

INTEGRATED REPORT 2017

GROWTH EFFICIENCY VALUE



PHOSAGRO



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ABOUT THIS REPORT

This report aims to inform readers about all of the significant factors that may have an impact on PhosAgro's activities and to explain how these factors affect our strategy, operations, financial performance, the long-term sustainability of the Company's business and the value we create for all stakeholders. On the following pages, we focus on six key issues, with the goal of providing a fully integrated report, namely:

1. What does the organisation do and what are the circumstances under which it operates?
See page 6–7
2. What is the organisation's business model?
See page 14–19
3. What are the specific risks and opportunities that affect the organisation's ability to create value for stakeholders in the short, medium and long term?
See page 116–123
4. What are the Company's key strategic goals and how does it intend to achieve them?
See page 36–49
5. To what extent has the organisation achieved its strategic objectives for the period and what was the effect on the Company's value for stakeholders?
See page 104–115
6. What are the key challenges and uncertainties that the organisation is likely to encounter in pursuing its strategy and what are the potential implications for the business model and future performance?
See page 36–49

1.

ABOUT PHOSAGRO





**ONE OF THE WORLD'S
LEADING PRODUCER OF
HIGH-GRADE PHOSPHATE
ROCK AND FERTILIZERS
THAT ARE LOW IN
POTENTIALLY HARMFUL
IMPURITIES**

>100

COUNTRIES

**PHOSAGRO
TRADING MARKET**



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Business model	14

COMPANY PROFILE

- 06 PhosAgro is a vertically integrated mineral fertilizer producer based in Russia and one of the most efficient producer of phosphate-based fertilizers as well as high-grade phosphate rock with a P_2O_5 content of 39% or higher.

THE LIFE CYCLE OF PHOSPHATE-BASED FERTILIZERS AT PHOSAGRO

The Company owns assets in mining, processing, logistics and sales

MINING



The life cycle of phosphate-based fertilizers begins at PhosAgro's Apatit mines on the Kola Peninsula, where unique high-quality phosphate ore is mined and processed into phosphate rock that is virtually free of cadmium and other potentially harmful impurities.

>39 % P_2O_5

**NUTRIENT CONTENT OF
HIGH-GRADE PHOSPHATE
ROCK PRODUCED AT APATIT**

PRODUCTION



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 over 35 grades of fertilizers and other finished products to meet demand from customers in more than 100 countries.

>35 GRADES

**OF FERTILIZERS AND
OTHER FINISHED
PRODUCTS ARE
PRODUCED BY
PHOSAGRO**

SALES



The Company has its own sales network in Russia, as well as trading offices in priority export markets in Latin America, Europe and Asia. 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.

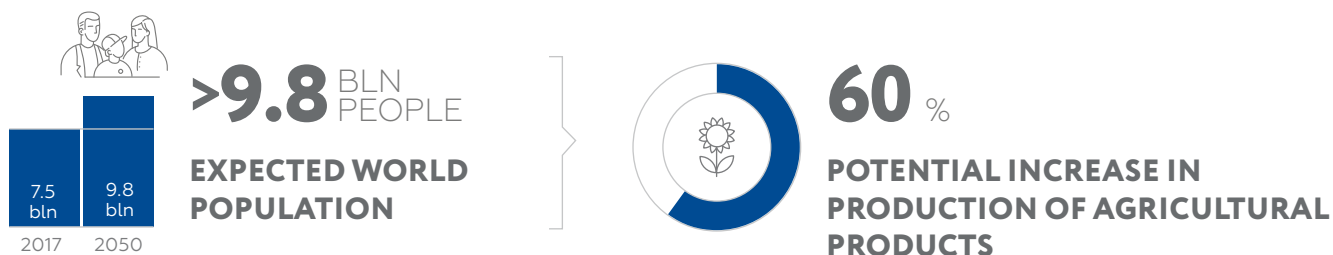
>100 COUNTRIES

**PHOSAGRO'S
TRADING MARKET**

We are continuously investing in streamlining business processes, which, together with domestic access to all of our key raw materials, has helped PhosAgro to strengthen its position like the one of the most effective producer of phosphate-based fertilizers.

BY 2050:

07



OUR GUIDING PRINCIPLES

Due to the high quality of the apatite-nepheline ore that we use, we help farmers meet increasing demand for food of the highest quality.

In 2017, PhosAgro completed a large-scale investment programme as part of its Strategy to 2020: construction of a new 760 ths tonnes/year ammonia unit and a 500 ths tonnes/year granulated urea production line. These new capacities represent significant potential for PhosAgro to increase its production capacity.

PhosAgro's strategy calls for further integration and continued expansion through organic growth, which is the most effective path in the current market situation. Moreover, this strategy has enabled the Company to be in a position to reap significant benefits as a new cycle of prices growth gets underway while at the same time maintaining a strong and stable financial position.

OUR GOAL

By producing safe and clean mineral fertilizers, which are vital for increasing the yield, quality and nutritional value of crops, we contribute to ensuring food security throughout the world.

It is expected that by 2050 the world's population will reach 9.8 billion people. According to preliminary calculations, in order to feed this number of people, it will be necessary to increase the production of agricultural products by 60%. In addition to population growth, high demand for agricultural products is also determined by other factors, such as changing diets and alternative uses of cultivated crops (for example, bioethanol production).

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.

We have an unwavering focus on finding ways to introduce more efficient technologies, reduce costs and strengthen vertical integration. This has enabled PhosAgro to fully meet the needs of agricultural producers, helping them to grow crops and provide higher-quality food products for the end user.

2017 PERFORMANCE HIGHLIGHTS

08

FINANCIAL HIGHLIGHTS

2017 was a landmark year for PhosAgro: we successfully completed a large-scale capital expenditure cycle focused on the modernisation and expansion of our upstream and downstream production facilities. We completed the majority of the key elements of the investment programme approved under the Strategy to 2020, marking another important step towards ensuring the long-term sustainable growth in shareholder value.

We now intend to focus on selective organic growth projects aimed at improving efficiency and improving our self-sufficiency in key raw materials that do not require significant capital expenditure.

Despite the volatile price environment in the mineral fertilizer market and the appreciation of the Russian rouble, PhosAgro has continued to generate stable cash flows and to pay dividends in line with its dividend policy. Dividend payments based on the company's performance in 2017 represented 50% of adjusted IFRS net profit. Total dividends paid for 2017 amounted to RUB 10.5 billion, or RUB 81 per share (RUB 27 per GDR).

In addition to ensuring profitability for shareholders, the Company is faced with an even broader range of opportunities to increase the attractiveness of PhosAgro as a responsible employer and partner for all stakeholders.

In 2017, the Company continued to focus on particular attention to cost control, the expansion of vertical integration, implementation of measures to improve efficiency, that allowed us to reach again record in operating results.

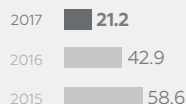


See additional information on page 64–67

Net Profit (adjusted for FX), RUB bln

↓ -50.6%

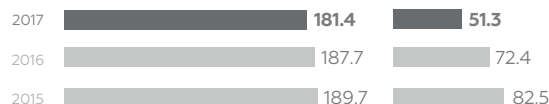
21.2



Revenue, RUB bln

↓ -3.4%

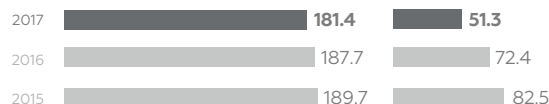
181.4



EBITDA, RUB BLN

↓ -29%

51.3



Dividend payout ratio

Dividends accrued for a given year

Flat

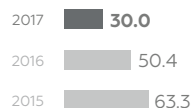
50%



Cash flow from operating activities, RUB bln

↓ -40.4%

30.0



EBITDA margin

↓ -11 P.P.

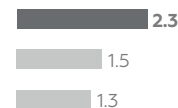
28%



Net debt/EBITDA

↑ +0.8

2.3



OPERATIONAL HIGHLIGHTS

In 2017, the Company continued to focus on controlling costs, further vertical integration, and implementation of efficiency measures, which enabled us to deliver another set of record operating results, both upstream and downstream.

For FY 2017, PhosAgro increased its production of mineral fertilizers by 12.3% year-on-year to 8.3 million tonnes, with production of phosphate-based and nitrogen fertilizers increasing by 11.4% and 16.0% year-on-year, respectively.

One of the key events of the past year was the successful completion of construction of our major strategic projects with the launch of the ammonia and granulated urea production capacities at our Cherepovets facilities. The new production lines will enable PhosAgro to strengthen its position as the one of the world's effective producer

of phosphate-based fertilizers, and they represent significant potential for increasing production capacity while improving our self-sufficiency in key inputs.

PhosAgro continued to invest in the development of its own sales network in its domestic market of Russia, while expanding its network of sales offices in priority export markets. Sales of fertilizers and MCP in the Russian Federation have increased over the past six years more than five times from 0.85 million tonnes in 2011 to 2.3 million tonnes in 2017. The total domestic sales (including phosphate rock, nepheline concentrate, phosphate-based fertilizers, MCP, nitrogen-based fertilizers, ammonia and STPP) for the year amounted to 4.3 million tonnes, an increase of 5.7% year-on-year.



See additional information
on page 52–63

SUSTAINABILITY

09

The Company 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.

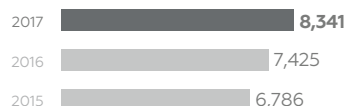


See additional information
on page 68–123

Downstream fertilizer
production, kt

↑ +12.3%

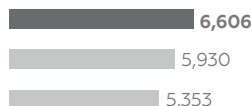
8,341



Phosphate-based fertilizers
and MCP production, kt

↑ +11.3%

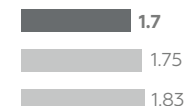
6,606



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

↓ -3%

1.7



Phosphate rock
production, kt

↑ +11.8%

9,540



Nitrogen fertilizers
production, kt

↑ +16%

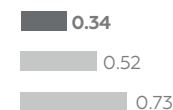
1,735



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

↓ -35%

0.34



WHERE WE OPERATE

10

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

SALES OFFICES



At PhosAgro, we maintain a continuous focus on improving all aspects of our logistics and distribution operations, striving to provide the most efficient and highest-quality service to our customers and build reliable long-term relationships with them.

In 2017, PhosAgro made further progress on widening direct access to premium markets in accordance with its strategy. Our focus on the priority markets of Europe, CIS and Latin America remained intact in the reporting period due to significant demand in each of these regions, coupled with a structural deficit in local supply of phosphate resources.

Our efforts in 2017 yielded results: we saw sales increase by 33% year-on-year to North and Latin America, by 21% to Europe and by 36% to CIS.

During 2017, we also continued our efforts to ease the burden of import duties on phosphate-based fertilizers from Russia. Thanks to joint efforts and a constructive dialogue with our Argentinian partners, an agreement was reached to lift the 6% import duty on high-quality diammonium phosphate (DAP), which is another step forward towards ensuring global food security.

SALES IN NORTH & LATIN AMERICA

kt



7



**PRIORITY
MARKETS IN CIS**

SALES IN CIS

kt

↑ **36%** Y-O-Y



RUSSIA

BELARUS

UKRAINE

KAZAKHSTAN

MOLDOVA

GEORGIA

AZERBAIJAN

SALES IN EUROPE

kt

↑ **21%**



WHERE WE OPERATE

continued

12

RUSSIA



SALES IN RUSSIA

kt

+12.3% Y-O-Y



Domestic market

In 2017, the Russian mineral fertilizer market remained one of the world's fastest-growing on the back of the significant momentum that Russia's agricultural sector gained thanks to government policy and support by fertilizer producers. As the key consumer of mineral fertilizers, the Russian agricultural sector has achieved significant growth in recent years. Notably, 2017 saw agricultural production grow by 11% year-on-year. Russia set a new all-time record for the grain harvest in 2017, with an output of 29.3 centners per hectare (compared to 27.2 centners in 2016).

Moreover, in 2017 Russia further cemented its position as the world's leading grain exporter. It is expected that in the 2017/18 crop year, Russia's grain exports could reach the Soviet-era record of 40 million tonnes (compared to 34.5 million tonnes in 2016). As the largest fertilizer supplier in Russia, PhosAgro has contributed to these outstanding results.

PHOSAGRO SELLS ONE OUT OF EVERY THREE TONNES OF FERTILIZER USED BY RUSSIAN FARMERS

The Russian agricultural sector holds significant upside potential, with domestic farmers well positioned to maintain global leadership going forward. Considering this, the Russian market is one of the few in the world where fertilizer consumption is growing at double-digit rates.

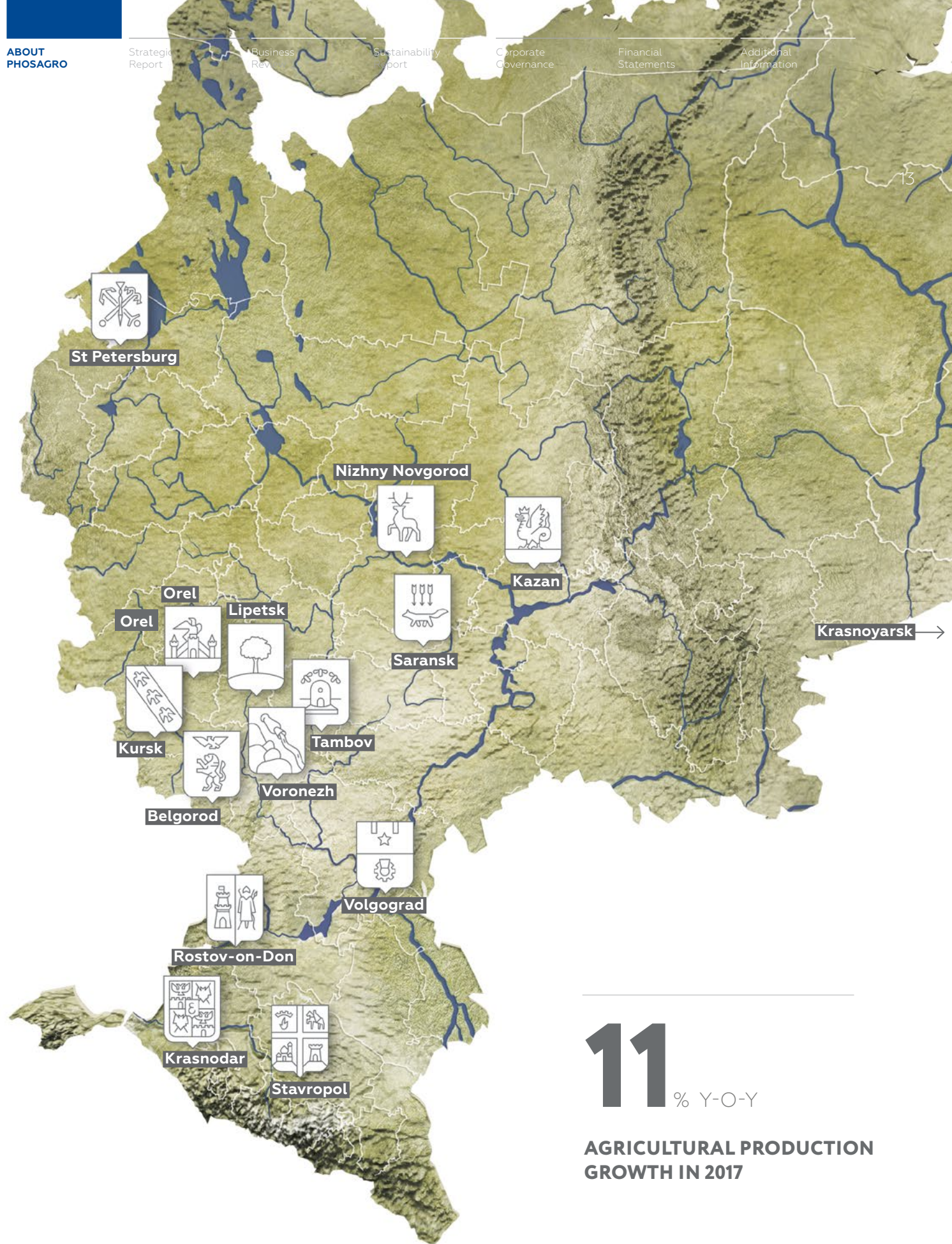
We have been investing in our local sales and distribution network for years in order to move closer to our end customers. As a result, PhosAgro now sells one out of every three tonnes of fertilizer used by Russian farmers.

Domestic sales

Sales volumes in our domestic market increased 12.3% year-on-year in 2017 to 2,336 million tonnes.

40 MLN T

RUSSIA'S GRAIN EXPORT EXPECTATIONS FOR 2017–2018



11 % Y-O-Y

**AGRICULTURAL PRODUCTION
GROWTH IN 2017**

BUSINESS MODEL

14

Our business model allows us to leverage our expertise throughout the Group, with seasoned professionals that connect across the Company to share best practices, make us safer and deliver intelligent and sustainable growth. PhosAgro is committed to using the best available technologies and practices to cement its position among world's leading fertilizer producers and to create a strong and stable foundation for sustainable growth.



As a vertically integrated company, we capture value for shareholders at every step of the process, from mining of phosphate raw materials to distribution and sales of finished products to farmers in Russia or sales to distributors in priority export markets like Europe and Latin America. We strive to achieve the right balance between targeted investments in growth and appropriate cash returns to shareholders.

>35
GRADES
**OF FERTILIZERS
IN PHOSAGRO'S
PORTFOLIO**

FOUR MAIN STAGES

**OUR VERTICALLY INTEGRATED
BUSINESS CONSISTS OF:**

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 provides a reduction in costs for processing ore, obtaining apatite concentrate, as well as turning it into high-quality mineral fertilizers.

DOWNSTREAM



Our fertilizer production assets enjoy domestic access to other key inputs like natural gas and sulphur, and we intend to focus on improving our self-sufficiency in key inputs.

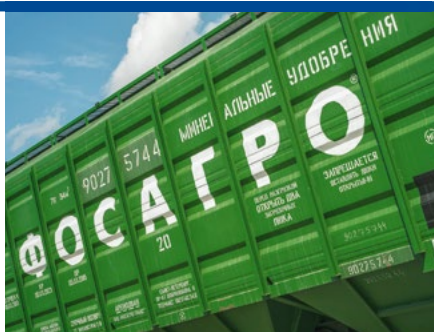


32,330

MLN T

**OF APATITE-NEPHELINE ORE
EXTRACTED IN 2017**

LOGISTICS



PhosAgro's logistics infrastructure includes warehouses, mineral hoppers and a port terminal. 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.

