sillamae, Estonia, on the Gulf of Finland, can handle liquid cargo, such as methanol, as well as dry fertilizer products. Proximity to facilites in Kingisepp maintain our cost advantages.

EuroChem Antwerpen

Surrounded by the Scheldt and Scheldt-Rhine-Canal, EuroChem Antwerpen is equipped with its own jetties, providing infrastructure for fertilizer distribution and raw material procurement via the North Sea and the Rhine.

Our Markets

Our sales and distribution operations span five regions: Europe, Russia & CIS, North America, Latin

America and Asia. These are managed through our network of regional offices. Our efficient global distribution network enables us to serve our extensive customer base in over 100 countries. It also plays a key role in advising customers on the selection and use of fertilizers to optimise their crop yields.

Russia/CIS

EuroChem's market presence is anchored in local production, complemented by a network of wholly-owned distribution centres. We provide customers with a range of agricultural inputs and services – from fertilizers to advanced soil analysis services.

North America

North America is one of EuroChem's key markets. The Group began operating in the US in 2006. The combination of EuroChem products, supply contracts and a best-in-class logistics service helps us serve our customers better.

Latin America

Establishing a solid presence in Latin America has been a natural extension of EuroChem's global expansion strategy. Brazil's impressive transformation into a global breadbasket has driven us to secure a strong position in this market. We are present in Brazil through Fertilizantes Tocantins.

Europe

Throughout the European supply chain, our reputation is underpinned by our desire to be a stable and reliable partner, committed to providing the very best quality products and advisory services. Our established local offices and regional sales teams ensure we stay close to our customers in this highly diversified region.

Asia Pacific

Established for over 60 years – and active in 14 countries in the region – EuroChem's brands are well-known in Asia Pacific markets. The Group's offering, which focuses on premium fertilizers, is complemented by a wide range of industrial products.

Africa

The African market represents a distinct opportunity for the Group. We have been active across key regional agricultural hubs, and see major potential for products such as water-soluble fertilizers.

Exhibit III-21

Progress to date

11 years young and growing fast. A decade of investment giving us the best platform for further growth

Share this

Print this

Related content

Mission & values

Objectives & strategy

We have grown the company through energy and commitment. Our approach has been consistent: to focus on the quality of our people and assets and to re-invest our cash flow in the business.

We have built a world class company that operates to international standards of governance and sustainability.

Some key events since we were founded in 2001:

2012

- $750m Eurobond issue (5.125%, 144A/Reg S, due 2017)
- First potash layer reached at Usolskiy
- Acquisition of natural gas operator Severneft-Urengoy
- Announcement of plans to invest $32m in environmental protection at its Phosphorit plant
- Acquisition of EuroChem Antwerpen (BASF fertilizer assets in Antwerp, Belgium)
- Acquisition of EuroChem Agro (K+S Nitrogen)
- Launch of Russia's first melamine production line at Nevinnomysskiy Azot

2011

- Two air-quality monitoring stations installed at Nevinnomysskiy Azot
- Launch of the Tuapse Transhipment Terminal

Subscribe to our news updates

Submit

- Commissioning of the Gremyachaya rail station
- Five-year $1.3bn Pre-Export Finance term loan facility from a pool of 15 banks, making it the largest bank debt financing in the chemicals sector in Central and Eastern Europe since 2009
- Intention to acquire 100% of BASF’s fertilizer assets in Antwerp, Belgium
- Long-term 20bn rouble loan agreement with Sberbank

2010

- Active shaft sinking begins at the Gremyachinskoe potash deposit
- With a daily capacity of 4,350 tonnes, Novomoskovskiy Azot becomes the largest urea plant in Europe following the launch of a second production line
- Doubling of feed phosphate capacity at AB Lifosa to 150 KMT p.a.
- Ten-year, $261m ECA-backed loan facility for financing the construction of the cage shaft at its Gremyachinskoe potash deposit; the transaction was awarded the ‘Deal of the Year 2010’ by Euromoney Trade Finance Magazine

2009

- Our corporate charity program is named best in chemicals sector, eighth best in Russia, by PwC and Vedomosti newspaper
- Standard & Poor’s affirms our BB credit rating
- Fitch Ratings affirms our BB credit rating
- Russian assets receive certification under the ISO 9001:2008 (quality), ISO 14001:2004 (environment), and OHSAS 18001:2007 (professional health and safety) international standards
- Launch of CAN production facility at Novomoskovskiy Azot, with nameplate capacity of 420 KMT p.a.
- Launch of first granulated urea production facility in Russia with nameplate capacity of 2,000 tonnes of granulated urea per day

2008

- Four-year $ 1.5bn syndicated loan that wins numerous deal of the year awards
- Acquires a license to mine the Verkhnekamskoe potash deposit in the Perm region at a public auction; the site has reserves of 1.5bn tonnes of sylvinite*
- Signs contracts for construction of mine shafts at Gremyachinskoe potash deposit
- Credit rating upgraded to BB by Fitch and S&P

2007

- Receives first corporate credit ratings (BB-) from Fitch and S&P
- Debt capital market debut with $300m Eurobond issue
- Acquires a terminal in the Murmansk merchant port
- Acquires Mosaic Ukraine and Mosaic Krasnodar distributors

2006

- Begins construction of Tuapse transhipment terminal

- Successful syndication of $350m 40-month loan nominated best deal of the year by Global Trade Review and Trade Finance magazines

2005

- Acquires Lifosa phosphate plant from shareholders
- Acquires licence to mine Gremyachinskoe potash deposit in the Volgograd region at a public auction; the site has 1.7bn tonnes of reserves*

2004

- Large-scale upgrade of ammonia production launched at Novomoskovskiy Azot sharply reduces gas and steam consumption

2003

- Series of upgrades and overhauls at BMU plant

2002

- Acquires controlling stakes in current Russian assets: Nitrogen plants Novomoskovskiy Azot and Nevinnomysskiy Azot; phosphate plants Phosphorit and Belorechinskiye Minudobreniya (BMU); iron ore and apatite mine Kovdorsky GOK

2001

- EuroChem is established

* as per Russian reserves classification A+B+C1+C2+P1.

Exhibit III-22

EUROCHEM FINANCE DESIGNATED ACTIVITY COMPANY

(incorporated under the laws of Ireland)

as issuer of

U.S$700,000,000 5.50 per cent. notes due 2024

Unconditionally, irrevocably and fully guaranteed on a joint and several basis by

Mineral and Chemical Company EuroChem, Joint Stock Company and EuroChem Group AG

Issue Price: 100 per cent.