DISTRIBUTION AND SALES



Further investments into our domestic sales network and trading offices in priority export markets have helped us to achieve sustainable cost savings even further down the value chain.

OUR TOP PRIORITY

is to achieve sustainable results by creating value for all of our stakeholders, and our business model covers areas such as:

- A commitment to uphold both environmental and health and safety standards across our business
- A focus on continuously improving all aspects of our operations by striving for smart growth and modernisation of existing capacities by achieving operational efficiency; and developing new production capacities at our downstream facilities, which will further secure our position
- Investments in new, efficient capacities and upgrades to our flexible production lines, which reduces our per-unit environmental footprint while ensuring a reliable supply of safe and pure fertilizers for our customers
- Investments into local communities and education, helping to ensure that our workforce is healthy and prosperous on and off the job

see detailed
information
inside



**ULTIMATELY, WE PROVIDE OUR CONSUMERS
WITH PREMIUM-QUALITY PHOSPHATE-BASED
PRODUCTS TO ENSURE PLENTIFUL CROPS THAT ARE
GROWN WITH FERTILIZERS FREE FROM HARMFUL
ELEMENTS LIKE CADMIUM, LEAD AND ARSENIC**

KEY ASPECTS OF PHOSAGRO'S VALUE CHAIN

UPSTREAM

MINING AND PROCESSING

PhosAgro has extensive mining operations, along with highly qualified in-house operational and technological knowledge 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 Kirovsk branch of JSC Apatit into a sustainable, world-class mining and phosphate rock production operation. We have achieved a more than 90% recovery ratio for phosphate rock.

The upstream operations in our phosphate segment take place at Apatit, which mines apatite-nepheline ore from open-pit and underground mining. In 2017, PhosAgro extracted 32.33 million tonnes of apatite-nepheline ore on the back of continued expansion of phosphate ore mining. Thanks to Main Shaft #2, our underground mining operations are at the leading edge in terms of safety and efficiency, helping us further reduce our production costs in the long term.

Beneficiation

Ore is processed at two apatite-nepheline beneficiation plants with a total annual capacity of 9.5 million tonnes of phosphate rock and 1.1 million tonnes of nepheline concentrate.

In 2017, PhosAgro successfully completed modernisation of Beneficiation Plant No 3, which resulted in higher production volumes of both phosphate rock and nepheline concentrate.

Produced in 2017:

9.5 MLN T
of phosphate rock
(+12% y-o-y)

998.1 KT
of nepheline concentrate
(+4% y-o-y)



HIGH-QUALITY NATURAL RESOURCES

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 P₂O₅ 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 to develop our extensive resource base.

Open pit

8.06 MLN T
extracted from open-pit mines in 2017
(-29% y-o-y)

Underground

24,27 MLN T
extracted from underground mines in 2017 (+10% y-o-y)



DOWNSTREAM

FERTILIZERS, FEED AND INDUSTRIAL PHOSPHATES

Our portfolio offers over 35 grades of fertilizers, including grades containing secondary (sulphur) and micronutrients like zinc and boron, that are produced at our three downstream production sites in Russia.

Metachem (Volkhov)

Production of phosphate-based fertilizers, technical phosphate, sulphuric and phosphoric acid.

Capacities:

PKS, SOP
150 KT

Phosphoric acid
80 KT OF P₂O₅

STPP
130 KT

Sulphuric acid
215 KT



Balakovo branch of Apatit

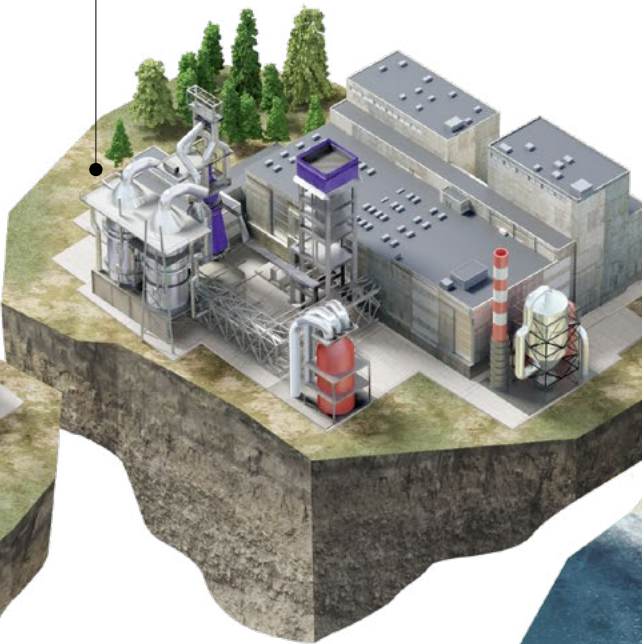
With the completion of the construction of ammonia pipeline with the capacity of 504 ths tonnes/year at Balakovo in 2017, we aim to secure a more efficient and reliable supply of this key input for Balakovo branch of JSC Apatit, enabling us to further increase fertilizer production capacities.

Production of phosphate-based fertilizers and feed phosphates.

Capacities:

DAP/MAP/NPS
1.7 MLN T

MCP
370 KT



LOGISTICS

JSC Apatit

We successfully completed the construction of two of our major strategic investment projects at JSC Apatit in Cherepovets with the ramp-up of new, high-tech ammonia and granulated urea production capacities at our Cherepovets facilities starting in the summer of 2017. By completing these projects on schedule, PhosAgro has laid the groundwork for significant organic growth in fertilizer production capacities, and we aim to increase total fertilizer output in 2020 by 10% compared to 2017.

Production of phosphate-based and nutrient-based fertilizers and ammonia.

Capacities:

MAP/DAP/NPK/NPS	Ammonia	APP
4.4 MLN T	1.9 MLN T	140 KT
AN/AN-based	Urea	
450 KT	1.5 MLN T	

IN-HOUSE LOGISTICS
INFRASTRUCTURE

Having our own logistics infrastructure helps to significantly reduce costs and increase the reliability of production activities. We have our own fleet consisting of 6,200 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 transshipment facilities helps reduce the cost of transshipment per tonne of finished products, which, among other things, allows us to increase our margins on export sales.



DISTRIBUTION AND SALES

MINERAL FERTILIZER
DISTRIBUTION NETWORK

PhosAgro owns the largest mineral fertilizer distribution network in Russia, with 15 sales offices and 22 distribution centers. This has enabled us to significantly increase sales volumes and market share on the back of Russia's stellar agricultural sector performance.

DOMESTIC SALES NETWORK
AND TRADING OFFICES
IN EXPORT MARKETS

PhosAgro continued to invest in the development of its own sales network in its domestic market of Russia, while expanding its network of trading offices in priority export markets. This has helped us to significantly improve relations with local buyers, enabling us to meet their needs better with the crop nutrients they need.



VALUE CREATED

The Company's primary focus is on delivering value to all its stakeholders. We work closely with all respective parties to ensure that PhosAgro respects the interests of all stakeholders. The expectations of society are increasing, and we will continue to listen carefully to our stakeholders, with a view to creating mutual value and ensuring global food security.

2. STRATEGIC REPORT





**KEY STRATEGIC
MILESTONES ACHIEVED:
NEW AMMONIA AND
GRANULATED UREA
CAPACITIES ARE NOW
FULLY OPERATIONAL**

12.3 %

**YEAR-ON-YEAR
INCREASE IN FERTILIZER
PRODUCTION VOLUME
IN 2017**



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CHAIRMAN'S STATEMENT

22



STABILITY, VALUE AND GROWTH

PhosAgro's performance in 2017 has demonstrated the Company's unique ability to provide solid returns to shareholders while delivering on major strategic investment projects and maintaining a stable, sustainable business for all of its stakeholders. With the launch of the new ammonia and granulated urea lines in 2017, the Company is set to free up cash flows previously devoted to investments while simultaneously increasing total fertilizer production capacity and sales.

A year of transformation

The Board of Directors is pleased to see PhosAgro complete a transformative year in which the Company finished two major investment projects that aim to deliver significant, sustainable growth in the years ahead.

The new ammonia and urea capacities that became operational in 2017 are core elements of PhosAgro's carefully considered strategy, which seeks to create value for investors by focusing on efficiency and growth, leveraging PhosAgro's natural advantages to help it supply even greater volumes of its unique,

high-quality crop nutrients to farmers in Russia and all over the world.

With the construction of new capacities and expansion of existing facilities, we have also maintained a focus on safety and the environment. The introduction of industry-leading practices in this area helped us to achieve a further 35% improvement in our LTFIR performance. As part of the new production capacities launched at PhosAgro's JSC Apatit site, we have installed major new water and air treatment facilities to minimise the impact of our expanded output on the environment.

↑ **12.3%** Y-O-Y

INCREASE IN FERTILIZER PRODUCTION THROUGH INVESTMENTS IN DEBOTTLENECKING AND MODERNISATION

STRATEGIC PERFORMANCE

PhosAgro has set itself on a course to play an even greater role in supporting global food security while delivering sustainable value to shareholders and other stakeholders.



Completed construction of **760 kt/year ammonia** and **500 kt/year granulated urea** capacities on schedule



Increased fertilizer production by **12.3%** year-on-year through investments in debottlenecking and modernisation



Maintained **about 100%** capacity utilisation throughout 2017

SUSTAINABLE BUSINESS AND SUSTAINABLE FERTILIZERS

Our work in areas like workplace health and safety, environmental protection and investing in the communities where we operate is an integrated part of how we measure the performance of PhosAgro's business. We delivered solid results in 2017 as well:



Invested more than **RUB 1.5 billion** into community development and charity programmes



Emissions of **1.7 kg/t** declined by **3%** compared to 2016



Commissioned a **new water treatment facility** at Cherepovets production site



LTFIR decreased **35% year-on-year**

Looking beyond our own business practices, we are also proud that PhosAgro produces some of the purest and most contaminant-free phosphate-based fertilizers in the world. Thanks to the unique qualities of the apatite-nepheline ore we mine and process into phosphate rock at Kirovsk branch of JSC Apatit, PhosAgro's crop nutrients enjoy naturally low levels of potentially hazardous contaminants like cadmium, lead, and arsenic. We believe that the use of cleaner fertilizers to produce the food we all eat will become an increasingly important issue for consumers around the world.

**PHOSAGRO PRODUCES
SOME OF THE PUREST AND
MOST CONTAMINANT-
FREE PHOSPHATE-BASED
FERTILIZERS IN THE WORLD**

Ready for future growth

With key milestones in the Strategy to 2020 behind us, the Board of Directors and management are preparing for the years of sustainable growth that lie ahead. We aim to focus on capacity expansions, such as a new nitric acid production line to meet domestic AN demand, while improving our vertical integration with new sulphuric acid and ammonium sulphate lines.

At the same time, we will continue to focus on efficiency throughout the value chain, with optimisation of our rail and other logistics operations underway and planned expansion of our own port terminal capacities.

I want to thank the entire team at PhosAgro for their coordinated and effective work on achieving key strategic goals in 2017. PhosAgro achieved a great deal in 2017, and passed an important milestone, which puts us on course for significant, efficient growth, which will create value for all of our stakeholders, in the coming years.

Sven Ombudstvedt
Chairman of the Board of Directors

CHIEF EXECUTIVE OFFICER'S STATEMENT

24



SOLID RESULTS UNDERSCORING PHOSAGRO'S KEY STRENGTHS

In 2017, PhosAgro completed two of the largest investment projects in its history, successfully placed a new Eurobond that set a new corporate benchmark, and delivered an EBITDA margin of 28% in one of the most challenging years for the industry globally since 2008. This performance underscores the core strength and sustainability of PhosAgro's business model, which leverages our unique resource base and production facilities to strengthen our position as the one of the most efficient producer of phosphate-based fertilizers, meaning we can continue to operate profitably even in years when other major players are forced to curtail unprofitable production.

Preparing for the future while delivering solid results

With the completion of our new ammonia plant in 2017, PhosAgro is now ready to embark on a new stage of efficient and profitable growth, supported by our enhanced self-sufficiency in key inputs with new and highly efficient production capacity. In addition to ramping up production at existing lines, the new granulated urea line also completed last year will help us to enter new, premium markets for this nitrogen-based product.

We continued to generate sustainable cash flows and maintained solid profitability in 2017, paying out 50% of the Company's net profit as dividends while completing our major investment cycle and successfully placing new Eurobonds at a record low rate for PhosAgro.

In line with the Strategy to 2020, PhosAgro also invested in operational efficiency and modernisation, which enabled us to improve cash cost of production and bring down logistics costs through optimisation of our rail operations and expansion of our port terminal capacity.

Operating performance

In 2017, the Company increased output of phosphate-based fertilizers by more than 11% year-on-year and achieved a new record of 6.6 million tonnes. The most profitable NPK/NPS/PKS products now account for half of our phosphate-based portfolio. Production of nitrogen fertilizers grew by 16% year-on-year and exceeded 1.7 million tonnes. Finally, in the upstream division we managed to produce more than 9.5 million tonnes of phosphate rock, which is the highest level in the last 25 years.

Financial performance

I believe that, despite the effects of the RUB appreciation, which remain unfavourable for all exporters, PhosAgro has successfully passed the peak of its capex cycle and remains well positioned to benefit from the ongoing recovery in fertilizer prices. The contribution from our newly built ammonia and urea units, as well as further organic growth in both upstream and downstream operations, should multiply the positive effects of our efforts to keep operating and capital expenses, as well as working capital, under control. Going forward, our primary focus will be on continuing to enhance vertical integration and further optimising existing business processes.

Corporate responsibility

Our corporate responsibility performance stood out in 2017, as we continued to implement harmonised, industry-leading safety procedures and policies across our operations. The company has achieved significant success in reducing injuries among enterprise employees.

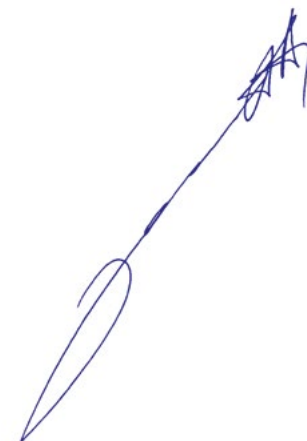
On the environmental front, we have upgraded and expanded treatment facilities to handle growing production volumes, while also focusing on technologies and chemical processes that mitigate our impact on the environment.

PhosAgro also remains committed to healthy and sustainable communities where it operates in Russia, with ongoing investments in health, medicine, sport, and education as part of our comprehensive approach to creating value for all of our stakeholders.

Outlook

The key target for our next stage of development through 2020 is to increase PhosAgro's fertilizer production capacity by 10% compared to 2017, to 9 million tonnes. We aim to do this while maintaining solid cash flows and enhancing the Company's leading position in terms of cash cost of production thanks to our highly efficient new facilities as well as ongoing upgrades to existing sites.

As we shift gears and launch into this new stage of development, I want to thank all of our stakeholders who have been with us to help us get where we are today: residents of the communities where we operate, our investors, our customers, the farmers who use our products to help grow more food for consumers around the world and, of course, the employees of PhosAgro, each of whom we value greatly.



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

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KEY ACHIEVEMENTS IN 2017

↑ **12%** Y-O-Y

**INCREASE
IN FERTILIZER
SALES VOLUMES**

28%

EBITDA MARGIN

RUB **10.5** BLN

**DECLARED IN DIVIDENDS
FOR 2017, REPRESENTING
50% OF CONSOLIDATED
IFRS NET PROFIT**

RUB **35.9** BLN

INVESTMENTS IN 2017

3.949%

**EUROBOND COUPON
RATE, LOWEST
IN PHOSAGRO'S
HISTORY**

NUTRIENT DEMAND DRIVERS

The global economy

The past year has seen a notable improvement in economic activity, with global gross domestic product expected to grow by 3.1% year-on-year. While 2017 was a year of optimism for the US economy, ultimately it has been the continued stimulus in China, coupled with greater investment across the Eurozone, that has supported economic growth and international trade.

Encouragingly, emerging markets showed their resilience in 2017: in Brazil, Michel Temer managed to stabilize and turn around the economy, while in India growth remains robust, given the two policy shocks (demonetisation and GST) that had the potential to have more negative short-term impacts. Russia, meanwhile, is set for 1.5% year-on-year GDP growth driven by easier monetary policy and higher oil prices.

In the case of commodities, excluding soft commodities, prices are generally higher year-on-year, as a greater focus on the environment and continued efforts to address overcapacity are starting to have an impact.

Agricultural markets

There was a decrease in harvested area in 2016/17 compared to previous years, and favourable weather conditions across many of the key growing areas helped maximize yields across grains and oilseeds, and therefore also production volumes. 2016/17 saw a robust increase in production after a strong El Niño in 2015/16. As such, the 2016/17 output was the largest in history.

↑ **3.1%** Y-O-Y

**EXPECTED GROWTH
OF GLOBAL GPD IN 2017**

↑ **1.5%** Y-O-Y

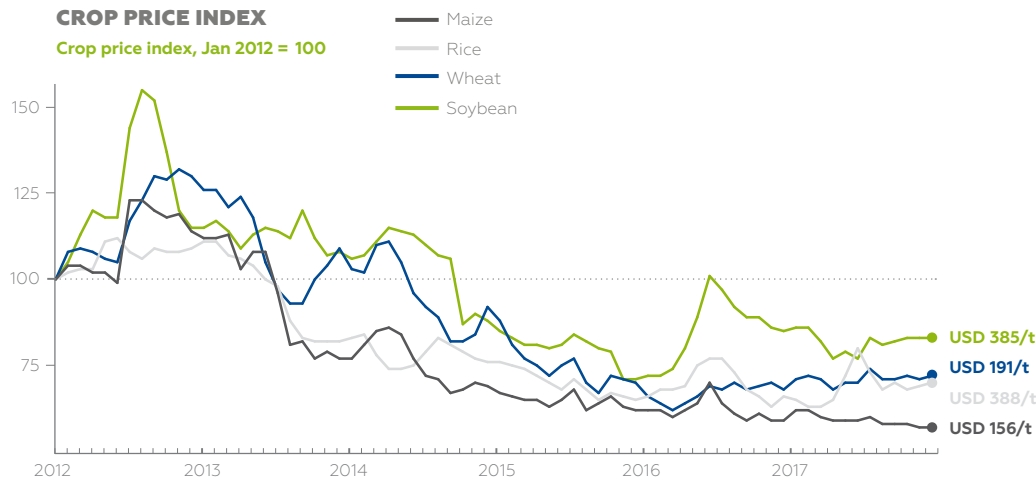
**GROWTH OF RUSSIAN
GDP IN 2017**

GRAINS
AND OILSEEDS:
**ROBUST INCREASE
IN PRODUCTION**

AGRICULTURAL MARKET DEVELOPMENTS AND IMPLICATIONS ON FERTILIZER DEMAND

CROP PRICE INDEX

Crop price index, Jan 2012 = 100



With respect to other cereals, production of rice is expected to be down by 0.1–0.8% year-on-year. This is in line with lower volumes in the United States, India and Brazil. Meanwhile, the prospects for wheat are mixed: volumes are estimated up year-on-year in Russia and India, but lower in the southern hemisphere and United States due to less favourable growing conditions. Forecasts for the 2017/18 harvest range from +0.9 to -0.8% year-on-year.

Encouragingly, cereal usage was also estimated to be higher, helping to bring consumption more in line with production. This was driven by good affordability and to some extent by supportive policy developments, e.g. Argentina's removal of wheat and maize tariffs and China's promotion of maize for ethanol in an attempt to help draw down their stockpiles.

At the same time, the sheer size of the harvest has seen the grains and oilseeds surplus widen for a fourth consecutive year, limiting any prospects for short-term price growth. This, in turn, has prompted farmers to cut back on area, and also encouraged some substitution. Meanwhile, policy continues to play a role. Having already replaced minimum support prices for maize with direct payments to farmers, the Chinese government is pushing ahead with cuts on rice and wheat support prices.

In early 2018, the USDA, IGC and FAO/AIMS expect to see cereal production volumes 1.5–2.2% lower year-on-year during 2017/18. This includes a reduction of 2.9–3.7% year-on-year for maize, driven by moderation in area and also in yields. A good example of this is in the United States, where harvested area is estimated to be down by 4.7% year-on-year as farmers look to plant more soya. Meanwhile, growing conditions have been assessed as less favourable globally for the current crop, which has lowered yield expectations.

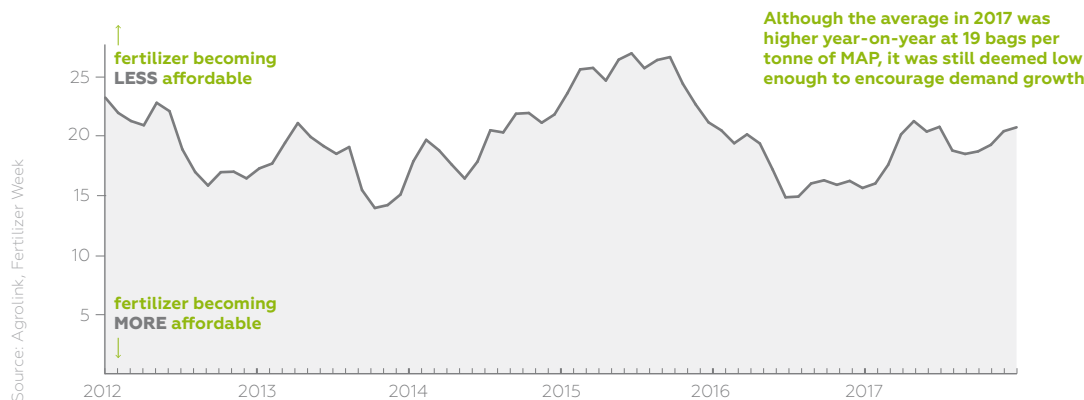
CEREAL USAGE: INCREASING AND MORE IN LINE WITH PRODUCTION

GRAINS AND OILSEEDS: FARMERS ARE ENCOURAGED TO CUT BACK ON AREA AND TO LOOK FOR SUBSTITUTION DUE TO CONTINUOUS SURPLUS THAT IS LIMITING PRICE GROWTH PROSPECTS

CEREAL PRODUCTION: EXPECTATION OF DECREASING PRODUCTION VOLUMES DURING 2017/2018

BRAZILIAN BARTER RATIO

60kg bags soy/tonne of MAP



Moving to oilseeds, forecasts of a record soyabean harvest in 2016/17 turned out to be true, with global production surpassing 350 million tonnes. The consistently favourable weather conditions across Brazil throughout the main season and attractive soybean margins in the United States contributed to large area expansions and exceptional yields. Average yields in Brazil and the United States were estimated at 3.4 and 3.5 tonnes per hectare, respectively, registering an increase of 8% and 16% year-on-year, respectively. Looking at the 2017/18 harvest, the USDA, IGC and FAO/AIMS are expecting a 0.7–0.8% reduction year-on-year. This comes despite the continued expansion in area, as yields are expected to be lower.

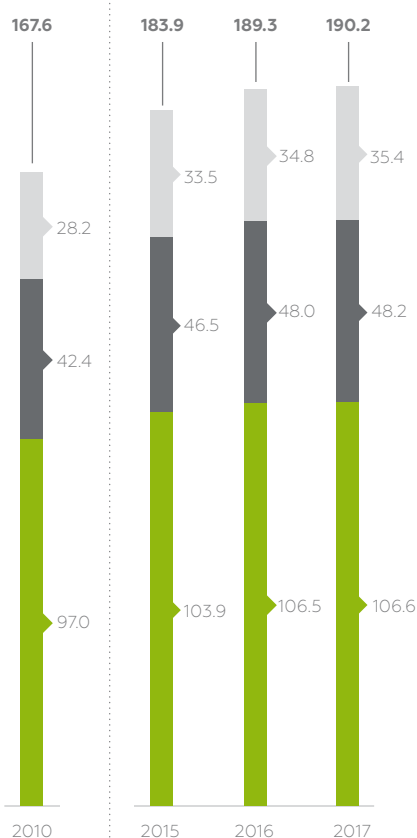
28 HIGH-LEVEL NUTRIENT DEMAND REVIEW

The chart below illustrates developments in fertilizer demand since 2010, including the latest estimates by the International Fertilizer Association (IFA) for 2017..

N, P, AND K FERTILIZER DEMAND DEVELOPMENTS

mln t

— Nitrogen
— Phosphate
— Potassium



In 2017, the IFA revised its estimates for Chinese fertilizer consumption, which resulted in a substantial downward adjustment to global N demand, but upward adjustments to P and K demand.

The preliminary estimate of nitrogen (N), phosphate (P) and potassium (K) fertilizer demand stands at 189.1 million tonnes of nutrient for the 2016/17 season. This represents a larger year-on-year growth of 2.4% compared to recent years (0.8–0.9% p.a.), driven by:

- the exceptional weather conditions across several key growing areas;
- favourable FOREX positions for soft commodity exporters, including Russia;
- changes to government policy promoting nutrient purchases.

Demand in South and Central America, Eastern Europe, Central and West Asia was 7–17% higher year-on-year.

Meanwhile, nutrient use increased across the board, with N demand up 2.3% year-on-year, P demand 2.0% higher year-on-year and K demand 3.0% higher.

Moving to 2017/18, demand for N, P and K is estimated at 190.7 million tonnes of nutrient. This represents more modest growth of 0.8% year-on-year, as low crop prices continue to erode input affordability, while changes to environmental policy improve efficiency.

Africa is set to enjoy the strongest growth (7.7% year-on-year) as efforts to improve fertilizer usage habits across the continent intensify.

Elsewhere, demand growth is estimated at 0.9–2.1% year-on-year, except in South and West Asia, where zero to negative growth is expected.

Increases in nutrient use are expected to be 0.5%, 0.9% and 1.8% for N, P and K, respectively.

2016/2017

Nutrient demand

↑ **7–17%** Y-O-Y
in South and Central America, Eastern Europe, Central and West Asia

Nutrient use

N ↑ **2.3%** Y-O-Y **P** ↑ **2.0%** Y-O-Y **K** ↑ **3.0%** Y-O-Y

2017/2018

↑ **7.7%** Y-O-Y in Africa ↑ **0%** Y-O-Y South and West Asia

N **0.5%** Y-O-Y **P** **0.9%** Y-O-Y **K** **1.8%** Y-O-Y

The IFA converted the aforementioned estimates into calendar-year estimates. Demand for N, P and K was assessed at 189.3 million and 190.2 million tonnes of nutrient in 2016 and 2017, respectively. In this instance, N demand was estimated to be 0.1% higher year-on-year, while K was up 1.8%. P use increased 0.4% to 48.2 million tonnes of nutrient. The IFA also assessed demand for non-fertilizer uses at 61 million tonnes in 2017.

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

HIGH-LEVEL NUTRIENT SUPPLY REVIEW

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The IFA estimated global N, P and K production — for both fertilizer and non-fertilizer use — at 251 million tonnes of nutrient in 2017. Production of fertilizers accounted for 76% of the total.

Looking at the different nutrients, in 2017 there was a net 2.2% decrease in global urea production, bringing the total down to 169.8 million tonnes. Even so, capacity continued to be commissioned throughout the year, driving the total up by 4.3% year-on-year to 217.2 million tonnes. Much of this was located in the United States, with India, Malaysia, Bolivia, Russia and Mexico accounting for the rest.

Ammoniated phosphate (DAP/MAP) production was 2.8% higher at 63.9 million tonnes of product. In this case, the commissioning of new capacity boosted production in Morocco and Saudi Arabia, whereas producers in the United States and Russia looked to shift towards MAP and its NP-based fertilizers.

In the potash market, losses recorded in MOP in 2016 were reversed in 2017, with production hitting a record of 66.5 million tonnes. The higher volumes were welcomed, given that operating rates had fallen in 2016 to their lowest levels since 2010. Meanwhile, capacity was estimated 8.8% higher year-on-year at 94.8 million tonnes of K_2O , driven by increases in Canada, Russia, Turkmenistan, China and Belarus.

UREA mln t

Global
capacity**217.2**

↑ +4.3% Y-O-Y

Global
production**169.8**

↓ -2.2% Y-O-Y

AMMONIATED PHOSPHATE (DAP/MAP) mln t

Global
capacity**78.5**

↑ +5% Y-O-Y

Global
production**63.9**

↑ +2.8% Y-O-Y

POTASH mln t

Global
capacity**94.8**

↑ +8.8% Y-O-Y

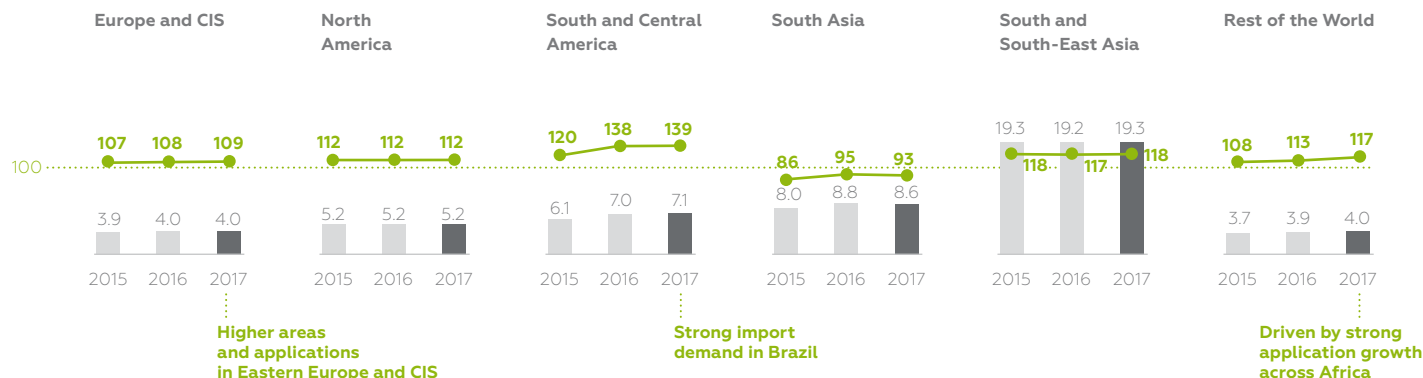
Global
production**66.5**

↑ +6.7% Y-O-Y

PHOSPHATE FERTILIZER MARKETS DEMAND

DEMAND DEVELOPMENTS IN KEY MARKETS

■ Demand, mln t — Demand index 2010 = 100



Source: IFA

The IFA's preliminary assessment shows that phosphate fertilizer demand stood at 48.2 million tonnes of P_2O_5 in 2017, registering a more modest growth of 0.4% year-on-year, following the 3.9% recorded in 2016.

Europe and CIS

European phosphate fertilizer demand is estimated higher in 2017. In the West, demand for DAP and NPKs increased year-on-year, particularly in France and Germany, where a favourable FX improved affordability, and good growing conditions persisted through mid-/late summer. However, overall P_2O_5 fertilizer usage in the EU-15 remains under pressure, as environmental policy continues to drive efficiency. Meanwhile, Central and Eastern Europe still have the scope to increase yields through higher application rates, and in 2017, more DAP and NPs were purchased in Croatia, Bulgaria, Poland and Romania.

South and Central America

Fertecon and CRU assessed Brazilian fertilizer P_2O_5 demand at 12-16% higher year-on-year in 2017. This was supported by sharp improvements in farming returns in 2016/17, making funds available for inputs throughout 2017/18 (though there were concerns over stock levels by year end). Moreover, soybean areas have continued to rise (the 2017/18 crop is currently estimated at 126 million

ha by the USDA), which should mitigate cutbacks of fertilizer application rates. Meanwhile, Argentine P_2O_5 demand growth stalled in 2017 following an exceptional 2016. While government policy remains supportive, 2017 was exceptionally wet across much of the pampas. This deteriorated the quality of autumn grain harvests and also delayed spring planting/fertilizer application.

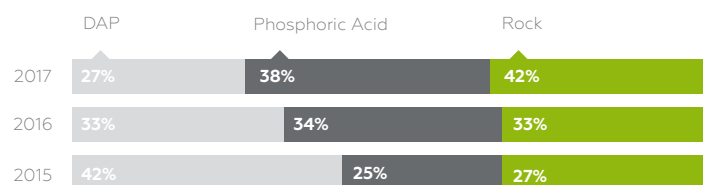
North America

In North America, phosphate fertilizer demand was estimated at 5.2 million tonnes of P_2O_5 in 2017. Whereas the trend is flat year-on-year, usage remains robust. Following the previous year's record crop, there was a need to replenish nutrients from depleted soil reserves. Moreover, product affordability remained good for US farmers despite the low crop prices, as DAP/MAP prices also remained weak.

South Asia

In South Asia, demand was estimated at just short of 8.6 million tonnes of P_2O_5 . The trend is being driven by India, where DAP apparent demand was assessed at 6.3% lower year-on-year. This is associated with lower and uneven distribution of rainfall across the country and the introduction of a countrywide goods and services tax (GST) on fertilizers and raw materials. Although demand in Pakistan was estimated at a third higher, driven by a supportive subsidy scheme, this was not enough to prevent the region's P_2O_5 demand from falling by 1.9% year-on-year.

INDIAN IMPORTS ACROSS THE P VALUE CHAIN



In 2017, raw material imports continued to erode DAP shares. This was driven by low phosphoric acid prices, coupled with a government drive to promote local manufacturing.

Source: CRU

SUPPLY

DEMAND
mln t

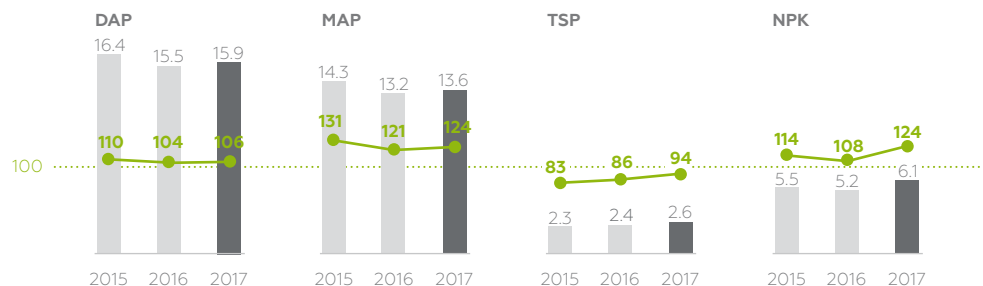
48.2

SUPPLY
mln t

60.1

GLOBAL DAP, MAP, TSP & NPK PRODUCTION INDEX

Production index 2010 = 100



India producing more

NP+S-driven growth

Recovering but
remains below
2010 levelBalanced nutrition
important in developing
countries

On the supply side of the industry, the IFA estimated global phosphoric acid capacity at 60.1 million tonnes of P_2O_5 . This represents a net increase of 2.7 million tonnes of P_2O_5 year-on-year, as capacity was commissioned in Morocco and Saudi Arabia. The latter prompted a temporary idling of capacity in the USA, allowing for the new product to be absorbed into the market.

Phosphoric acid production was 3.6% higher in 2017 at 46.4 million tonnes of P_2O_5 . Whereas China remains the world's largest producer, its share is being eroded. In 2017, 36% of all phosphoric acid was produced within its borders, down from 42% in 2015. This trend is partly associated with competitive pressures, as production costs in Yunnan, Guizhou and Sichuan continue to rise due to increasing wage, energy, freight and other costs. Additionally, producers in these areas were also impacted in 2017 by an increase in domestic sulphur input costs, as a shortage of product through Q3 saw imported sulphur prices briefly break through the USD 200/tonne mark.

Source: IFA, CRU, Fertecon

PRICE DEVELOPMENTS IN 2017

However, China's decline is also increasingly associated with environmental pressures. In 2017, the government announced its Green Development Plan, the latest of its policies aimed at promoting stricter environmental compliance (i.e. preventing land quality from deteriorating) and placing a greater focus on efficient fertilization habits. This and other similar policies are already having an impact, with mining operations in Sichuan and Hubei both curtailed at points throughout the year.

Outside of China, ammoniated phosphate production increased by 6.9% year-on-year to 35.9 million tonnes. India played an important role in this, seeing its local DAP (and NPK) production rise sharply at the expense of imported fertilizer. This was supported by the more attractive economic situation, as contract phosphoric acid prices remained below USD 600/tonne CFR India. Although the interaction of raw material and fertilizer prices will ultimately play an important role in determining relative production rates, the drive to manufacture more product locally is also in line with government policy. In this case, it launched the "Make in India" campaign in 2015, to promote Indian industry and boost employment.

Notably, production of MAP (ex. China) also continued to grow at robust rates in 2017. Their assessment includes MAP as well as NP-nutrients containing sulphur, zinc and other micronutrients. These types of formulations have been growing in popularity in recent years due to the agronomic benefits that they offer cereal and oilseed crops.