EuroChem Finance Designated Activity Company is a designated activity company incorporated under the laws of Ireland, having its registered office at 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland, and registered under number 604189 (the "**Issuer**"). The Issuer is issuing an aggregate principal amount of U.S.$700,000,000 5.50 per cent. Guaranteed Notes due 2024 (the "**Notes**"). The Notes will be unconditionally, irrevocably and fully guaranteed (the "**Guarantees**") by EuroChem Group AG (the "**Parent**" and a "**Guarantor**") and Mineral and Chemical Company EuroChem, Joint Stock Company ("**EuroChem**" and also a "**Guarantor**" and, together with the Parent, the "**Guarantors**"). The Notes are constituted by, are subject to, and have the benefit of, a trust deed to be dated 13 March 2019 (as may be amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and Citibank, N.A., London Branch as trustee (the "**Trustee**") for the benefit of the Noteholders (as defined in the "*Terms and Conditions of the Notes*").

Interest on the Notes will be payable semi-annually in arrear on 13 March and 13 September in each year (each an "**Interest Payment Date**"), commencing on 13 September 2019.

The Notes mature on 13 March 2024 (the "**Maturity Date**") but may be redeemed before then at the option of the Issuer, in whole but not in part, at any time, but on one occasion only, on giving not less than 25 and not more than 60 days irrevocable notice, at a price equal to the principal amount thereof, plus the Make Whole Premium (as defined in "*Terms and Conditions of the Notes*" herein) plus any accrued and unpaid interest and additional amounts (if any) to (but excluding) the date of redemption. See "*Terms and Conditions of the Notes—Redemption and Purchase—Make-Whole*". The Issuer may also redeem the Notes, in whole or in part, at their principal amount together with any accrued and unpaid interest and additional amounts (if any), if the Issuer (or, if the Guarantees are called, a Guarantor) has or will become obliged to pay certain additional amounts and otherwise as described under "Terms and Conditions of the Notes—Redemption and Purchase—Redemption for tax reasons". The Notes are also subject to redemption, in whole or in part, at their principal amount, together with any accrued and unpaid interest and additional amounts (if any), at the option of the Issuer at any time on or after the date three months prior to the Maturity Date. See "*Terms and Conditions of the Notes—Optional Redemption at Par*".

This prospectus (the "**Prospectus**") has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Notes to be admitted to the official list (the "**Official List**") and trading on its regulated market. There is no assurance that a trading market in the Notes will develop or be maintained.

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

The Notes will be in registered form. The Notes may be held and transferred, and will be offered and sold, in the principal amount of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof, in each case without interest coupons attached. The Notes that are offered and sold outside the United States of America (the "**United States**" or "**U.S.**") in reliance on Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"), will be represented by interests in a global registered note (the "**Regulation S Global Note**") deposited with a common depositary (the "**Common Depositary**") for, and registered in the name of, a nominee of, Euroclear Bank SA/NV ("**Euroclear**") or Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") on or about the Closing Date. The Notes which are offered and sold in the United States to qualified institutional buyers ("**QIBs**"), as defined in Rule 144A under the Securities Act ("**Rule 144A**"), in reliance on the exemption from registration provided by Rule 144A will be represented by interests in a global registered note (the "**Rule 144A Global Note**" and, together with the Regulation S Global Certificate, the "**Global Certificates**") deposited with a custodian for, and registered in the name of, a nominee of The Depository Trust Company ("**DTC**") on or about the Closing Date. Interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their respective participants. Individual notes in definitive form (the "**Definitive Certificates**") evidencing holdings of Notes will only be available in certain limited circumstances. See "*Summary of the Provisions Relating to the Notes in Global Form*".

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 9 OF THIS PROSPECTUS BEFORE INVESTING IN THE NOTES.

THE NOTES AND THE GUARANTEES (TOGETHER, THE "SECURITIES") HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, EXCEPT PURSUANT TO CERTAIN EXEMPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES. THE NOTES MAY BE OFFERED AND SOLD (I) WITHIN THE UNITED STATES TO QIBs IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (THE "RULE 144A NOTES") AND (II) IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S (THE "REGULATION S NOTES"). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE RULE 144A NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF THE NOTES AND DISTRIBUTION OF THIS PROSPECTUS, SEE "*SUBSCRIPTION AND SALE*" AND "*TRANSFER RESTRICTIONS*".

The Notes are expected to be rated "BB" by Fitch Ratings Ltd ("**Fitch**") and "Ba3" by Moody's Investors Service, Inc. ("**Moody's**"). Fitch is established in the European Community and registered under Regulation (EC) No. 1060/2009 on credit rating agencies (the "**CRA Regulation**"). The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (http://www.esma/europa.eu/popup2/php?id=7692). Moody's is not established in the European Union, has not applied for registration under the CRA Regulation and is not included in the list of registered credit rating agencies published on the website of European Securities and Markets Authority. A rating is a not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Issuer will use the proceeds received from the issue and sale of the Notes to finance the purchase of the U.S.$500,000,000 3.95 per cent. Guaranteed Notes due 2021 issued by the Issuer (the "**2021 Notes**") and the U.S.$500,000,000 3.80 per cent. loan participation notes due 2020 issued by EuroChem Global Investments Designated Activity Company (the "**2020 Notes**") tendered and accepted for purchase in accordance with the terms and conditions of the tender offer launched by the Issuer on 21 February 2019, pursuant to a tender offer memorandum dated the same date (the "**Tender Offer**") that is expected to be settled on or about 15 March 2019.

Global Coordinators and Bookrunners

CITIGROUP | **J.P. MORGAN**

Joint Bookrunners

Sberbank CIB | **SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING** | **UNICREDIT BANK** | **VTB Capital**

Senior Co-Manager

Sovcombank

Co-Manager

SOVA Capital

The date of this Prospectus is 11 March 2019

their regulatory functions. In addition, more stringent standards are being introduced and the enforcement is being increased.

Non-compliance with the EHS laws and regulations could result in actual costs and liabilities for which the Group has not provided or budgeted. Moreover, in the course of, or as a result of, EHS investigations, regulatory authorities could issue orders to reduce or cease production at facilities that have violated EHS standards, which could lead to a prolonged suspension of production. If production at one or more of the Group's facilities were to be partially or wholly interrupted as a result, it could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group may also become involved in claims, lawsuits and administrative proceedings relating to environmental matters ("**Environmental Claims**"). An adverse outcome of such Environmental Claims could include the imposition of civil or criminal liability on the Group or its officers.