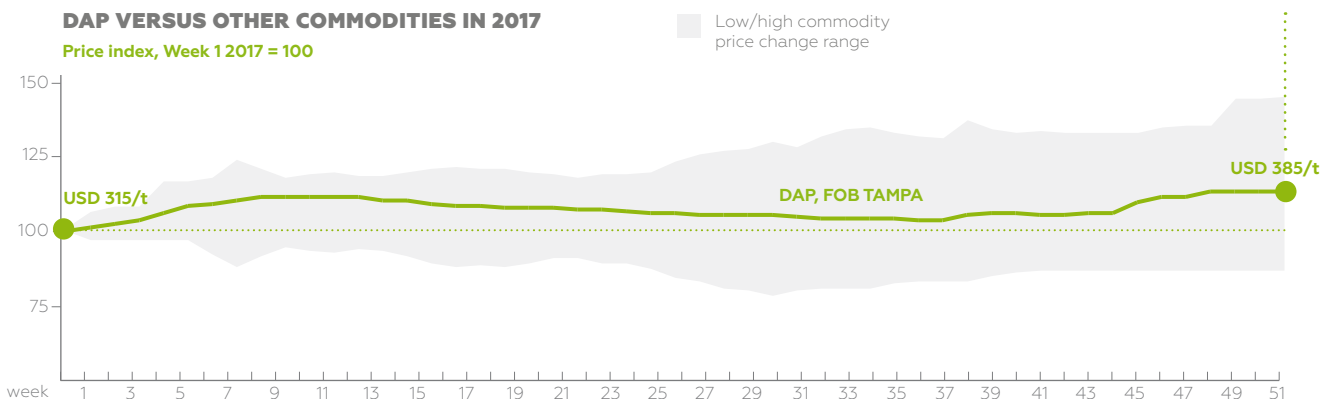
2017 concluded with DAP prices trading at USD 385/tonne on a FOB Tampa basis, a USD 60/tonne differential on the January 2017 average. This is associated with a tighter market balance (as some US capacity was closed) and higher ammonia and sulphur pricing throughout the second half of the year.

KEY PRICE DEVELOPMENTS IN 2017

A complete reversal of the trend in 2016, phosphate fertilizers were some of the better performing commodities in 2017

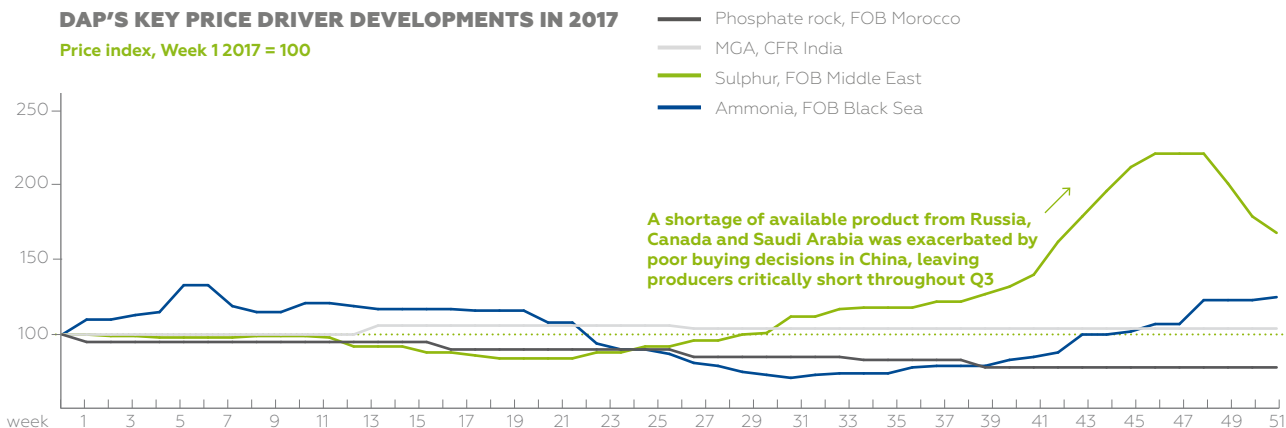
DAP VERSUS OTHER COMMODITIES IN 2017

Price index, Week 1 2017 = 100



DAP'S KEY PRICE DRIVER DEVELOPMENTS IN 2017

Price index, Week 1 2017 = 100



Source: CRU, Fertilizer Week

Source: Fertilizer Week

PHOSPHATE ROCK MARKET REVIEW

33

Marketable phosphate rock production totalled close to 212 million tonnes in 2017, derived from 38 countries, 12 of which produced more than 2.5 million tonnes each.

Larger production volumes were registered by major exporters across North America, as demand for traded product increased by 3.1 million tonnes. This was spurred on by lower prices, stimulating demand in North and South America, South-East Asia and India. In addition, captive demand also increased in Morocco and Saudi Arabia, following the commissioning of new, integrated and low-cost downstream capacity.

In contrast, output from the United States continued to fall since its peak in 1980. Also, CRU has assessed production as being down by 5.0 million tonnes year-on-year in China. This is associated with increased environmental scrutiny and the limited domestic demand growth prospects this is creating. Indeed, policy is increasingly weighing on domestic demand, as efforts are being made to cut over-application of fertilizer. Moreover, cost escalation across many of the smaller, non-integrated operations is impacting competitiveness.

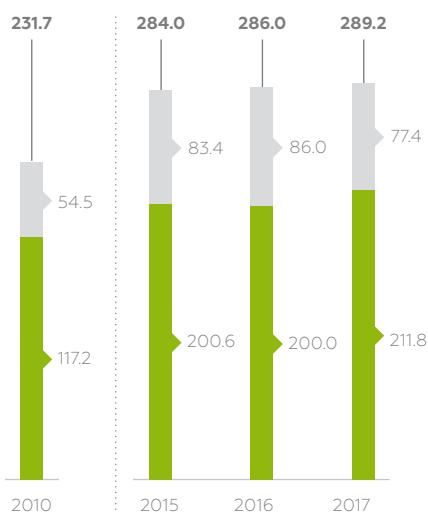
Phosphate rock prices average USD 90/tonne on an FOB Morocco basis in 2017, representing a 20% reduction year-on-year.

↓ **20%** Y-O-Y

REDUCTION IN PHOSPHATE ROCK PRICES IN 2017

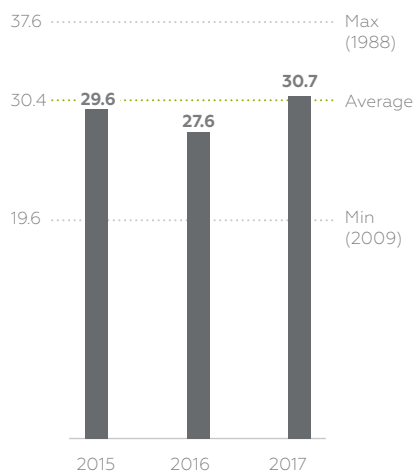
GLOBAL PHOSPHATE ROCK CAPACITY AND PRODUCTION

mln t



GLOBAL PHOSPHATE ROCK TRADE SINCE 1970

mln t



Source: IFA, CRU

OTHER FERTILIZERS

The IFA estimates that around 145.4 million tonnes of N was consumed for both fertilizer and non-fertilizer uses during the 2017 calendar year. This is 0.7% higher than the 2016 total, but, in general, the market remained oversupplied. Potash fertilizers, by contrast, registered 1.7% growth year-on-year, as spot sales to Brazil, Western Europe and South-East Asia remained robust throughout the year.

UREA

Market conditions improved slightly in 2017; however, weak global urea demand could do little to offset the urea market's oversupply, and annual average prices for the year were at FOB Black Sea.

The main driver of this improvement came from China, where the domestic urea business is in a period of transition. Rising feedstock prices (both natural gas and coal) and environmental concerns have forced the idling or closure of significant portions of the country's production base. Operating rates in China collapsed, and, according to Integer, had fallen to just 55% of nameplate capacity by Q4 2017. China's domestic urea market tightened as a result, and despite significant falls in domestic consumption, urea scarcity forced exports down to just 4.6 million tonnes, a 48% reduction from the 2016 level.

48% Y-O-Y

REDUCTION IN CHINESE UREA EXPORTS IN 2017

Unfortunately, weak demand from the Indian subcontinent reduced the positive effects of China's ongoing capacity closures. Two years of poor monsoons in 2015 and 2016 led to the accumulation of a significant urea inventory that reduced Indian buying requirements in 2017. The government is also taking measures to reduce urea consumption. This meant that Indian imports were around 5.0 million tonnes in 2017, down almost 2.5 million tonnes year-on-year.

40% Y-O-Y

REDUCTION OF INDIAN UREA IMPORTS IN 2017

And while both Chinese and Indian urea demand was down in 2017, the story in the Atlantic markets was very different. Brazilian consumption looks to have increased by almost 12%, while US consumption had another strong year, up 2%. This strong Atlantic demand caused prices to spike when India came back to the international market in Q3 2017, a sign that the reduction in Chinese capacity may be moving urea markets closer to balance.

12% Y-O-Y

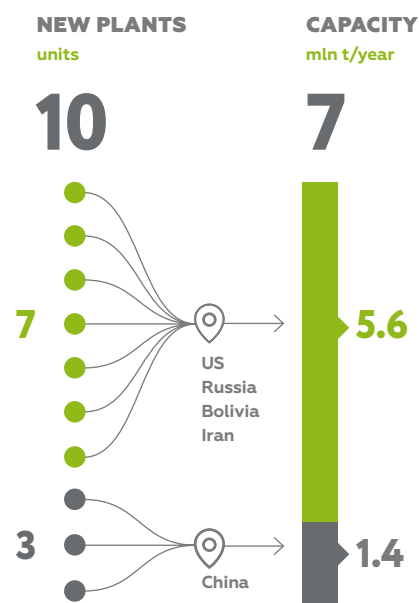
INCREASE IN BRAZILIAN CONSUMPTION IN 2017

2% Y-O-Y

INCREASE IN US CONSUMPTION IN 2017

Overall, global demand fell by around 4.0 million tonnes in 2017. However, much of this fall was internalised in China, where its impact was offset by the greater fall in production, limiting its influence on international prices.

A total of 10 new urea plants were commissioned in 2017, with a combined annual capacity of 7.0 million tonnes. As three of the plants are in China, their 1.4 million tonnes of additional capacity will be masked by the overall fall in China's production, leaving 5.6 million tonnes in the United States, Russia, Bolivia and Iran to add new supply to the trade market.



AMMONIA

2017 began on a positive note as ammonia prices increased for three consecutive months, primarily driven by short-term supply restrictions, including significantly reduced supply from the port of Yuzhny due to a dispute between the Ukrainian ammonia pipeline operator Ukrkhimtransammiak and Russian producer Togliattiazot. This constraint caused the Black Sea ammonia price to increase from USD 252/tonne FOB in January to USD \$315/tonne FOB in March.

Once these short-term issues subsided, however, prices flattened once again, and the summer months saw ammonia prices fall to below USD 200/tonne between July and September. As one of the most important ammonia import markets globally, the US market felt the effects of the return to oversupply of merchant ammonia, and the Tampa contract price fell from a high of USD 330/tonne CFR in March 2017 to just USD 190/tonne CFR in August.

Prices began to recover in September when seasonal buying emerged in North America, and a new spate of supply interruptions from some key exporters tightened merchant availability, although in nitrogen value terms, ammonia prices remained far weaker than urea and further downstream nitrogen products relative to long-term trend values.

Tightening supply in Q4 was also driven by producers in the Middle East being sold out amid plant turnarounds and higher captive demand, namely at SABIC and Ma'aden respectively. This left buyers needing to source ammonia from North Africa and the Asia-Pacific region instead. The succession of price increases at the end of the year brought the price of ammonia more in line with the values of other nitrogen products.

USD **330** T (CFR TAMPA)

**MAXIMUM 2017 PRICE
OF AMMONIA**

POTASH

As was the case in 2016, in 2017 MOP contract negotiations with Chinese and Indian buyers dragged on into the second half of the year. This is because importers look at China to set the floor for contract pricing before committing to their own volumes, and given how well stocked their sea and inland warehouses remained, there was no urgency to agree to new terms. Unlike 2016, however, Global MOP deliveries did not disappoint in 2017. Spot sales to Brazil, Western Europe and South-East Asia remained robust throughout the year, contributing to higher volumes and prices once contracts were agreed. As such, global deliveries were estimated by Fertecon at 64.3 million tonnes in 2017, 6.7% higher than the 2016 total.

6.7 % Y-O-Y

**GROWTH IN GLOBAL
POTASH DELIVERIES IN
2017**

On the supply side of the industry, MOP producers reported better volumes in 2017, with output hitting a record 66.5 million tonnes of product. This was timely, as it corresponded to growth of 7.6 million tonnes (about 9%) in global capacity, around half of which was associated with greenfield projects in Canada and Turkmenistan. This has, however, also come at a cost, with aging operations in the USA and UK being curtailed due to competitive pressures and/or to an exhaustion of resources (which is forcing a switch to other products, e.g. polyhalite in the UK).

MOP prices generally finished the year stronger than they started. The largest gains were made in Brazil, where the granular CFR benchmark was assessed at USD 280/tonne in December 2017, some USD 45/tonne higher than the price at the beginning of January. Its strength through the year helped to drag the Chinese and Indian contract prices up by USD 11 and USD 13/tonne, respectively, to USD 230 and USD 240/tonne.

66.5 MLN T

**NEW RECORD FOR
POTASH OUTPUT SET IN
2017**

FROM INVESTMENT TO GROWTH

With two of the largest investment projects in the Company's history completed in 2017, we have laid the groundwork for years of efficient and sustainable growth that will build upon and strengthen PhosAgro as one of the leaders in the production of high-quality and low-cost products. We began ramp-up of our new ammonia and granulated urea lines, which involved a total of over RUB 55 billion of investments over the last six years. Now we are about to embark on a new stage of capacity growth that will bring significant, sustainable growth in income and cash flow, which will create value for our investors and other stakeholders in the years ahead.



2017 HIGHLIGHTS:

The largest investment projects under our Strategy to 2020 were completed in 2017, and we have continued to deliver across all of our strategic priority areas:

1 PRODUCTION CAPACITY GROWTH



Launched new **500 ths tonnes/year** granulated urea plant



Increased phosphate-based fertilizer production by **11% year-on-year** to **6.6 mln tonnes**

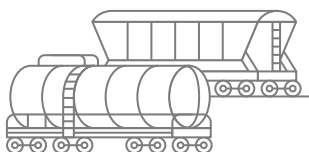


Launched new **760 ths tonnes/year** ammonia plant

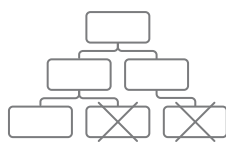
↑ **6.6**
MLN T

PHOSPHATE-BASED FERTILIZER PRODUCTION IN 2017

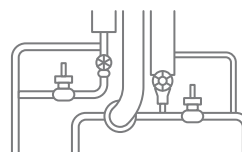
2 INCREASING OPERATING EFFICIENCY



Completed the acquisition of **232 new rail tank cars for liquid sulfur**



Completed accession of PhosAgro-Cherepovets and Apatit, simplifying corporate structure and eliminating duplicate functions



Completed construction of ammonia pipeline to Balakovo production site

COMPLETED PURCHASE OF

232

NEW RAIL TANK CARS

3 ACCESS TO PRIORITY MARKETS



Increased domestic sales of fertilizers and MCP **by 12% year-on-year** to **2.3 mln tonnes**



Opened new sales office **in Belgrade, Serbia**, in European priority market



Increase in sales of final products (mineral fertilizers, MCP, STPP) in priority markets: Latin America and Europe **by 21% year-on-year** to **3.45 mln tonnes**.

2.3
MLN T

DOMESTIC SALES IN 2017

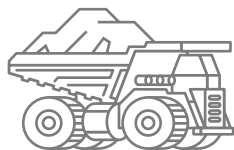
OUR KEY STRATEGIC PRIORITIES

1 PRODUCTION CAPACITY GROWTH AND ENHANCED SELF-SUFFICIENCY

Through modest investments in debottlenecking and modernisation, we managed to increase total fertilizer output by 53% over five years to 8.3 million tonnes in 2017. Our next stage of growth will be driven by the completion of our new, high-tech ammonia plant and the recently completed granulated urea line. While the new granulated urea line will enable us to offer a new, high-quality product to premium markets, our expanded ammonia production capacity will ensure that PhosAgro remains self-sufficient in this key fertilizer input as we work towards our strategic goal of over 9 million tonnes of total fertilizer output by 2020.

OPPORTUNITY

PhosAgro's premium-quality apatite-nepheline ore enables us to produce some of the purest phosphate-based fertilizers in the world thanks to its extremely low levels of hazardous contaminants like cadmium. At the same time, the high nutrient content of the phosphate rock we produce from this ore contributes to our cash-cost advantage for the production of phosphate-based fertilizers.



EXPANDING OVERALL FERTILIZER PRODUCTION CAPACITY AND SELF-SUFFICIENCY IN KEY INPUTS

WHY THIS IS OUR PRIORITY

Modernisation and debottlenecking of existing facilities is the most efficient way of increasing capacity.

Expanding overall fertilizer production capacity and self-sufficiency in key inputs will enable us to continue our sustainable growth, while strengthening our position as one of the most efficient producer of phosphate-based fertilizers.

2017

What we did

- Increased phosphate-based fertilizer output by **11% year-on-year** to **6.6 mln tonnes**
- Expanded nitrogen-based fertilizer production by **16% year-on-year** to **1.7 mln tonnes**
- Increased number of NPK(S) fertilizer grades to **over 35**

2020

Where we want to be

- Increase number of fertilizer grades produced to 40–50, in response to demand in key markets



EXPANSION OF FERTILIZER OUTPUT AT EXISTING FACILITIES

WHY THIS IS OUR PRIORITY

Ammonia is a key input that PhosAgro requires to expand fertilizer output at existing facilities while maintaining self-sufficiency.

2017

What we did

- Began operation of new, high-tech **760 ths tonnes/year** ammonia plant
- Launched new **500 ths tonnes/year** premium-quality granulated urea plant

2018

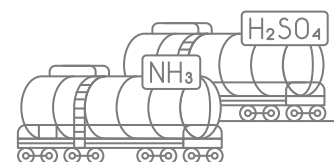
What we aim to do

- Complete ramp-up of new ammonia and granulated urea lines, with official launch at full capacity

2020

Where we want to be

- Increasing fertilizer output capacity by **10%**



EXPANDING OWN PRODUCTION OF KEY INPUTS

WHY THIS IS OUR PRIORITY

We aim to secure our own, cost-effective supply of key inputs to further strengthen our cash cost advantage.

2017

What we did

- Completed tender and selected contractor for construction of new **150 ths tonnes/year** nitric acid production line

2018

What we aim to do

- Begin construction of new nitric acid line with a capacity of **150 ths tonnes/year** to support increased production of ammonium nitrate for domestic sales

RELATED RISKS

Strategic risks

- Ineffective strategic planning

Operational, reputational and financial risks



For more information on risks, please see **page 116–123**

LAUNCH OF NEW AMMONIA UNIT

PROJECT BENEFITS

JSC Apatit is now 100% self-sufficient in ammonia.¹



Foundation laid for further growth and success of PhosAgro's chemical facility in Cherepovets.

Additional revenue flow (part of the new ammonia will be sold commercially).

1,950 KTPA

TOTAL AMMONIA CAPACITY AFTER THE THIRD UNIT WENT ON STREAM

1

AMMONIA REFORMER No 3

Steam reforming of natural gas to generate CO₂ and hydrogen

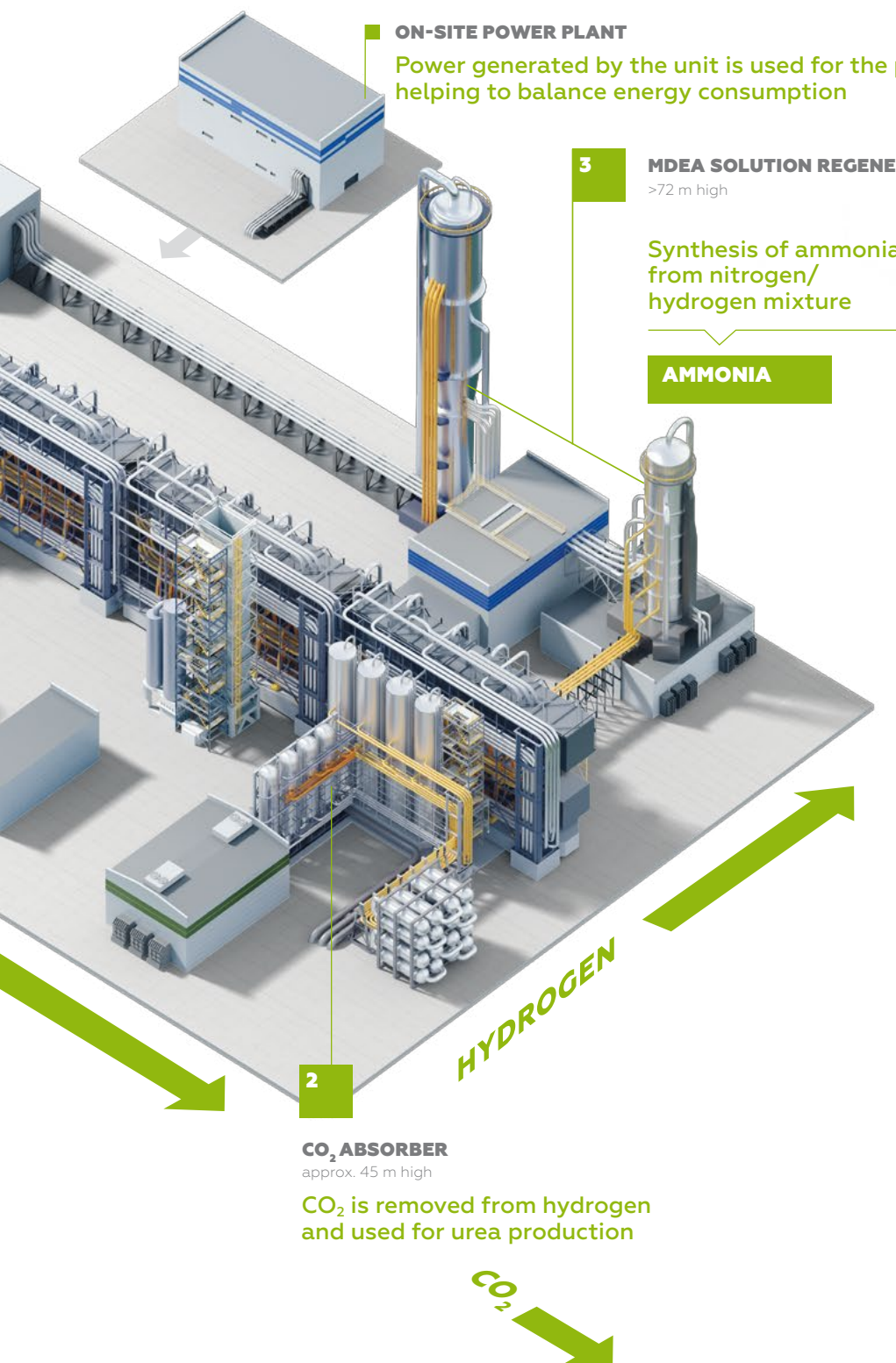


The reformer's convection section has a unit to remove nitrogen oxides from fuel gas, helping to reduce the environmental impact.

HYDROGEN AND CO₂

THE NEW AMMONIA PRODUCTION UNIT USES THE LATEST TECHNOLOGIES, IN LINE WITH THE BEST AVAILABLE TECHNIQUES (BAT) REFERENCE DOCUMENT BY THE EUROPEAN COMMISSION

¹ Ammonia is a key feedstock for the production of mineral and nitrogen-based fertilizers



SPECIAL WASTE TREATMENT TECHNOLOGIES



Zero discharge in production processes



DeNOx catalysts by Haldor Topsoe to treat flue gas bring nitrogen oxide content to levels below 20 ppm (first-ever application in Russia)



Recapture technology for air pre-heating before primary reforming means lower natural gas consumption and air emissions (including greenhouse gases)



Biological waste-water treatment facilities ensure effluents are reused in the process; effluents from other urea and phosphate facilities are also treated to reduce consumption of surface water

OUR KEY STRATEGIC PRIORITIES

2 INCREASED OPERATING EFFICIENCY

Upstream: we are continuously investing in ways to make our mining and beneficiation operations more efficient and more environmentally friendly, including by installing conveyor system for ore transportation, expanding underground mining capacity and upgrading our beneficiation plants to increase capacity as well as the ability to process discarded ore with lower nutrient content in a commercially efficient way.

Downstream: after launching our ammonia and granulated urea facilities, we will continue to upgrade and modernise fertilizer production lines, while also building new nitric and sulphuric acid shops, as well as an ammonium sulphate capacity, in order to support further vertical integration as our overall fertilizer output capacity grows.

Logistics: After launching the Smart Bulk LLC in 2015, which has delivered sustainable cost savings on export sales, we have further increased our vertical integration in this area with the purchase of a new warehouse capacities in Kotka terminal. We are focused on improving the efficiency of our domestic rail operations.

Corporate structure: We continue to streamline our corporate structure in the interests of efficiency and transparency, including with the accession of PhosAgro-Cherepovets and Apatit in 2017.

OPPORTUNITY

Further strengthen our sustainable low cash-cost position by modernising existing facilities, improving vertical integration, optimising logistics and streamlining the corporate structure



DOWNSTREAM

WHY THIS IS OUR PRIORITY

One of PhosAgro's key competitive advantages is our low cash cost of production, and we aim to strengthen this as we continue to expand output.

2017

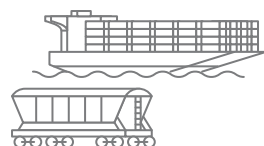
What we did

- Completed construction of ammonia pipeline to Balakovo, securing more efficient supply of **100% of the production site's ammonia needs**
- Completed tender and selected contractor for construction of new **1.1 million tonnes/year** sulphuric acid production line

2020

Where we want to be

- Construction of new sulphuric acid shops, as well as an ammonium sulphate capacity, in order to support further vertical integration



LOGISTICS

RAILROAD TRANSPORT

2017

What we did

- Optimised **routing of own fleet of railcars to focus on circular routes**, using a third-party fleet for long-distance shipments
- Completed the acquisition of **232 new rail tank cars for liquid sulfur**
- Streamlined **internal railcar and network management processes** at Cherepovets production site
- Started construction of **own rail depot** at Cherepovets production site

2018

What we aim to do

- Improve railcar turnaround by up to two days by increasing volume of round-trip routes
- Purchase an additional **60 units of rail tank cars** for the liquid sulfur transportation for the transition to full rolling stock provision, regardless of the capabilities of third-party operators
- Decrease load on rail network by increasing volume of shipments by river
- Launch own depo at Cherepovets production site

2020

Where we want to be

- Expand and modernise rail fleet, introducing new fleet management techniques to reduce transportation costs

WATER TRANSPORT

2017

What we did

- Purchised **a new warehouse capacities in Kotka terminal** and began shipments in 2H 2017

2018

What we aim to do

- Optimise export shipment routes

2020

Where we want to be

- Further improve sustainable cost reductions on export shipments by increasing own port terminal capacity and optimising export shipment routes

RELATED RISKS

Strategic risks

- Ineffective strategic planning

Operational, reputational and financial risks



For more information on risks, please see **page 116–123**

A conveyor system for the removal of overburden from the Vostochny mine will replace the more costly truck fleet and will decrease the costs of open-pit mining.

CONVEYOR SYSTEM FOR KIROVSK BRANCH OF "APATIT"

The cyclic-flow technology for the transportation of overburden uses combined types of transportation: vehicles and conveyors.

1

TRANSPORTATION OF OVERBURDEN

Large capacity dump trucks are used for the transportation of overburden

5,500 TONNES OF ROCK
PER HOUR
Projected capacity

2

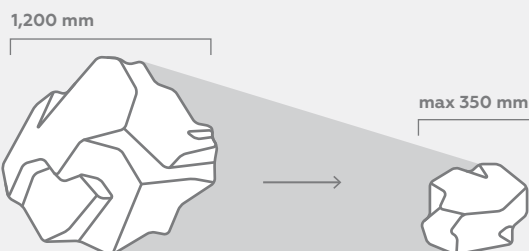
CRUSHING FACILITY

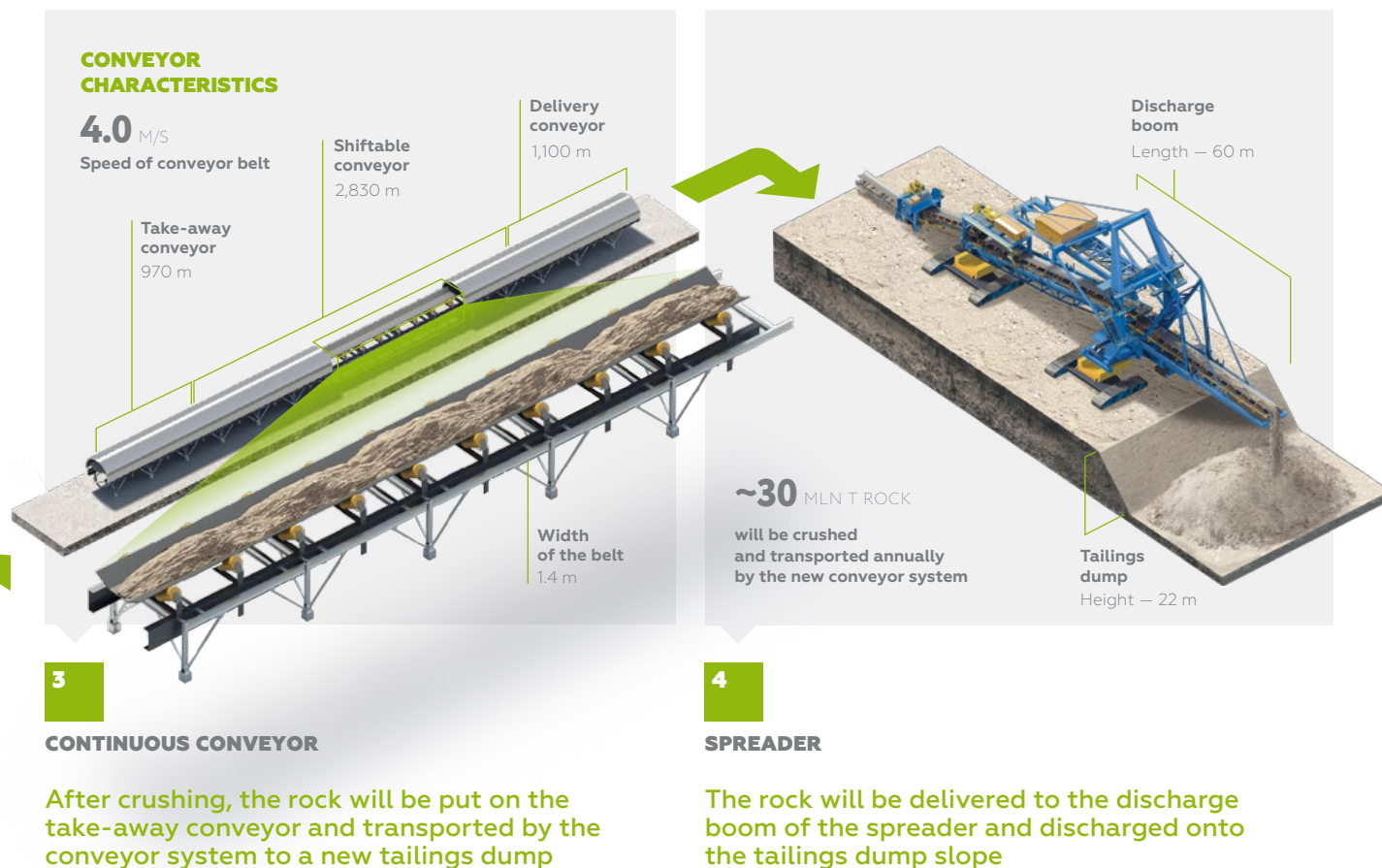
Trucks dump the rock straight into a hopper



CRUSHING PROCESS

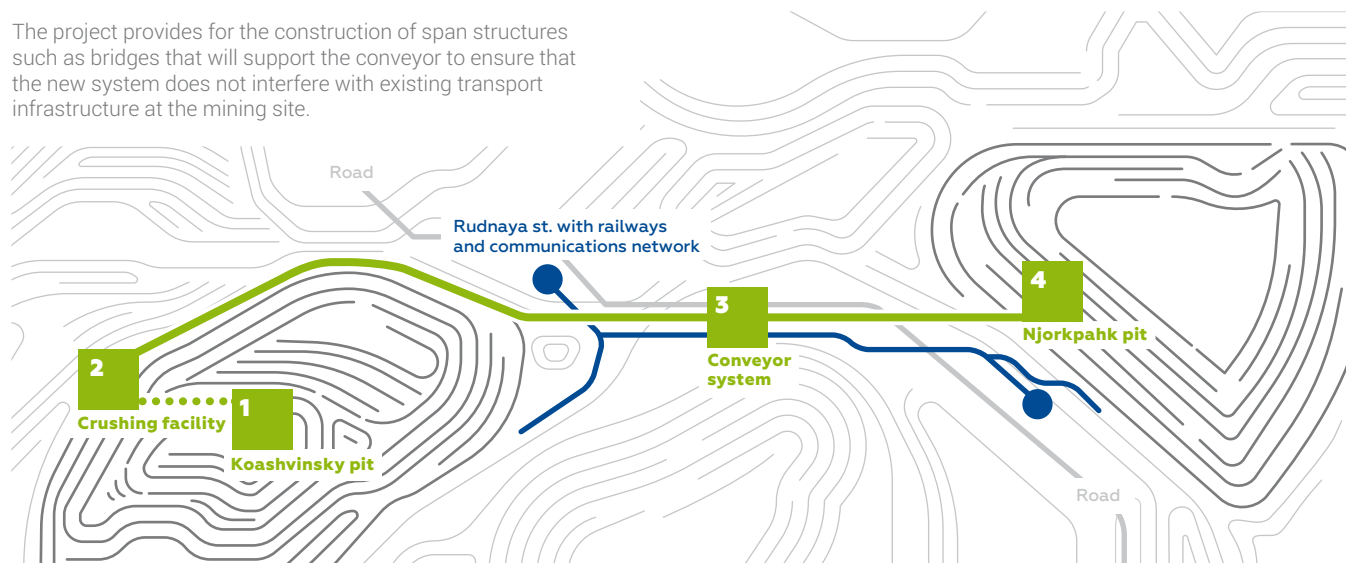
Rocks of up to 1,200 mm are crushed to form rocks with a maximum size of 350 mm