Accidents involving the Group's production facilities and/or products could cause severe damage or injury to human health, property, and the environment

Because the fertilisers production involves handling of chemicals and other hazardous substances, the Group's business inherently faces risks of spills, explosions, fires, releases of hazardous substances into the environment and other accidents. The Group may become liable to employees and third parties for damages, including personal injury and property damage, resulting from these accidents. Moreover, certain environmental laws applicable to the Group impose strict liability, without regard to fault, for clean-up costs on persons who have disposed of or released hazardous substances into the environment. Given the nature of the Group's business, it has incurred, and may continue to incur in the future, environmental clean-up costs at its current or former facilities, adjacent or nearby third-party facilities or offsite disposal locations. Pollution risks and related clean-up costs are often difficult to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable. The costs associated with future clean-up activities may be significant, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's Russian operations are dependent on a limited number of suppliers for electricity and natural gas and may be adversely affected by increases in energy prices or supply interruptions

The Group's Russian operations depend on access to low cost natural gas and electricity. If any interruptions in electricity supply or failures in electricity grids were to occur, operations at some of the Group's production facilities could be interrupted or even suspended. The Group is dependent on third-party suppliers, including PJSC Rosneft Oil Company ("**Rosneft**"), which supplies natural gas to JSC Novomoskovskiy Azot ("**Novomoskovskiy Azot**"), the subsidiaries of PJSC "Gazprom" ("**Gazprom**"), PJSC Novatek ("**Novatek**") and, to a lesser extent, on the Saint-Petersburg International Mercantile Exchange (SPIMEX) at spot prices. Any discontinuation of access to low cost natural gas (due to Gazprom's dominant position in Russia), for example, limited pipeline access or for other reasons) and/or electricity, as well as disruptions in natural gas or electricity supply could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

For the year ended 31 December 2018, energy costs accounted for 5.4 per cent. of the Group's cost of sales. The two largest components of the Group's energy related expenses are electricity and natural gas. If the Group is required to pay higher prices for electricity in the future or is otherwise unable to reduce its energy costs, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The production of nitrogen fertilisers, which represents a substantial segment of the Group's business, is dependent on supplies of significant amounts of natural gas. For the year ended 31 December 2018, based on the Group's management production reports, the cost of natural gas supplies represented approximately 74 per cent. of the production costs of ammonia and approximately 52 per cent. and

Raw Materials and Energy

Raw Materials

The most important raw materials used by the Group in its production processes are natural gas, apatite, sulphur and ammonia.

Natural Gas

Natural gas is the primary raw material used by the Group to produce ammonia, the main building block for nitrogen-based fertilisers, as well as for heating and other production related purposes. The Group sources natural gas from third-party suppliers at market prices. For its Russian operations, the Group purchases natural gas from third-party suppliers, including Rosneft, which supplies natural gas to Novomoskovskiy Azot, the subsidiaries of Gazprom, Novatek and, to a lesser extent, from the Saint-Petersburg International Mercantile Exchange (SPIMEX) at spot prices. Natural gas for EuroChem Antwerpen is mainly secured via BASF suppliers.

Apatite

The Group produces approximately 69 per cent. of its phosphate rock requirements from its Kovdorskiy GOK apatite mine in Russia and EuroChem-Fertilizers mining operations in Kazakhstan. The Group purchases the remainder of its apatite requirements from third-party suppliers.

Sulphur

Sulphur is an important raw material consumed by the Group's fertiliser production facilities. Sulphur accounted for 3.1 per cent. the Group's costs of sales for the year ended 31 December 2018. The Group purchases the majority of its sulphur requirements from Gazprom subsidiaries with the remaining portion supplied by Tengizchevroil, Rosneft and Orlen Lietuva.

Ammonia

Ammonia is sourced externally when the Group's internal production capacities are not sufficient to meet high demand. For the years ended 31 December 2018, 2017 and 2016, externally sourced ammonia accounted for 23 per cent., 22 per cent. and 21 per cent. of the Group's needs. Ammonia accounted for 8.5 per cent. of the Group's costs of sales for the year ended 31 December 2018.

Energy

The Group's total energy costs accounted for 5.4 per cent. of the Group's cost of sales for the year ended 31 December 2018. In addition, the Group also has power generation capabilities at some of its phosphate facilities. By installing heat recapturing systems to its sulphuric acid production unit, the Group is capable of harnessing the steam generated by the unit to subsequently generate electric power.

Intellectual Property, Research and Development

The Group regularly seeks to improve the operations of its production, mining, logistics and marketing facilities, principally by improving operating efficiency, reliability and capacity. Most of these efforts constitute incremental improvements to current activities, and are undertaken in connection with regular operational maintenance and monitoring. The modernisation programme that is currently being carried out by the production subsidiaries and the technical upgrades of the manufacturing assets are largely based on the implementation of advanced technological and information processes and the installation of modern equipment and machinery. The Group outsources a variety of research and engineering works to a wide range of specialised contractors.

Where appropriate, the Group seeks to register any intellectual property rights that may result from research and development activities. As at 31 December 2018, the Group owned numerous patents and trademarks and also used a variety of patents under licensing agreements. For instance, Lifosa

Exhibit III-23

Department of the Treasury
Internal Revenue Service

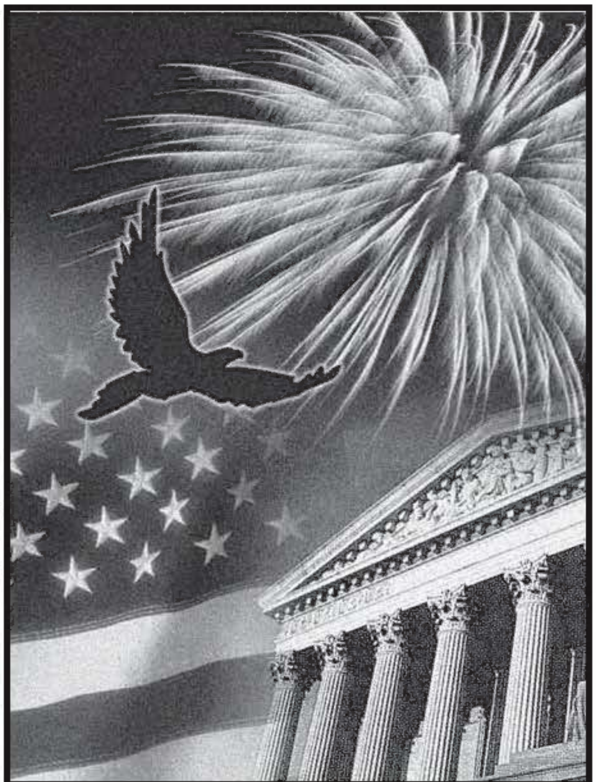
Publication 946
Cat. No. 13081F

How To Depreciate Property

• Section 179 Deduction
• Special Depreciation Allowance
• MACRS
• Listed Property

For use in preparing

2019 Returns



Get forms and other information faster and easier at:
- *IRS.gov* (English)
- *IRS.gov/Spanish* (Español)
- *IRS.gov/Chinese* (中文)
- *IRS.gov/Korean* (한국어)
- *IRS.gov/Russian* (Pусский)
- *IRS.gov/Vietnamese* (TiếngViệt)

Mar 23, 2020

Contents

Appendix B — Table of Class Lives and Recovery Periods

The *Table of Class Lives and Recovery Periods* has two sections. The first section, *Specific Depreciable Assets Used In All Business Activities, Except As Noted,* generally lists assets used in all business activities. It is shown as Table B-1. The second section, *Depreciable Assets Used In The Following Activities,* describes assets used only in certain activities. It is shown as Table B-2.

How To Use the Tables

You will need to look at both Table B-1 and B-2 to find the correct recovery period. Generally, if the property is listed in Table B-1 you use the recovery period shown in that table. However, if the property is specifically listed in Table B-2 under the type of activity in which it is used, you use the recovery period listed under the activity in that table. Use the tables in the order shown below to determine the recovery period of your depreciable property.

Table B-1. Check Table B-1 for a description of the property. If it is described in Table B-1, also check Table B-2 to find the activity in which the property is being used. If the activity is described in Table B-2, read the text (if any) under the title to determine if the property is specifically included in that asset class. If it is, use the recovery period shown in the appropriate column of Table B-2 following the description of the activity. If the activity is not described in Table B-2 or if the activity is described but the property either is not specifically included in or is specifically excluded from that asset class, then use the recovery period shown in the appropriate column following the description of the property in Table B-1.

Tax-exempt use property subject to a lease. The recovery period for ADS cannot be less than 125% of the lease term for any property leased under a leasing arrangement to a tax-exempt organization, governmental unit, or foreign person or entity (other than a partnership).

Table B-2. If the property is not listed in Table B-1, check Table B-2 to find the activity in which the property is being used and use the recovery period shown in the appropriate column following the description.

Property not in either table. If the activity or the property is not included in either table, check the end of Table B-2 to find *Certain Property for Which Recovery Periods Assigned.* This property generally has a recovery period of 7 years for GDS or 12 years for ADS. See Which Property Class Applies Under GDS and *Which Recovery Period Applies* in chapter 4 for the class lives or the recovery periods for GDS and ADS for the following.

- Residential rental property and nonresidential real property (also see Appendix A, Chart 2).
- Qualified rent-to-own property.
- A motorsport entertainment complex placed in service before January 1, 2021.
- Any retail motor fuels outlet.
- Initial clearing and grading land improvements for gas utility property and electric utility transmission and distribution plants.
- Any water utility property.
- Certain electric transmission property used in the transmission at 69 or more kilovolts of electricity for sale and placed in service after April 11, 2005.
- Natural gas gathering and distribution lines placed in service after April 11, 2005.

Example 1. Richard Green is a paper manufacturer. During the year, he made substantial improvements to the land on which his paper plant is located. He checks Table B-1 and finds land improvements under asset class 00.3. He then checks Table B-2 and finds his activity, paper manufacturing, under asset class 26.1, *Manufacture of Pulp and Paper.* He uses the recovery period under this asset class because it specifically includes land improvements. The land improvements have a 13-year class life and a 7-year recovery period for GDS. If he elects to use ADS, the recovery period is 13 years. If Richard only looked at Table B-1, he would select asset class 00.3, *Land Improvements*, and incorrectly use a recovery period of 15 years for GDS or 20 years for ADS.

Example 2. Sam Plower produces rubber products. During the year, he made substantial improvements to the land on which his rubber plant is located. He checks Table B-1 and finds land improvements under asset class 00.3. He then checks Table B-2 and finds his activity, producing rubber products, under asset class 30.1, *Manufacture of Rubber Products.* Reading the headings and descriptions under asset class 30.1, Sam finds that it does not include land improvements. Therefore, Sam uses the recovery period under asset class 00.3. The land improvements have a 20-year class life and a 15-year recovery period for GDS. If he elects to use ADS, the recovery period is 20 years.

Example 3. Pam Martin owns a retail clothing store. During the year, she purchased a desk and a cash register for use in her business. She checks Table B-1 and finds office furniture under asset class 00.11. Cash registers are not listed in any of the asset classes in Table B-1. She then checks Table B-2 and finds her activity, retail store, under asset class 57.0, *Distributive Trades and Services,* which includes ***assets used in wholesale and retail trade***. This asset class does not specifically list office furniture or a cash register. She looks back at Table B-1 and uses asset class 00.11 for the desk. The desk has a 10-year class life and a 7-year recovery period for GDS. If she elects to use ADS, the recovery period is 10 years. For the cash register, she uses asset class 57.0 because cash registers are not listed in Table B-1 but it is an ***asset*** used in her retail business. The cash register has a 9-year class life and a 5-year recovery period for GDS. If she elects to use the ADS method, the recovery period is 9 years.