LOCATION MAP

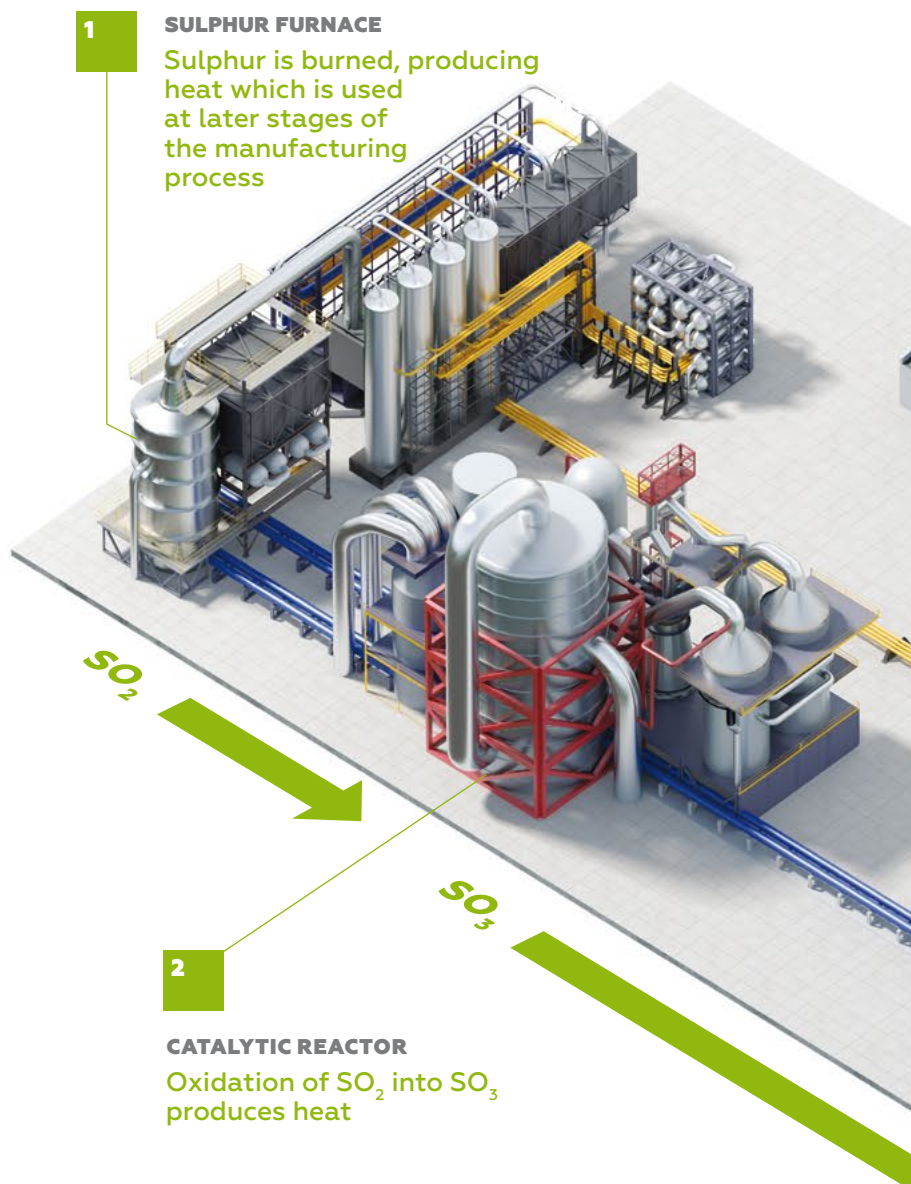
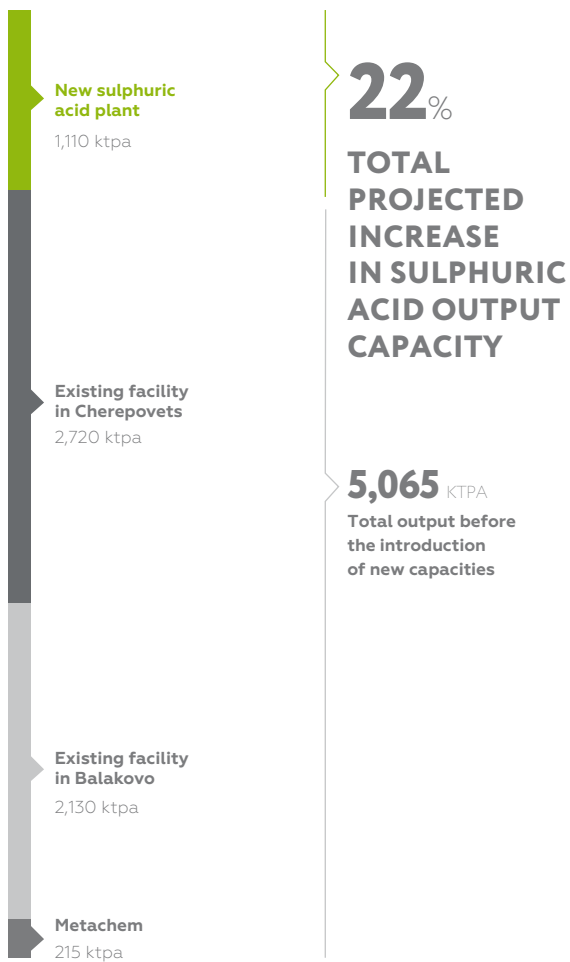
The project provides for the construction of span structures such as bridges that will support the conveyor to ensure that the new system does not interfere with existing transport infrastructure at the mining site.



CONSTRUCTION OF A NEW SULPHURIC ACID PLANT

THE NEW PROJECT WILL:

Substitute purchased sulphuric acid with the Company's own production.

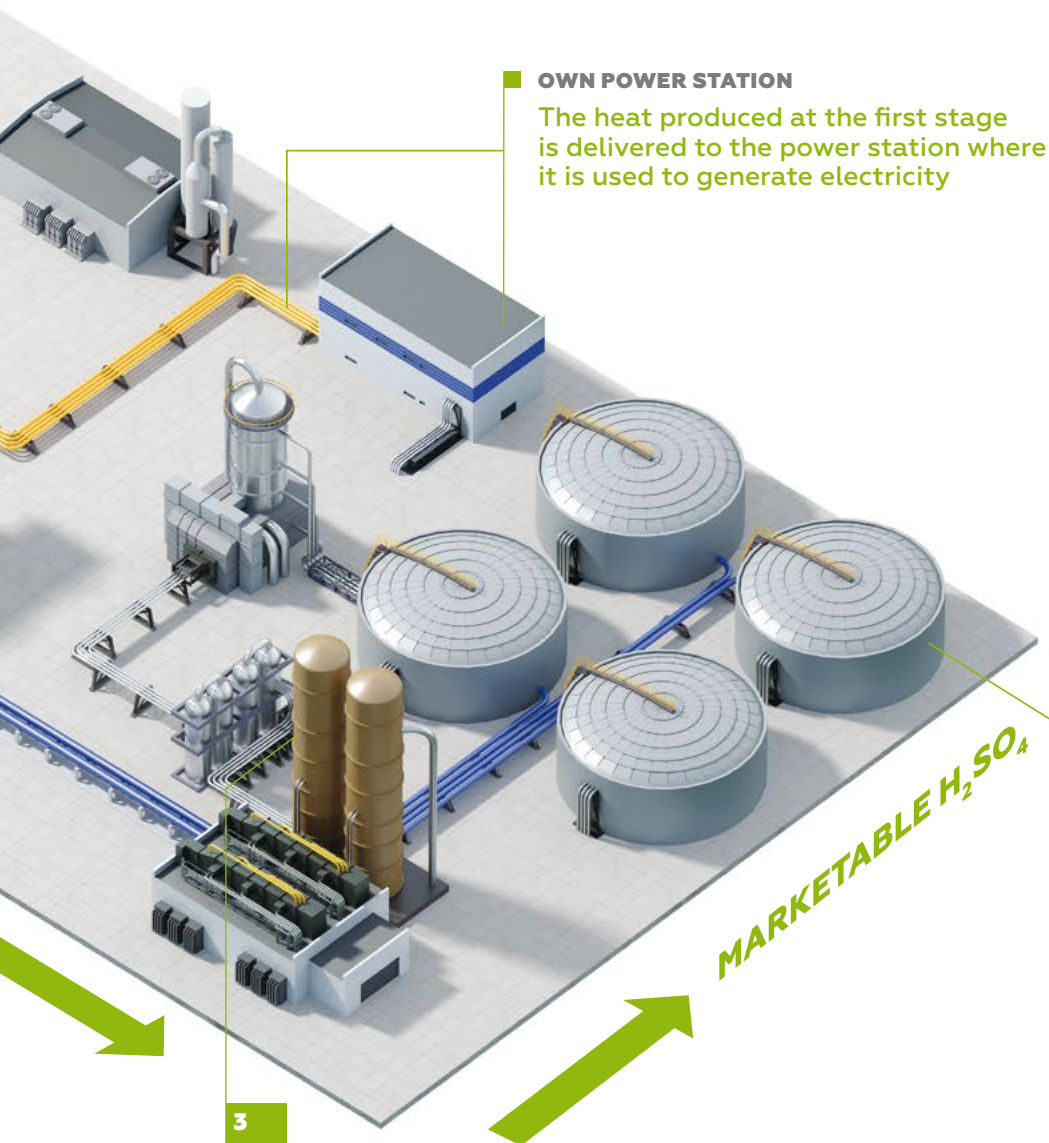


The new facility calls for scheduled maintenance every two years, allowing the Company to cut production costs.

THE LEVEL OF SO_2 EMISSIONS AT THE NEW PLANT WILL DECREASE SIGNIFICANTLY AND WILL BE LOWER THAN 100 PPM

6,165_{KTPA}

TOTAL OUTPUT CAPACITY AFTER
THE LAUNCH OF THE NEW PLANT



1 OWN POWER STATION

The heat produced at the first stage is delivered to the power station where it is used to generate electricity

3

ABSORBERS

SO₃ is dissolved in non-concentrated sulphuric acid

4

STORAGE TANKS

Sulphuric acid is kept here

OUR KEY STRATEGIC PRIORITIES

3 DIRECT ACCESS TO PREMIUM MARKETS

PhosAgro produces some of the safest phosphate-based fertilizers in the world thanks to the exceptionally low levels of cadmium and other harmful impurities in the raw materials we mine at Kirovsk branch of JSC Apatit on the Kola Peninsula. Our aim is to bring our crop nutrient solutions closer to our customers in priority markets by establishing our own sales offices in these markets. This will help us speak directly with our customers about what they want, react faster to changes in demand, gain a better understanding of the local markets, and promote the unique quality of the phosphate-based fertilizers we produce.

OPPORTUNITY

We aim to increase our share of export sales to markets with significant demand for premium-quality phosphate-based fertilizers and/or structural deficits of local phosphate supply.



EXPORT MARKETS

WHY THIS IS OUR PRIORITY

Latin America and Europe are priority regions with premium markets for exports:

- Long-term local P_2O_5 nutrient deficits
- PhosAgro can achieve fair netback prices for its fertilizers
- European and other customers are increasingly sensitive to hazardous impurities such as cadmium, giving PhosAgro an advantage over other producers

2017

What we did

- Opened a sales office in Belgrad, Serbia
- The growth in exports of final products (mineral fertilizers, MCP, STPP) to Latin America by **21% year-on-year** to **1.6 mln tonnes**
- The growth in exports of final products (mineral fertilizers, MCP, STPP) to Europe by **21% year-on-year** to **1.8 mln tonnes**
- Increased sales to CIS by **36% year-on-year** to **0.8 mln tonnes**

2018

What we aim to do

- Ramp up marketing and other activities aimed at increasing awareness of the advantages of PhosAgro's phosphate-based fertilizers, which are naturally free of cadmium and other hazardous elements

2020

Where we want to be

- Increase share of direct sales to over **90%** through new sales offices located in priority markets around the world



DOMESTIC MARKET

WHY THIS IS OUR PRIORITY

In our domestic market, we aim to continue to expand our market-leading distribution network to provide Russian farmers with our high-quality crop nutrients and support the development of Russia's agricultural sector.

2017

What we did

- Domestic sales grew by **12% year-on-year** to **2.3 mln tonnes**

2018

What we aim to do

- Expand number of grades available to farmers based on input from our international and domestic sales offices

2020

Where we want to be

- Expand domestic sales volumes to **2.6 mln tonnes** through a vertically integrated sales network that includes **15 sales offices** and **22 distribution centers**

RELATED RISKS

Strategic risks

- Ineffective strategic planning

Operational, reputational and financial risks



For more information on risks, please see **page 116–123**

3.

BUSINESS REVIEW





**COMPREHENSIVE,
INTEGRATED BUSINESS
MODEL DELIVERS
SUSTAINABLE
PERFORMANCE THROUGH
MARKET CYCLES**

>35

GRADES OF FERTILIZERS

**TAILORED TO A WIDE
VARIETY OF CROPS,
SOILS AND CLIMACTIC
CONDITIONS**



COO's statement	52
Our assets	53
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CFO's statement	64
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// We completed construction of our new ammonia and granulated urea capacities on schedule in 2017, and have already begun to benefit from additional cash flow from sales as we ramp up these state-of-the-art facilities to full capacity.

Mikhail Rybnikov

Executive Director of PJSC PhosAgro,
CEO of JSC Apatit

↑ **12.3** % Y-O-Y

TOTAL PRODUCTION OF FERTILIZERS INCREASE TO 8.3 MLN T

Our ongoing debottlenecking and modernisation of existing facilities contributed to this 12.3% year-on-year increase.

As we ramp up our fertilizer production capacity, with a goal of reaching over 9 million tonnes by 2020 (an increase of 10% vs. 2017), we remain focused on further increasing vertical integration and improving current operations. This includes projects to build new sulphate ammonia and nitric acid facilities, as well as retooling our apatite-nepheline ore processing plants to increase total output at plant No 3 and introducing new technologies at plant No 2 to start efficient processing of off-balance-sheet ore that was previously too low in P_2O_5 content.

I am very happy about what we achieved in 2017, but all of us at PhosAgro are excited about what the future holds as we continue our development with the help of cutting-edge production and digital technologies.

PhosAgro's first-class assets are one of the keys to the long-term sustainability of our business. The Apatite Mine and Beneficiation plants in Kirovsk and Apatity provide us with our key raw material: high-quality phosphate-nepheline ore that we process into phosphate rock that naturally has some of the lowest levels of potentially harmful elements like cadmium.

In addition to our major investment projects at PhosAgro's Cherepovets site, we are constantly investing in upgrades and modernisation across our business in order to improve our environmental footprint, safety standards, and the efficiency of our operations, while also removing bottlenecks and achieving incremental increases in total output capacity.

We also remain focused on enhancing PhosAgro's vertical integration throughout the value chain, from mining of our key raw material all the way through distribution and sales in our domestic market. For export markets, we continue to increase our port terminal capacity, and we opened a new trading office in Serbia in 2017.

The combination of these three factors combined have enabled PhosAgro to maintain and even strengthen its position as one of the lowest cash-cost producers of DAP in the world.

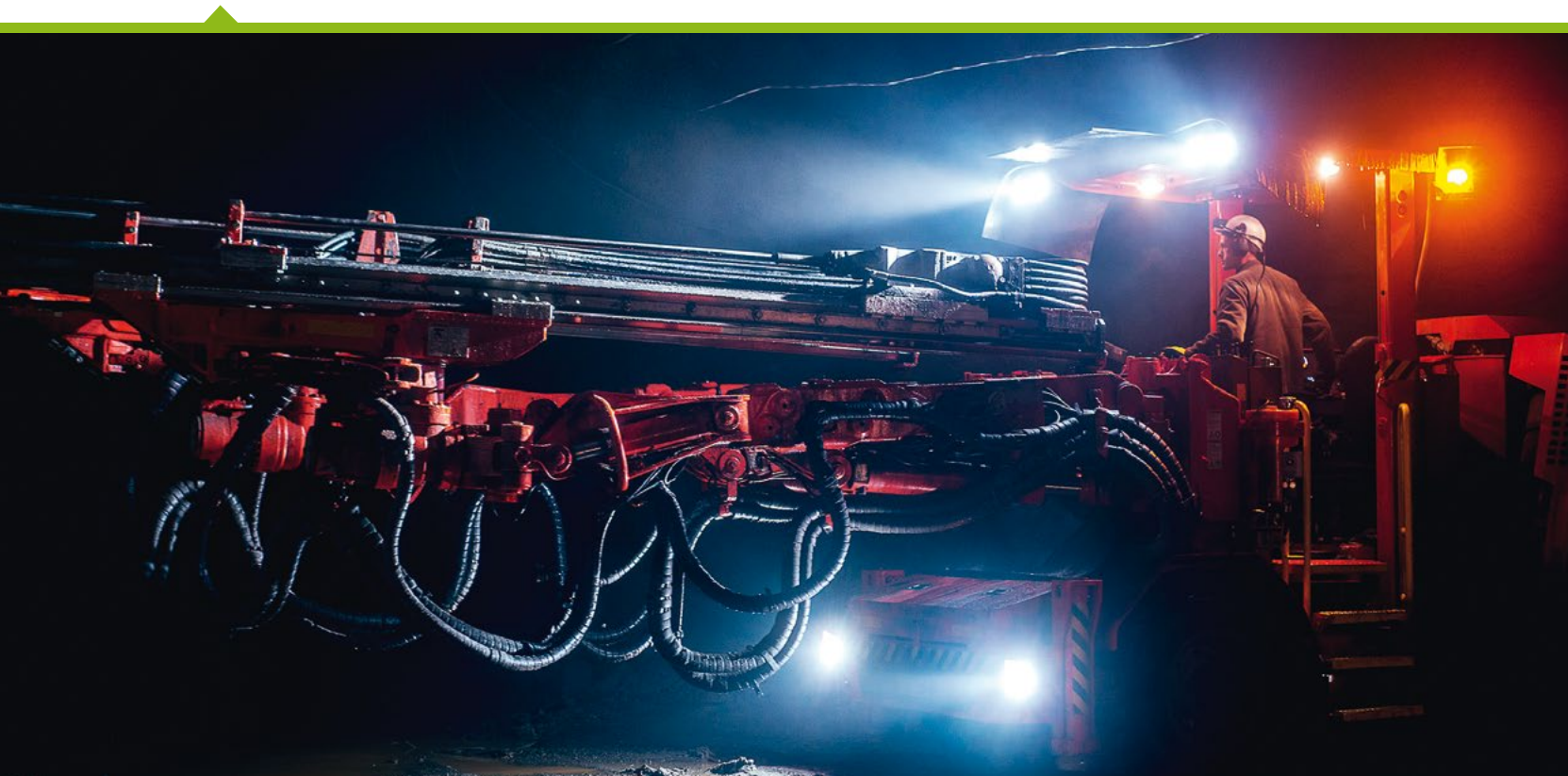
UPSTREAM

53

KIROVSK BRANCH OF JSC APATIT

JSC Apatit (shares owned by PhosAgro: 100%)

- Mining of apatite-nepheline ore
- Production of phosphate rock
- Production of nepheline concentrate



Production capacity

PHOSPHATE ROCK

9.5 MLN T

NEPHELINE CONCENTRATE

1.1 MLN T

Planned upgrades and investments

- Improve phosphate rock extraction ratios to over 90%
- Increase capacity of ANOF-3 beneficiation plant to 9 mln tonnes
- Refocus ANOF-2 beneficiation plant on efficient processing of off-balance-sheet ore
- Install conveyer system to supplement extraction of ore from open pit

KEY DEVELOPMENTS IN 2017

- Increased underground mining by 10%
- Increased total phosphate rock production by 12%

DOWNSTREAM

JSC APATIT

(shares owned by PhosAgro: 100%)

Production of phosphate-based fertilizers, nitrogen fertilizers, sulphuric and phosphoric acids and ammonia.



Production capacity

MAP/DAP/ NPK/NPS	AMMONIA	APP	AN	PRILLED UREA	GRANULATED UREA
4.4 MLN T	1.9 MLN T	140 KT	450 KT	980 KT	500 KT

Planned upgrades and investments

- New 150 ths tonnes/year nitric acid production line (planned completion: 2019)
- New 1.1 mln tonnes/year sulphuric acid production line (planned completion: 2019)
- New 300 ths tonnes/year sulphate ammonia production line (planned completion: 2019)

KEY DEVELOPMENTS IN 2017

- Completed accession of JSC PhosAgro-Cherepovets and JSC Apatit
- Completed construction of 760 ths tonnes/year ammonia plant
- Completed construction of 500 ths tonnes/year granulated urea line
- Increased output of existing fertilizer production capacity by about 700 ths tonnes through optimisation and debottlenecking.