■

Table B-2. **Table of Class Lives and Recovery Periods**

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years)	
			GDS (MACRS)	ADS
	DEPRECIABLE ASSETS USED IN THE FOLLOWING ACTIVITIES:			
01.1	**Agriculture:** Includes machinery and equipment, grain bins, and fences but no other land improvements, that are used in the production of crops or plants, vines, and trees; livestock; the operation of farm dairies, nurseries, greenhouses, sod farms, mushroom cellars, cranberry bogs, apiaries, and fur farms; the performance of agriculture, animal husbandry, and horticultural services.	10	7	10
01.11	**Cotton Ginning Assets**	12	7	12
01.21	**Cattle, Breeding or Dairy**	7	5	7
01.221	**Any breeding or work horse that is 12 years old or less at the time it is placed in service****	10	7	10
01.222	**Any breeding or work horse that is more than 12 years old at the time it is placed in service****	10	3	10
01.223	**Any race horse that is more than 2 years old at the time it is placed in service****	*	3	12
01.224	**Any horse that is more than 12 years old at the time it is placed in service and that is neither a race horse nor a horse described in class 01.222****	*	3	12
01.225	**Any horse not described in classes 01.221, 01.222, 01.223, or 01.224**	*	7	12
01.23	**Hogs, Breeding**	3	3	3
01.24	**Sheep and Goats, Breeding**	5	5	5
01.3	**Farm buildings except structures included in Class 01.4**	25	20	25
01.4	**Single purpose agricultural or horticultural structures (within the meaning of section 168(i)(13) of the Code)**	15	10***	15
10.0	**Mining:** Includes assets used in the mining and quarrying of metallic and nonmetallic minerals (including sand, gravel, stone, and clay) and the milling, beneficiation and other primary preparation of such materials.	10	7	10
13.0	**Offshore Drilling:** Includes assets used in offshore drilling for oil and gas such as floating, self-propelled and other drilling vessels, barges, platforms, and drilling equipment and support vessels such as tenders, barges, towboats and crewboats. Excludes oil and gas production assets.	7.5	5	7.5
13.1	**Drilling of Oil and Gas Wells:** Includes assets used in the drilling of onshore oil and gas wells and the provision of geophysical and other exploration services; and the provision of such oil and gas field services as chemical treatment, plugging and abandoning of wells and cementing or perforating well casings. Does not include assets used in the performance of any of these activities and services by integrated petroleum and natural gas producers for their own account.	6	5	6
13.2	**Exploration for and Production of Petroleum and Natural Gas Deposits:** Includes assets used by petroleum and natural gas producers for drilling of wells and production of petroleum and natural gas, including gathering pipelines and related storage facilities. Also includes petroleum and natural gas offshore transportation facilities used by producers and others consisting of platforms (other than drilling platforms classified in Class 13.0), compression or pumping equipment, and gathering and transmission lines to the first onshore transshipment facility. The assets used in the first onshore transshipment facility are also included and consist of separation equipment (used for separation of natural gas, liquids, and in Class 49.23), and liquid holding or storage facilities (other than those classified in Class 49.25). Does not include support vessels.	14	7	14
13.3	**Petroleum Refining:** Includes assets used for the distillation, fractionation, and catalytic cracking of crude petroleum into gasoline and its other components.	16	10	16
15.0	**Construction:** Includes assets used in construction by general building, special trade, heavy and marine construction contractors, operative and investment builders, real estate subdividers and developers, and others except railroads.	6	5	6
20.1	**Manufacture of Grain and Grain Mill Products:** Includes assets used in the production of flours, cereals, livestock feeds, and other grain and grain mill products.	17	10	17
20.2	**Manufacture of Sugar and Sugar Products:** Includes assets used in the production of raw sugar, syrup, or finished sugar from sugar cane or sugar beets.	18	10	18
20.3	**Manufacture of Vegetable Oils and Vegetable Oil Products:** Includes assets used in the production of oil from vegetable materials and the manufacture of related vegetable oil products.	18	10	18
20.4	**Manufacture of Other Food and Kindred Products:** Includes assets used in the production of foods and beverages not included in classes 20.1, 20.2 and 20.3.	12	7	12
20.5	**Manufacture of Food and Beverages—Special Handling Devices:** Includes assets defined as specialized materials handling devices such as returnable pallets, palletized containers, and fish processing equipment including boxes, baskets, carts, and flaking trays used in activities as defined in classes 20.1, 20.2, 20.3 and 20.4. Does not include general purpose small tools such as wrenches and drills, both hand and power-driven, and other general purpose equipment such as conveyors, transfer equipment, and materials handling devices.	4	3	4

* Property described in asset classes 01.223, 01.224, and 01.225 are assigned recovery periods but have no class lives.
** A horse is more than 2 (or 12) years old after the day that is 24 (or 144) months after its actual birthdate.
*** 7 if property was placed in service before 1989.

Exhibit III-24

NON CONFIDENTIAL

RESPONSES OF THE GOVERNMENT OF THE RUSSIAN FEDERATION TO THE QUESTIONARY UNDER THE COUNTERVAILING DUTY INVESTIGATION OF CERTAIN COLD-ROLLED STEEL FLAT PRODUCTS FROM THE RUSSIAN FEDERATION (CASE No. C-821-823)

Note: all information provided for in Responses to this Questionnaire is the information owned by the government authorities of the Russian Federation, except as otherwise provided herein.

GENERAL QUESTIONS

A. Provide a copy of bulletins of economic and/or financial statistics regarding lending, economic/industrial development, and economic planning in Russia, published during the period of investigation (POI), which is January 1, 2014 through December 31, 2014. This could include, for example, reports by the Central Bank, or other such institutions that provide an overview of the above mentioned economic and financial sector activities during the POI.

RESPONSE: The economic and/or financial statistics regarding economic/industrial development and economic planning in Russia during the POI can be found in the following reports:

- **Report by the Central Bank of Russia "A large Bayesian vector autoregression model for Russia" dated March 2015;**
- **Report by the Central Bank of Russia "Disentangling loan demand and supply shocks in Russia" dated March 2015;**
- **Report by the Central Bank of Russia "Nowcasting and Short-Term Forecasting of Russian GDP with a Dynamic Factor Model" dated March 2015;**
- **Report by the Central Bank of Russia "Evaluating the underlying inflation measures for Russia" dated March 2015;**
- **Report by the Central Bank of Russia "Measuring Debt Burden" dated March 2015.**

Please see Exhibit I (1-5).

B. Provide a copy of the generally accepted accounting principles of Russia. If there are different accounting principles applicable to different types of companies, explain the differences in detail and describe to which type of companies each set of principles applies.

RESPONSE: The Generally Accepted Accounting Principles of the Russian Federation are determined in the following acts:

- **Federal Law №402 of December 6, 2011 "On business accounting";**

and development and exploration costs are just a part of numerous other expenses that are deductible.

In accordance with the Article 253 of the TCRF expenses for research and development are considered as expenses assotiated with the creation of new or improvement of existing technologies and methods of organizing production and management. Under the TCRF any taxpayer who has implemented at its own expenses research and development and exploration has the right to reduce the taxable part of the profit on such expenses. The Article 261 of the TCRF describes expenses on the development of natural resources as expenses on the geological study of subsoil resources, on prospecting for commercial minerals and on the performance of work of a preparatory nature. The Article 262 of the TCRF says that research and development expenses are classified as expenses associated with the creation of new or improvement of existing products (goods, work and services) and the creation of new or improvement of existing technologies and methods of organizing production and management. The program is valid since January 1, 2002 when Chapter 25 "Tax on companies' profit" was introduced to the Second Part of the TCRF.

As to reduction in the extraction tax this program was introduced by the Federal law of August 8, 2001 N 126-FZ "On amendments and additions to Part Two of the TCRF and some other legislative acts of the Russian Federation and the annulment of certain legislative acts of the Russian Federation". A taxpayer who made research and exploration of mineral resources, not only coal, or reimbursed the costs incurred by the government and released as of July 1, 2001 in accordance with federal laws from contributions for the reproduction of mineral-raw material base when developing these deposits, has the right to pay tax in respect of minerals extracted on the corresponding licensed plot with the coefficient 0,7.

B. Provide the name and address of each of the government agencies or authorities responsible for administering the program. Please be specific in identifying the level of government that has the authority to approve the assistance, and the level of government responsible for administering the distribution of assistance.

RESPONSE: The Ministry of Finance of the Russian Federation is the federal authority, which is responsible for policy-making in the tax regulation.

Address: 109907, Russia, Moscow, Ilinka street, 9.

Federal Tax Agency of Russia is the federal authority responsible for administering the program.

Notwithstanding this objection, the requested information is being provided, but the Russian Federation disagrees that "Program F" is a subsidy. Given this, the Russian Federation reserves its rights to challenge any determination to the contrary.

The above stated in this General Response shall be attributed to all questions in the Questionnaire concerning "Program F", and all other responses are without prejudice to it.

For greater clarity, the regulated prices (tariffs) in gas sector are set only with respect to the gas produced by the Public Joint Stock Company «Gazprom» (and its affiliates) and services for transportation of gas produced by the privately owned companies through the pipelines owned by the PJSC "Gazprom". The regulated segment occupies about 65% of the domestic natural gas market, while the unregulated segment accounts for 35% of the domestic market. It is described in greater detail throughout all the responses, in particular in Response to Question 2 of "Additional Natural Gas Questions".

Questions Regarding the Natural Gas Industry:

1. Please provide the information requested in the *Input Producer Appendix*.

RESPONSE: The information is provided in the Responses to the *Input Producer Appendix*.

2. Provide the following information concerning the natural gas industry in Russia for the POI and the prior two years, including an explanation of the sources used to compile the information:
   a. The total number of producers.

RESPONSE: Please see the information about the total number of natural gas producers in the Russian Federation in Table 1.

Table 1. Total number of natural gas producers in the Russian Federation over the period of 2012-2014

	2012	2013	2014
Total number of natural gas producers, (number of entities)	**80**	**83**	**86**

   b. The total volume and value of domestic consumption of natural gas and the total volume and value of domestic production of natural gas.

RESPONSE: Starting from May 2001 the non-commercial partnership "Russian Gas Society" (hereinafter - RGS) has been operating in the Russian market (Russian version of the web page: www.gazo.ru). The main aim of the RGS is facilitating the development of the Russian gas industry. The RGS consists of 104 oil and gas companies. The list of its members is available under the following web-link: https://translate.google.ru/translate?sl=ru&tl=en&js=&u=http%3A%2F%2Fgazo.ru/participant/. The RGS is an associate member of the International Gas Union (IGU) and the European Union of Gas Industry (Eurogas).

Being a non-commercial partnership the RGS operates in accordance with the civil law norms and the Charter approved by the decision of the General Meeting of Founders of the non-commercial partnership "RGS" dated May 18, 2001.

Please see Exibit III-14.

4. In the POI, or in the previous two years, were there any export or price controls on natural gas or any price floors or ceilings established, whether in the domestic market or for natural gas exported outside of Russia?

RESPONSE: There was no export controls as well as export price controls for natural gas. At the same time, licensing of natural gas export was in place, which is discussed below in the Response to the Question 7.

As for the price regulation of natural gas in the domestic market, it should be noted that the regulated segment is represented by the PJSC «Gazprom» and its affiliates and occupies about 65% of the domestic market. The PJSC «Gazprom» and its affiliates use in their operational activities the prices (tariffs) set by the FAS (before July 21, 2015 the vFederal Service on Tariffs – FST).

Being the main federal authority empowered to exercise state price regulation for natural gas, FAS sets (1) prices for gas extracted by the PJSC "Gazprom" (2) tariffs for transportation of gas extracted by privately owned gas companies through pipelines owned by the PJSC "Gazprom". With respect to natural gas produced by the PJSC "Gazprom" and its affiliates the FAS sets prices (tariffs) for all consumers in the domestic market, including industrial consumers and housholders.

The regulated prices (tariffs) for natural gas sold to industrial consumers that were being in effect during the POI were set in the legal acts listed in the Response to the Question 2 of "Additional Natural Gas Questions". That Response provides further information regarding the system of state price (tariff) regulation for natural gas.

9. Are there trade publications that specify the prices of natural gas within Russia and on the world market? Provide a list of these publications, along with sample pages from these publications listing the prices of natural gas within Russia and in world markets during the POI.

RESPONSE: As it was provided for in Response to Question 4, the Orders of the FAS setting the natural gas prices (tariffs) for consumers in the domestic market are published on the official web-site (Russian version: fas.gov.ru, English version: en.fas.gov.ru). The Orders relevant to the POI are attached as it is stipulated in the Response to Question 2 of the Additional Natural Gas Questions.

The information on the unregulated prices for the industrial consumers in the domestic market formed as a result of trade on the "Saint Petersburg International Commodity Exchange" is available under the following web-link: www.spimex.com/en/.

There is no "world market price" for natural gas as such prices are depend on the regions of supply, as the cost of shipment and transport reflect a substantial part of the landed price.

Questions Regarding Gazprom:

1. Explain the objectives of the GOR in holding shares (if applicable) in Gazprom, and whether those objectives are defined in any government proclamation, regulation, decree, opinion, law, or policy. Provide original and fully translated copies of any supporting documents. Please also explain the relevant government ownership policy regarding Gazprom and/or the industries to which respondents belong.