BALAKOVO BRANCH OF JSC APATIT

Production of phosphate-based fertilizers, feed phosphate, sulphuric and phosphoric acid.



Production capacity

MAP/DAP/NPK

MCP

1.7

MLNT

370

KT

KEY DEVELOPMENTS IN 2017

- Completed construction of ammonia pipeline, securing efficient and reliable supply of 100% of the Balakovo site's ammonia needs

METACHEM (VOLKHOV)

JSC Metachem (shares owned by PhosAgro: 100%)

Production of PKS, SOP, STPP, sulphuric and phosphoric acid.



Production capacity

SULPHURIC
ACID

PKS/SOP

STPP

PHOS. ACID

215

KT

150

KT

130

KT

80

KT
OF P₂O₅

OUR ASSETS

continued

56

DISTRIBUTION AND SALES

PHOSAGRO-REGION

PhosAgro-Region LLC
(PhosAgro share in the authorized capital: 99.90%)

One of the Russia's largest distributors of fertilizers, with regional offices and warehouse facilities in close proximity to Russia's major agricultural regions.



Production capacity

SALES OFFICES	COVERED REGIONS	DISTRIBUTION CENTRES
15	67	22

Planned upgrades and investments

- Ramp up marketing and other activities aimed at increasing awareness of the advantages of PhosAgro's phosphate-based fertilizers, which are naturally free of cadmium and other hazardous elements
- Expand number of grades available to farmers based on input from our international and domestic sales offices

KEY DEVELOPMENTS IN 2017

- Opened a new sales office in Krasnoyarsk
- Domestic sales grew by 12.3% year-on-year to 2.34 million tonnes

PHOSAGRO TRADING

Phosint Trading Ltd (shares owned by PhosAgro: 100%)
PhosAgro Asia Pte Ltd (shares owned by PhosAgro: 100%)
PhosAgro Trading SA (shares owned by PhosAgro: 100%)

Sales offices in Bayonne (France), Hamburg (Germany), Zug (Switzerland), Warsaw (Poland), Limassol (Cyprus), Singapore (Asia), Sao Paulo (Brazil) and Belgrade (Serbia) bring vertical integration into priority export markets.



Production capacity

INTERNATIONAL TRADING OFFICES

8

Planned upgrades and investments

- Open new trading office in Vilnius (Lithuania).

KEY DEVELOPMENTS IN 2017

- Opened new trading office in Belgrade, Serbia, to cover South-East European market

LOGISTICS

57

PHOSAGRO-TRANS

JSC PhosAgro-Trans (PhosAgro share in the authorized capital: 100%)

Russian freight rail operator, with 6,200 railcars (70% mineral hoppers) in operation.



Planned upgrades and investments

- Organise own rail depot at Cherepovets site (planned completion: 2018)
- Development of railway infrastructure at Cherepovets phosphates site with access to Nelazskoe station on the Oktyabrskaya railway, which will help balance traffic flows and handling of increased cargo volumes (planned completion: 2019)
- Purchase 60 additional tank cars for transporting liquid sulphur in preparation for the transition to self-sufficiency in railcars, regardless of the capacities of third-party operators

KEY DEVELOPMENTS IN 2017

- Completed purchase of 232 new tank cars for transporting liquid sulphur
- Optimisation of internal railway operations at PhosAgro's production sites has reduced the cost of internal logistics at PhosAgro's managed companies by 7.5% year-on-year
- Optimisation of routing of own fleet has improved the efficiency of rolling stock use by PhosAgro (tonne-km/number of wagon-days) by 3.2% year-on-year

PHOSAGRO-PORTS

Smart Bulk LLC (PhosAgro share in the authorized capital: 70%)
Bulk Terminal Kotka Oy and Logifert Oy

Total storage capacities in ports:
2.5 mln tonnes/year



KEY DEVELOPMENTS IN 2017

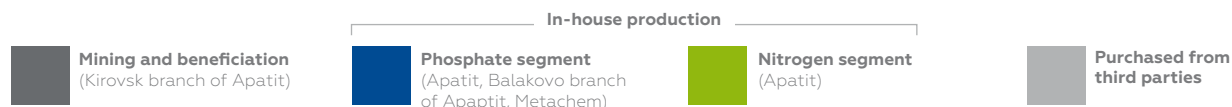
- Completed purchase of warehouses in Kotka (Finland), with an annual capacity of 1.5 mln tonnes
- Decreased cost of export transshipment via Smart Bulk LLC in Ust-Luga

SCIENCE AND ENGINEERING

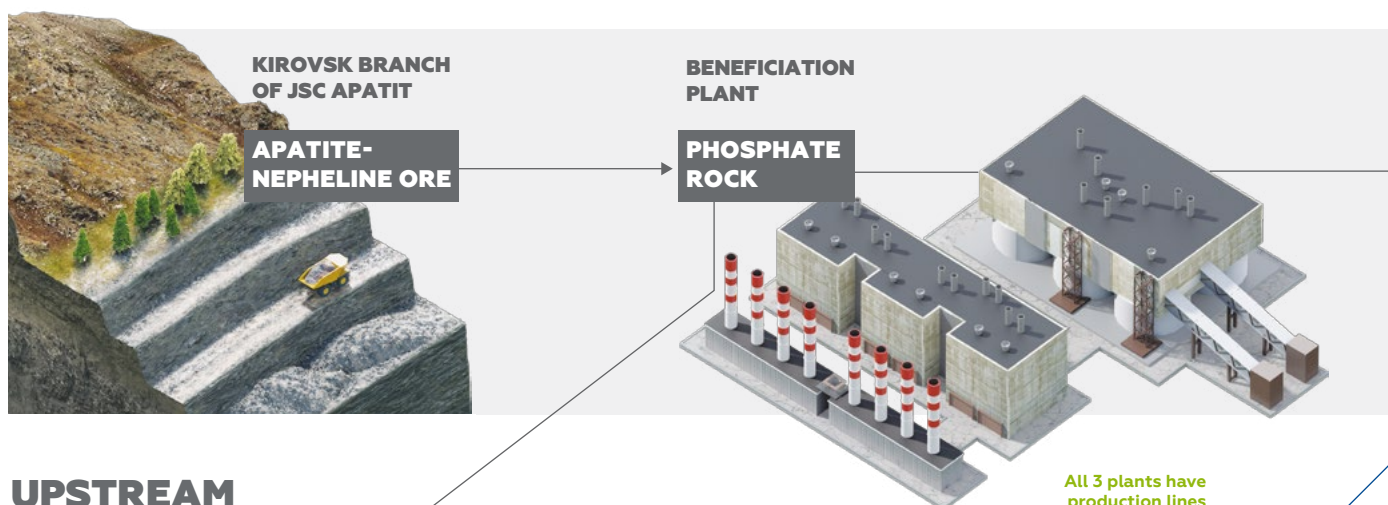
OJSC Research Institute for Fertilizers and Insectofungicides (NIUIF) (shares owned by PhosAgro: 94.41%)

- conducting scientific research
- developing basic data for design and planning (including basic designs)
- modernising existing production capacities to increase capacity and energy efficiency, using patented technologies
- conducting investigations and pilot testing
- conducting exploratory work (geological and geodesic surveys)
- developing planning, detailed and engineering documentation
- supporting the commissioning and ramp-up of production facilities, including designer supervision

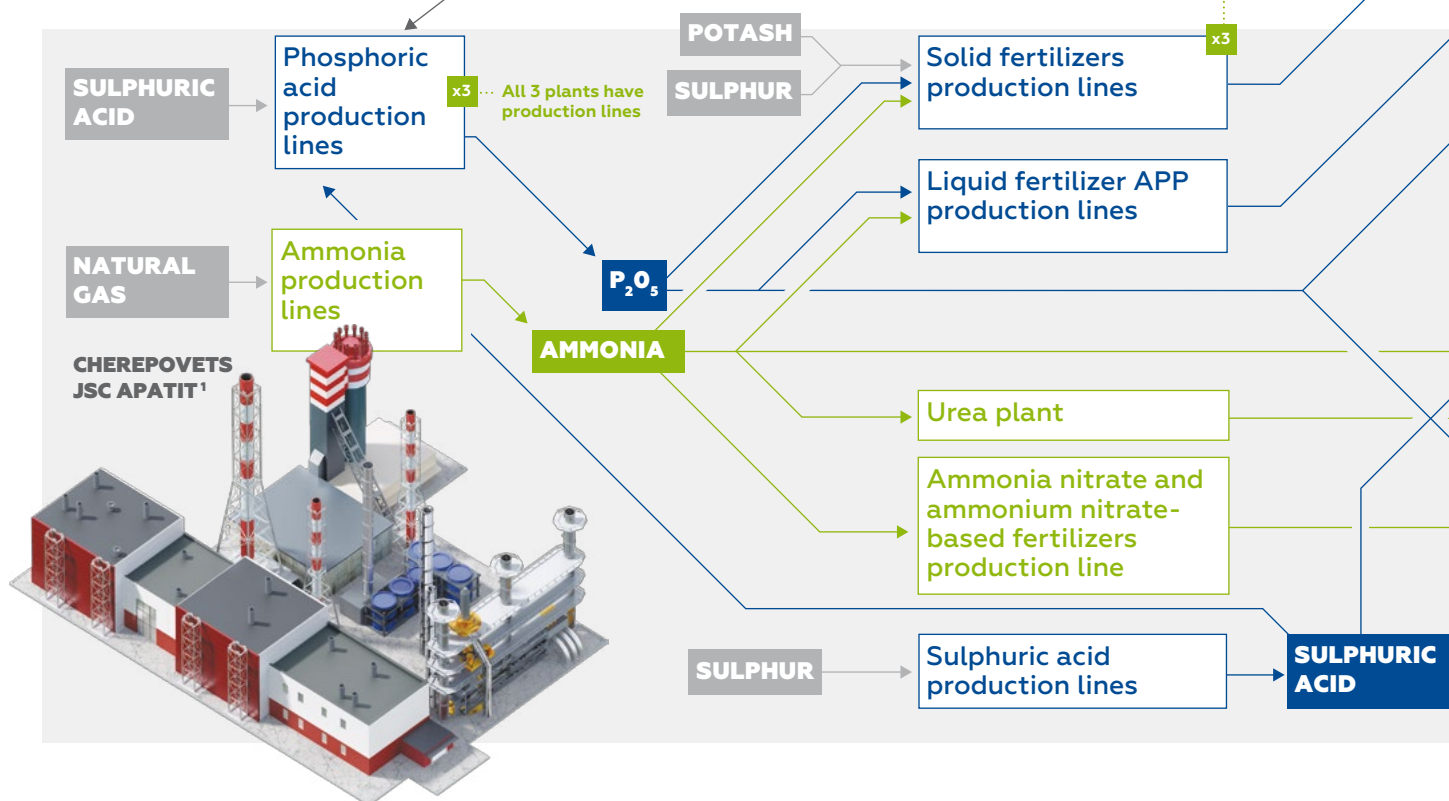
OPERATIONAL STRUCTURE OF THE GROUP



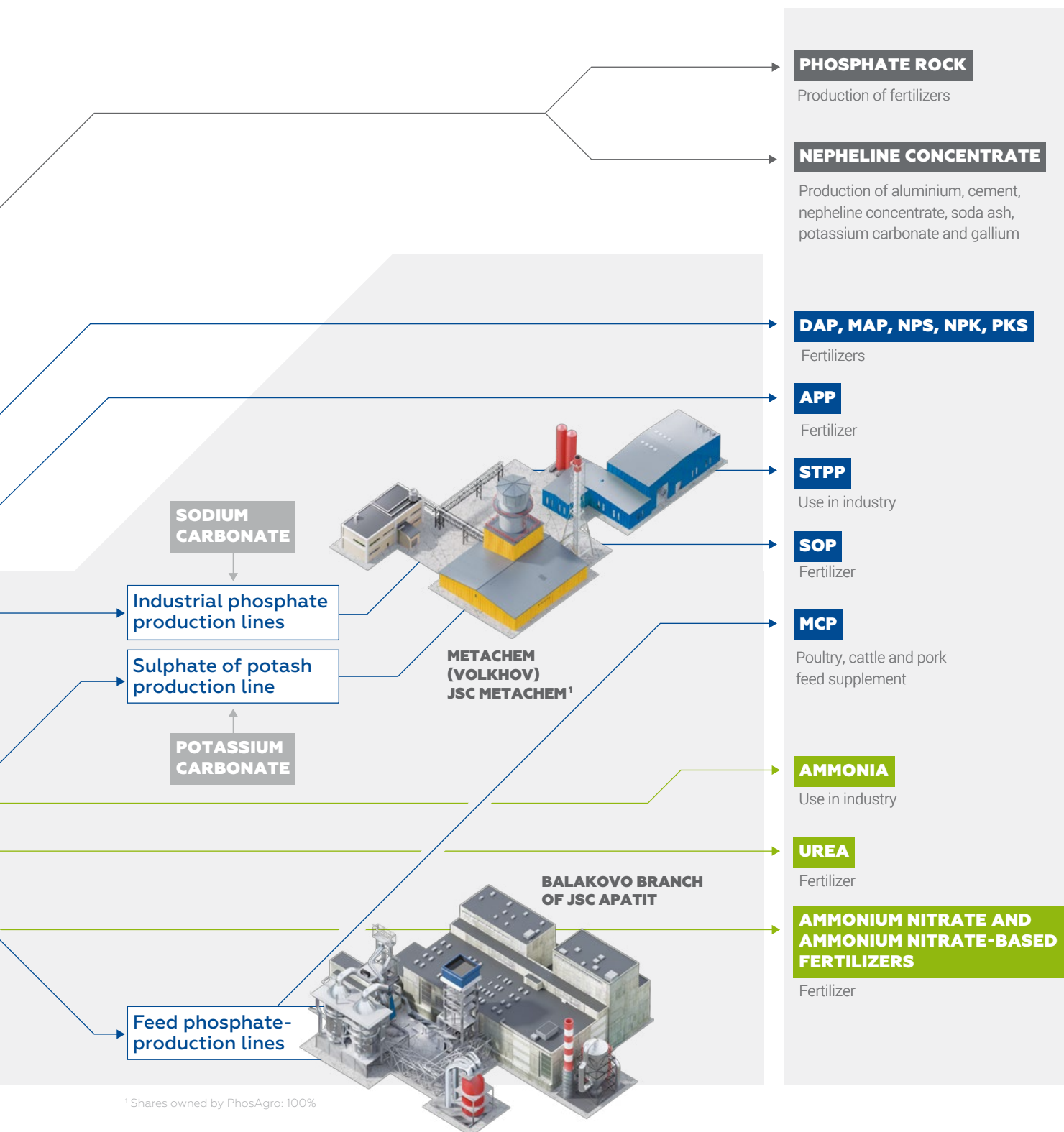
DOWNSTREAM



UPSTREAM



PRODUCT FOR SALE



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), 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, industrial phosphates such as sodium tripolyphosphate (STPP) and the fertilizer sulphate of potash (SOP).

Upstream

We extracted 32.3 million tonnes of apatite-nepheline ore in 2017 and produced 9.5 million tonnes of phosphate rock, up by 12% from 8.5 million tonnes in 2016.

Intra-Group sales of phosphate rock amounted to 71,3% (6,774 kt) of our total phosphate

rock sales in 2017, compared to 71.4% (6,110 kt) in 2016. This was primarily due to the 11.4% year-on-year increase in our own phosphate-based fertilizer production in 2017.

We sold 9.8% of the phosphate rock we produced to domestic external customers and 18.9% to international customers, compared with 11.7% and 16.9%, respectively, in 2016. Prayon (Belgium) and Yara (Norway) accounted for most of the exports.

In 2017, nepheline concentrate production and sales increased by 4.2% and 3.3% year-on-year, respectively.

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

↑ **12** % Y-O-Y

PHOSPHATE ROCK PRODUCTION RISE

↑ **4.2** % Y-O-Y

NEPHELINE CONCENTRATE PRODUCTION RISE

PRODUCTION AND SALES VOLUMES — APATIT MINE AND BENEFICIATION PLANT

	Production volume, kt			Sales volume ¹ , kt		
	2017	2016	Change, y/y	2017	2016	Change, y/y
Phosphate rock	9,540.3	8,530.2	11.8%	2,732.2	2,448.3	11.6%
Nepheline concentrate	998.1	958.1	4.2%	1,001.8	969.7	3.3%

¹Not including Intra-Group sales.

ORE RESERVES OF DEPOSITS PROCESSED BY “PHOSAGRO” AS OF JANUARY 1, 2018

Deposit	Resources, kt (Categories A+B+C1)	Average P₂O₅ content
Kukisvumchorr	394,868	14.23
Yukspor	494,966	14.06
Apatitovy Cirque	103,321	14.05
Rasvumchorr Plateau	318,198	13.02
including the plot of the Plato	1,024	14.84
Koashva	591,964	15.95
Njorkparhk	55,109	13.57
Iyolitovy otrog	1,236	13.67
TOTAL	1,959,662	14.59

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)
01 January 2024

Tsentralny mine
(Plateau Rasvumchorr deposit)
31 December 2018

Iyolitoviy otrog deposit
01 February 2024



EXPLORATION LICENCE

Plot Plateau
14 December 2040

OPERATIONAL REVIEW

continued

62 PHOSPHATE SEGMENT – DOWNSTREAM

We increased our production and sales of phosphate-based fertilizers by 11.4% and 11.3% year-on-year, respectively.

Our ability to quickly switch between production of MAP/DAP and NPK/NPS fertilizers and our competitive cash-cost helped us to increase production and sales of MAP/DAP by 8.5% and 9.9% year-on-year, respectively, in 2017.

Production of NPK fertilizers increased by 24.6% to 2,567 kt, while sales rose by 21.8% to 2,489 kt in 2017. NPS production and sales decreased by 17.4% and 20.8% (to 423.4 kt and 409.8 kt, respectively). MCP output amounted to 354.4 kt, which is 4.7% higher year-on-year, and sales volumes increased by 3.5% to 350.4 kt. Our PKS fertilizer production

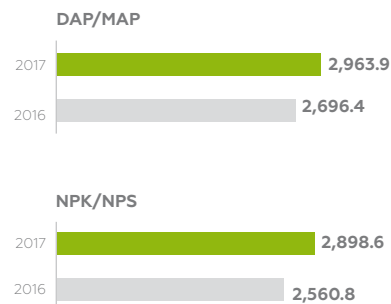
and sales of fertilizers amounted to 99.8 kt (up 17.3% year-on-year) and 101.2 kt (up 12.3% year-on-year), respectively.