RESPONSE: Historically the PJSC "Gazprom" was created on the basis of the Ministry of the Gas Industry. In accordance with the Resolution of the Council of Ministers of the USSR adopted in 1989 the Ministry of Gas Industry was reorganized into the State Gas Monopolistic Enterprise "Gazprom" that afterwards in 1992 was reorganized into the JSC "Gazprom". Therefore, the ownership structure of the JSC "Gazprom" is determined by the balance between commercial interests of the gas producer and strategic goal of ensuring the reliable supply of natural gas within the country.

In accordance with the Decree of the President of the Russian Federation N 1009 of August 4, 2004 "On approval of the list of strategic enterprises and strategic joint companies" the PJSC "Gazprom" is included in the list of the joint stock companies the shares of which are in the federal ownership and the participation of the Russian Federation in the management of which guarantees the strategic interest of the state and protection of lawful interests of its citizens.

In certain circumstances the Government of the Russian Federation has the right to issue through the Federal Agency for State Property Management directives to managers representing its interests

in the PJSC "Gazprom". This right is provided for in the Resolution of the Government of the Russian Federation N 738 of December 3, 2004.

Please see Exibit III-18 and III-19.

2.Please explain if Gazprom and/or the industries to which respondents belong are covered by any central or sub-central Government plan(s), industry-specific plan(s) or policy(ies), investment guide, catalogue, or any other Government planning or policy documents that are relevant to the POI. If so, please provide the original and fully translated copies of any such documents together with a narrative explaining the purpose of each.

RESPONSE: **With respect to natural gas industry in the Russian Federation (as it was provided for in Response to Question 1(f) from the section "Questions Regarding the Natural Gas Industry") there are two federal level industrial policies that are currently in force and were implemented during the period of investigation:**

(1) State Program of the Russian Federation "Power efficiency and development of energy sector" approved by the Resolution of the Government of the Russian Federation N321 of April 15, 2014. The program is aimed at reliable supplying of fuel and energy resources within the country, improving the efficiency of use of fuel and energy resources, minimization of negative effect on the environment;

(2) "Energy Strategy of the Russian Federation for the period until 2030" approved by the Resolution of the Government of the Russian Federation N1715-r of November 13, 2009.

As it is provided for in the Energy Strategy the special consideration is attributed to the issues of gas price increase and to the mechanism of minimizing negative social-economic consequences of the general price increase of energy resources.

One of the highest priority activities of the PJSC "Gazprom" is gasification of the Russian regions. Gasification is aimed at achieving maximum economically viable level of gasification of the Russian Federation. Since 2001 the PJSC "Gazprom" elaborates programs of gasification of regions that are implemented jointly by the PJSC "Gazprom" and regional authorities of the Russian Federation. When defining the regions for future gasification the PJSC "Gazprom" considers several factors such as level of current gasification of the region, ability of the region to assume some of the costs of gasification and the absence of debts for gas supplies. At the moment one of the most important tasks of the Company is the gasification of Eastern Siberia and Far East, which will take place

NON CONFIDENTIAL

involved in the setting of natural gas rates in Russia.

RESPONSE: According to the Decree of the President of the Russian Federation N 373 of July 21, 2015 the Federal Tariff Service was abolished and its competence in the sphere of tariff regulation was entrusted to the FAS.

The Government of the Russian Federation adopts the rules and principles of price (tariff) regulation on natural gas supplies, while the FAS sets prices (tariffs) of natural gas produced and supplied by the PJSC «Gazprom» and its affiliates in the domestic market.

The FAS as well as the former FST is not accountable to sectoral Ministries, independent of industry and market participants and makes decisions independently which can be abolished only by decisions of Court.

2. Explain in detail how natural gas rates are set in Russia and provide copies of all laws, regulations, and pricing guidelines that govern the setting of the rates. Provide a copy of the tariff schedule that was in effect during the POI.

RESPONSE:

The main legislative acts that regulate the price-setting for natural gas were the following:

Federal Law No. 69-FZ of 31 March 1999 "On Gas Supply in the Russian Federation" (as last amended on 21 July 2014);

Federal Law No. 147-FZ of 17 August 1995 "On Natural Monopolies" (as last amended on 30 December 2012);

Resolution of the Government of the Russian Federation No. 1021 of 29 December 2000 "On the State Regulation of Gas Prices and Gas Transportation Services Tariffs in the Territory of the Russian Federation" (as last amended on 3 December 2014);

Resolution of the Government of the Russian Federation No. 333 of 28 May 2007 "On Improving State Regulation of Gas Prices" (as last amended on 31 December 2010);

Decree of the President of the Russian Federation No. 221 of 28 February 1995 "On Measures to Streamline the State Regulation of Prices (Tariffs)" (as last amended on 8 April 2003);

Resolution of the Government of the Russian Federation No. 239 of 7 March 1995 "On Measures to Streamline the State Regulation of Prices (Tariffs)" (as last amended on 25 February 2015);

NON CONFIDENTIAL

Order of the Federal Service for Tariffs No 1142-e of 9 July 2014 "On approval of implementation provisions for determination of the gas price formula";

Order of the Federal Service for Tariffs No. 177e-/2 of 26 September 2013 "On approval of wholesale prices on gas produced by JSC "Gazprom" and its affiliate entities and resold to the Russian consumers specified in paragraph 15.1 of Basic provisions of assessment and State Regulation of Gas prices and Tariffs for its transportation in the Territory of the Russian Federation approved by the Resolution of the Government of the Russian Federation № 1021 of 29 December 2000";

Order of the Federal Service for Tariffs No. 127-e/1 of 4 July 2013 "On approval of tariffs for gas transportation services via gas pipelines owned by JSC "Gazprom", being part of the unified system of gas supply, for independent enterprises";

Order of the Federal Service for Tariffs No. 109-e/2 of 14 May 2014 "On approval of tariffs for gas transportation services via gas pipelines owned by JSC "Gazprom", being part of the unified system of gas supply, for independent enterprises";

Copies of all above listed regulations, including the FST orders that set prices (tariffs) for natural gas for the POI, are attached.

According to Article 4 of the Federal Law No.69-FZ of 31 March 1999 and Article 1 of the Federal Law No. 147-FZ of 17 August 1995 natural gas price (tariff) regulation in the Russian Federation is aimed at prevention of abuse of monopoly position and protection of consumers' interests from monopoly price increases.

Legal acts establishing the methodology of natural gas price-setting, in particular Resolution of the Government of the Russian Federation No. 1021 of 29 December 2000 "On State Regulation of Gas Prices and Gas Transportation Services Tariffs on the Territory of the Russian Federation", are applied equally throughout the whole territory of the Russian Federation (including remote locations). These acts do not provide for any industry-specific exceptions, exemptions, discounts or preferences.

The basic principle of price-setting of natural gas is to ensure economically viable production and recovery of costs, including, inter alia, the cost of production, overheads, financing charges, in the Resolution of the Government of the Russian Federation N 738 of December 3, 2004. According to the Resolution, the persons elected to the Board of Directors from the candidates nominated by the Russian Federation being the shareholder represent the interests of the Russian Federation. A representative of the interests of the Russian Federation may be a governmental official as well as other persons acting in accordance with the Regulation. Representatives of the interests of the Russian Federation in the Board of Directors shall vote on the agenda of the meeting of the Board of Directors in accordance with the written directives issued by the Federal Agency for State Property Management.

The information on the Composition of the Audit commission of the PJSC "Gazprom" is provided in Table 6 below.

Table 6. Composition of the Audit commission of the PJSC "Gazprom" during the POI

	Composition of the Audit commission			
	during the period 01.01.2014 - 26.11.2014		during the period 27.11.2014 - 31.12.2014	
1.	Miller A.B.	Chairman	Miller A.B.	Chairman
2.	Vasilyeva E.A.	Deputy chairman	Vasilyeva E.A.	Deputy chairman
3.	Golubev V.A.		Golubev V.A.	
4.	Kozlov A.N.		Kozlov A.N.	
5.	Kruglov A.V.		Kruglov A.V.	
6.	Markelov V.A.		Markelov V.A.	
7.	Medvedev A.I.		Medvedev A.I.	
8.	Khomyakov S.F.		Khomyakov S.F.	
9.	Aksyutin O.E.		Aksyutin O.E.	
10.	Golko Y.Y.		Prosorov S.F.	
11.	Dubik N.N.		Dubik N.N.	
12.	Lyugay D.V.		Lyugay D.V.	
13.	Markov V.K.		Markov V.K.	
14.	Mikhaylova E.V.		Mikhaylova E.V.	
15.	Seleznev K.G.		Seleznev K.G.	
16.	Fedorov I.U.		Fedorov I.U.	
17.	Cherepanov V.V.		Cherepanov V.V.	

The Chairman of the Audit commission and the Members of the Audit commission are elected by the Board of Directors for a period of 5 years. Members of the Audit commission are elected from among the executives of the Company, its subsidiaries and other persons with the necessary professional qualifications and management experience mainly in the sphere of activity of the Company.

The Board of Directors may at any time decide on early termination of powers of members of the Audit commission and the election of a new executive body. The composition of the Audit commission

	Komi Republic located in the territory of the Vorkuta region of the Komi Republic, 13 kilometers to the east of Vorkuta city		
SYK 02428TE (reissued SYK 02567TE)	**Area "Uglerazreza Nizhnesyryaginsky" of Nizhnesyryagink coal deposit in the Komi Republic located in the territory of Vorkuta region of the Komi Republic, 16-18 kilometers to the north, to the north-east of the Vorkuta city**	[ ]	[ ]

12. Please also respond to the Standard Questions Appendix for the mining rights provided by the GOR to respondents to extract coal.

RESPONSE: Please see the responses to the Standard Questions Appendix for the mining rights provided below.

Standard Questions Appendix

A. Provide a description of the program including the purpose of the program and the date it was established.

RESPONSE: The right for using subsoil resources is provided in accordance with the special government permission in the form of license. The license is a document certifying the right of its owner to use subsoil resources within certain limits in exchange for fulfillment by the owner of the pre-specified conditions of the license.

Granting licenses for mining rights is regulated by the Law of the Russian Federation N 2395-1 of February 21, 1992 "On Subsoil Resources" and other legislative acts listed in Response to Question 2 of the "Program Specific Questions". According to Article 1.2 of this Law subsoil resources in the territory of the Russian Federation are the property of the State. The Russian Federation exercises its sovereign rights over the subsoil resources. The issues of the ownership, use and disposal of subsoil resources are in joint competence of the Russian Federation and sub-federal regions of the Russian Federation.

The mechanism of granting licenses is aimed at ensuring social, economic, environmental and other interests of Russian citizens, providing equal opportunities for all legal entities to obtain licenses, developing market relations, observance of the provisions of the anti-monopoly law and protection of natural security interests of the Russian Federation in the sphere of subsoil use. Use of certain subsoil resources may be limited or prohibited in order to ensure national security and to protect the

environment.

Subsoil areas cannot be subject to purchase, sale, gift, inheritance, deposit of collateral or be alienated in any form. Rights of subsoil use may be alienated or transferred from one person to another in the extent to which their turnover is permitted by the national legislation.

B. Provide the name and address of each of the government agencies or authorities responsible for administering the program. Please be specific in identifying the level of government that has the authority to approve the assistance, and the level of government responsible for administering the distribution of assistance.

RESPONSE: As it was provided in Response to Question 5 of the "Program Specific Questions" the licenses for mining rights can be granted upon (i) decision of the Federal Subsoil Management Agency or its territorial agencies based on the results of public auctions (tender procedures); (ii) decision of the Government of the Russian Federation (only for subsoil areas of federal importance) decision of the relevant regional executive authority of the Russian Federation based on the results of the public auctions (competitive tendering) or the results of consideration of certain application (only for subsoil areas of regional importance).

The names and addresses of the government authorities responsible for granting (approval and administering) the licenses for mining rights are listed below:

1.at the federal level:

(1.1) Government of the Russian Federation.

Address: 103274, Moscow, Krasnopresnenskaya nab., 2;

(1.2) Federal Subsoil Management Agency.

Address: 125993 Moscow, Russia. B. Gruzinskaya st. 4/6.

2.at the regional level:

(2.1) Department of Mineral Resources of the Central Federal District.

Address: 117105, Moscow, Varshavskoe highway, 39A;

(2.2) Department of Mineral Resources of the North-West Federal District.

Address: 199155, St. Petersburg, Odoevskogo st., 24, building 1;

(2.3) Department of Mineral Resources of the North Caucasus Federal District.

Address: 357601, Essentuki, Sadovaya line, 4A;