Due to our production flexibility and competitive cash-cost, we were also able to maintain near-100% capacity utilisation throughout 2017, even as we increased phosphate-based and MCP production by 11.4% year-on-year to 6.6 million tonnes.

Outlook

- PhosAgro will continue to focus on strategic goals of optimising costs in upstream operations
- At the same time, we aim to increase production capacity and enhance self-sufficiency

DAP/MAP VS NPK/NPS SALES, KT



↑ **24.6%** Y-O-Y

INCREASE OF NPK PRODUCTION

↑ **8.5%** Y-O-Y

INCREASE OF DAP/MAP PRODUCTION

PRODUCTION AND SALES VOLUMES – PHOSPHATE-BASED FERTILIZERS AND MCP

	Production volume, kt			Sales volume, kt		
	2017	2016	Change, y/y	2017	2016	Change, y/y
DAP/MAP	3,004.0	2,768.9	8.5%	2,963.9	2,696.4	9.9%
NPK	2,566.5	2,060.0	24.6%	2,488.8	2,043.5	21.8%
NPS	423.4	512.4	-17.4%	409.8	517.3	-20.8%
APP	155.4	138.8	12.0%	170.7	115.4	47.9%
MCP	354.4	338.6	4.7%	350.4	338.5	3.5%
PKS	99.8	85.1	17.3%	101.2	90.1	12.3%
SOP	2.7	26.1	-89.7%	4.2	28.0	-85.0%

NITROGEN SEGMENT

63

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

Highlights

- Nitrogen fertilizer production increased 16.0% year-on-year to 1.7 million tonnes
- Nitrogen fertilizer sales were up 15.9% and reached 1.6 million tonnes
- Completed construction of 760 ths tonnes/year ammonia plant
- Completed construction of 500 ths tonnes/year granulated urea line

Performance

Urea production increased by 19.5% year-on-year to 1,238.2 kt in 2017, while sales increased by 11.9% year-on-year to 1,139.8 kt.

The majority of our urea sales were on 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 2017, ammonia production increased by 21.7% compared to 2016 as a result of the completion of our new ammonia plant. This brought our self-sufficiency in ammonia from 74% in 2016 to 78% in 2017. Most of the ammonia we produced was consumed within the Group to support higher phosphate-based fertilizers and urea production volumes in 2017.

In 2017, production of ammonium nitrate (AN) increased by 8.2%, while sales were up 26.8%.

↑ **16.0%** Y-O-Y

**INCREASE OF NITROGEN
FERTILIZER PRODUCTION**

↑ **19.5%** Y-O-Y

**INCREASE OF UREA
PRODUCTION**

PRODUCTION AND SALES VOLUMES – NITROGEN-BASED FERTILIZERS

	Production volume, kt			Sales volume, kt		
	2017	2016	Change, y/y	2017	2016	Change, y/y
Urea	1,238.2	1,036.1	19.5%	1,139.8	1,018.5	11.9%
AN	496.4	458.9	8.2%	476.0	375.5	26.8%

FINANCIAL PERFORMANCE

64



28%

EBITDA MARGIN

The 13% year-on-year appreciation of the RUB against the USD negatively impacted PhosAgro's 2017 financial results, as 67% of revenue comes from export sales while up to 25% of all operating costs are in USD. By maintaining tight cost-control measures, we managed to contain growth in cost of sales to 15% year-on-year, while administrative expenses grew by just 8% year-on-year.

PhosAgro has also maintained a solid financial position, successfully completing its major investment projects and paying out dividends in line with its dividend policy during the year, and, after the reporting period, successfully refinancing the USD 500 million Eurobond due in February 2018 at a record low rate of 3.949%. The average rate of attracted debt finance in USD did not actually change with respect to 2016 and was less than 4%. However, we managed to increase the average duration from 4 to 6 years¹, which means a decrease in the average interest rate of our debt portfolio against the background of an increase in the average one-month LIBOR rate from 0.5 in 2016 to 1.1 in 2017. The Company also regained investment-grade credit ratings from all three international credit rating agencies.

Looking ahead, we expect to see a significant positive effect on EBITDA from the new ammonia and granulated urea units that are now in operation. We will maintain a focus on efficiency by implementing new systems and projects and controlling operating costs across the business. Our healthy balance sheet and efficient operations put PhosAgro in a good position to continue growth, even as we distribute profit in line with our dividend policy.

PhosAgro proved in 2017 that it is a stable company that is able to deliver solid profitability even in one of the most challenging years for global phosphate-based fertilizer markets: while revenue declined by 3% year-on-year to RUB 181.4 billion and EBITDA decreased by 29% to RUB 51.3 billion, we achieved an EBITDA margin of 28%.

Alexander Sharabaiko

Chief Financial Officer of PJSC PhosAgro

¹With the refinancing of Eurobonds in January 2018.

PhosAgro's 2017 revenue amounted to RUB 181.4 billion (USD 3.1 billion), decreasing by 3% year-on-year. Growth of 12% year-on-year in total sales of fertilizers and MCP was offset by 13% year-on-year appreciation in the average RUB/USD exchange rate and a 17% year-on-year decrease in the average realised price for phosphate rock (in USD terms). Average realised prices for DAP, MAP and NPK remained virtually unchanged year-on-year. On the positive side, the increase by 9%-15% year-on-year in the average price per tonne (USD-denominated) for nitrogen-based fertilizers (ammonium nitrate and urea, including granular urea from the new unit).

In 2017, export sales accounted for 67% of the Company's consolidated revenue and remained almost unchanged year-on-year.

The geographic split of revenue shows that sales to our domestic Russian market accounted for 33% of total sales, coupled with a 10% share of sales to other CIS countries. PhosAgro's two key priority export markets, Europe and Latin America, represented almost 25% and 22% of 2017

revenue, respectively. Finally, the remaining 10% of 2017 sales came from Asia (including India), Africa and Australia.

Gross profit declined by 20% year-on-year to RUB 79.9 billion (USD 1.37 billion), while the gross margin decreased by 9 p.p. year-on-year to 44%. Gross profit and margin performance for the phosphate-based and nitrogen-based segments were as follows:

- The phosphate-based segment saw a 23% year-on-year decrease in gross profit to RUB 70.9 billion (USD 1.2 billion), with a gross margin of 45%, compared to 55% in 2016
- Gross profit for the nitrogen-based segment increased by 13% year-on-year to RUB 8.9 billion (USD 152 million). Gross margin for the segment decreased by 2 p.p. year-on-year to 39%. Profitability of the nitrogen segment was positively affected by the growth in nitrogen prices coupled with the launch of PhosAgro's new ammonia and urea units

PHOSAGRO HAS MAINTAINED A SOLID FINANCIAL POSITION, SUCCESSFULLY COMPLETING ITS MAJOR INVESTMENT PROJECTS

FY 2017 FINANCIAL AND OPERATIONAL HIGHLIGHTS

	RUB mln or %		
	FY 2017	FY 2016	Change, y/y
Revenue	181,351	187,742	-3%
EBITDA ¹	51,263	72,365	-29%
EBITDA margin	28%	39%	-11 n.n.
Net income	25,331	59,886	-58%
Net income adj ²	21,190	42,924	-51%
	31 December 2017	31 December 2016	
Net debt	119,985	105,115	
ND/LTM EBITDA	2.3x	1.5x	
Sales, 000' mt	FY 2017	FY 2016	Change, y/y
Phosphate-based	6,489	5,829	11%
Nitrogen-based	1,616	1,394	16%
Phosphate rock	2,732	2,448	12%

¹ EBITDA is calculated as operating profit adjusted for depreciation and amortisation.

² Adjusted for non-cash FX items

FINANCIAL PERFORMANCE

continued

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PhosAgro's EBITDA in 2017 decreased by 29% year-on-year to RUB 51.3 billion (USD 878 million), while the EBITDA margin declined by 11 p.p. to 28%, compared to 39% in 2016. Net profit (adjusted for non-cash FX items) dropped by half year-on-year to RUB 21.2 billion (USD 434 million) in 2017.

During 2017, the RUB appreciated by nearly 13% year-on-year (the average RUB/USD foreign exchange rates for 2017 and 2016 were RUB 58.4 and RUB 67.0, respectively), which had a net negative 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. The appreciation of the RUB as of 31 December 2017 (RUB 57.6 per USD) compared to 31 December 2016 (RUB 60.7 per USD) resulted in an FX gain of RUB 4.14 billion vs. a gain of RUB 16.96 billion in 2016.

Cash flow from operating activities decreased by 40% year-on-year, to RUB 30 billion (USD 514 million), compared to RUB 50.4 billion (USD 751 million) in 2016, predominantly due to lower profitability and increase in inventories and a decrease in accounts payable.

Gross debt (including finance lease liabilities) as of 31 December 2017 increased by 9%, to RUB 123 billion (USD 2.1 billion). Net debt as of 31 December 2017 stood at

RUB 120 billion (USD 2.1 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 increased to 2.3x as of 31 December 2017, up from 1.5x as of 31 December 2016.

Cost of sales

Cost of sales grew by 15% year-on-year in 2017 to RUB 101 billion (USD 1.74 billion). The key factors behind the growth were:

- Spending on materials and services grew by 16% year-on-year to RUB 31.6 billion (USD 542 million) driven by a 12% year-on-year increase in phosphate rock processing, 12% growth in overall fertilizer production and 2.5% year-on-year CPI inflation
- D&A was up significantly by 46% year-on-year to RUB 13.7 billion (USD 235 million) due to the commissioning of assets (Main Shaft No 2 at Kirovsk mine, newly built assets including those related to the new ammonia and urea units) and depreciation of capitalised repairs
- A year-on-year increase in expenditure on potash of 23.5% to RUB 8.8 billion (USD 150 million) due to 29% growth in purchased volumes (thanks to the greater share of NPKs with high potash content) and a 4% decrease in RUB-denominated prices

MOST OF THE COMPANY'S DEBT IS DENOMINATED IN USD AND THUS IS NATURALLY HEDGED BY PRIMARILY USD-DENOMINATED SALES

28%

EBITDA MARGIN

16% Y-O-Y

GROWTH OF SPENDING ON MATERIALS AND SERVICES

REVENUE BREAKDOWN BY KEY PRODUCTS

	RUB mln		
	FY 2017	FY 2016	Change, y/y
DAP/MAP	62.2	63.9	-3%
NPK(S)	48.5	49.7	-2%
Phosphate rock	21.2	26.0	-19%
Nitrogen-based	21.8	18.8	16%

- Spending on natural gas increased by 20% year-on-year to RUB 9.7 billion (USD 166 million) mainly due to a 21% year-on-year increase in ammonia production where natural gas is the main feedstock
- Expenditures on sulphur and sulphuric acid were up by 7% year-on-year to RUB 6.5 billion (USD 111 million). The key reason was an 8% increase in purchased volumes due to growth in production of phosphate-based fertilizers
- Electricity costs increased by 24% year-on-year to RUB 5.5 billion (USD 95 million) on the back of 8% growth in purchasing from third parties (resulting from extra purchases due to the ramp-up of the new ammonia and urea units) and a 15% increase in the average electricity price
- A 15% year-on-year increase in spending on purchased ammonia to RUB 6.7 billion (USD 114 million) was mainly due to a 9% increase in purchase volumes and a 6% increase in the average RUB-denominated ammonia price
- Spending on salaries and social contributions increased by 3% year-on-year to RUB 11.2 billion (USD 193 million)

- Fuel costs grew by 32% year-on-year to RUB 3.0 billion (USD 52 million) on the back of a similar increase in average realised prices while consumption remained virtually unchanged year-on-year

Administrative expenses increased by 8% year-on-year to RUB 14.7 billion (USD 251 million) in 2017, primarily due to a 7% increase in personnel costs to RUB 8.4 billion (USD 144 million) and a 26% increase in professional services expenses to RUB 2 billion (USD 34 million).

In 2017, selling expenses increased by 24% year-on-year to RUB 24.5 billion (USD 419 million). The main factors behind this growth were:

- Freight, port and stevedoring expenses grew by 15% year-on-year to RUB 11.5 billion (USD 197 million) primarily due to a 15% year-on-year increase in export sales of rock and fertilizers;
- Russian Railways infrastructure tariff and operators' fees grew by 24% year-on-year to RUB 9.2 billion (USD 157 million) mostly on

the back of a 12% year-on-year increase in overall fertilizer sales and a 5% increase in railroad tariffs

- Materials and services more than doubled to RUB 2.7 billion (USD 46 million) due to higher import duties paid as the Company increased export sales to European markets, as well as higher transportation and storage expenses due to the expanding retail business in Russia.

Cash spent on capex in 2017 amounted to RUB 35.9 billion (USD 615 million), a decrease of 11% year-on-year. Capital expenditure was primarily focused on completing the construction of the new ammonia and urea units, modernisation of Benefeciation Plant No 3 and extra underground drilling at Apatit.

COST OF SALES

	RUB mln		
	FY 2017	FY 2016	Change, y/y
Materials and services	31,597	27,199	16.2%
Salaries and social contributions	11,234	10,937	2.7%
Ammonia	6,650	5,801	14.6%
Natural gas	9,715	8,084	20.2%
Depreciation and amortisation	13,719	9,424	45.6%
Chemical fertilisers for resale	4,753	4,254	11.7%
Potash	8,772	7,104	23.5%
Fuel	3,034	2,299	32.0%
Sulphur and sulphuric acid	6,471	6,065	6.7%
Electricity	5,539	4,462	24.1%
Ammonium sulphate	2,424	2,547	-4.8%
Heating energy	671	676	-0.7%
Other items	9	42	-
Change in stock of WIP	-3,159	-850	-
Total	101,429	88,044	15.2%

4. SUSTAINABILITY REPORT





**WORKING TOWARDS A
BETTER FUTURE FOR ALL
OF OUR STAKEHOLDERS**

>2.8 %

**YEAR ON YEAR
DECLINE IN ATMOSPHERIC
EMISSIONS PER TONNE
OF PRODUCTION OUTPUT**



Environmental review	70
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ENVIRONMENTAL REVIEW

- 70 2017 was declared the Year of the Environment in the Russian Federation, and the Company responded to this initiative by carrying out a number of major investment projects related to environmental issues, which significantly reduced the Company's impact on the environment



Environmental strategy

Effective management of the Company's environmental footprint is a key factor in PhosAgro's ability to meet its goal of being a long-term sustainable business and in balancing its obligations to all stakeholders. In addition to internal guidelines, PhosAgro adheres to Russian regulatory requirements and is guided by EU environmental protection directives and international agreements, including the Basel Convention and the Helsinki Convention.

We have in place environmental management practices that ensure our compliance with applicable regulations, and that help to reduce the impact of our operations on the environment. We also invest in advanced technologies and high-quality production processes to make the most efficient use possible of finite natural resources.

Our environmental strategy focuses on the following key areas:

- Reducing our waste production, emissions and discharges of pollutants and resource usage on a per-unit basis by investing in new, more efficient technologies
- Ensuring that we act as a conscientious neighbour and maintain a constructive dialogue with local stakeholders about our environmental impact
- Preservation of natural ecosystems in the regions where the Company operates, rational use of natural resources and implementation of programmes for restoring environmental capacity.

Policy highlights

PhosAgro maintains a policy framework and related management procedures to address matters related to business conduct. Here are some of the highlights of the organisation's policy framework:

- We continually monitor and analyse the impact that our production sites have on the environment
- When designing production facilities, we try to foresee and eliminate any possible impact on the environment
- We aim to comply with all applicable Russian and international legislation and standards
- We continually invest in new technologies and processes that reduce our use of energy and finite resources
- We look to reduce, process or recycle the waste we produce wherever possible
- We embed a culture of respect for the environment and the local communities wherever we operate

Main highlights

The main KPIs for the Company's environmental function are:

- Possession of all necessary environmental permits for key production assets and subsidiaries
- The amount of environmental investments and financing of environmental activities aimed at preserving and restoring the natural-resource potential and biodiversity of the regions where we operate
- The size of payments for environmental impact, including over-limit payments, which is a key indicator of the Company's overall environmental impact

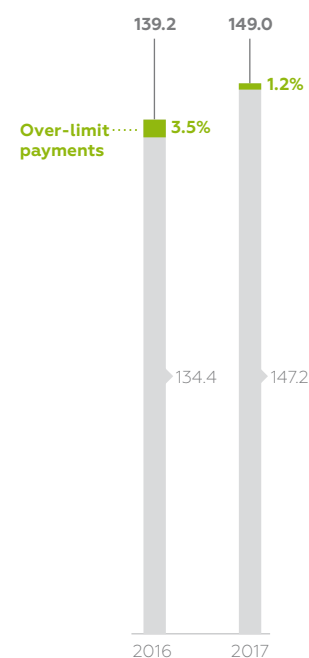
The KPIs adopted in 2016 remained valid in 2017:

- Possession of all necessary permits at key production assets to ensure their compliance with environmental legislation
- Reduce over-limit payments for environmental impact in year-on-year terms

Over-limit payments equalled 48% of total payments in 2014, 35.3% in 2015, 3.5% in 2016. A KPI was set in 2016 for a maximum over-limit payment of 15.4% of the total in 2015. The result for 2016 was 4.4% of the 2015 level. In 2017, over-limit payment amounted to 1.2% of the total payment for environmental impact.

PAYMENTS FOR ENVIRONMENTAL IMPACT

RUB mln



SYSTEM HIGHLIGHTS

Management and reporting

PhosAgro's environmental affairs are overseen by the chief ecologist based at Apatit, who is supported by environmental control and resource use divisions at each of our production sites. These divisions are responsible for undertaking activities related to environmental protection, ensuring compliance with regulatory requirements and reporting on these issues. Employees of these divisions provide support to production site management when they engage with local stakeholders.

The journey of phosphate-based fertilizers, our main product, begins at our Kirovsk branch of JCS Apatit mine on the Kola Peninsula in north-west Russia, where we extract unique apatite-nepheline ore that contains almost no harmful heavy metals. This high-quality raw material is a key input for our downstream production sites, which make some of the world's purest and safest phosphate-based fertilizers that farmers use to grow the food that ends up on our plates.

At all stages of production, indicators are monitored regarding all types of environmental impact: monitoring of atmospheric emissions at the source, monitoring of the air near areas of sanitary protection, monitoring of waste-water discharge into bodies of water, monitoring and keeping records on areas used to store production and consumption wastes for all of the Company's assets, including the activities of contractors. Monitoring is carried out on the basis of environmental monitoring programmes adopted at every one of the Company's production assets. The results of environmental monitoring are submitted to the territorial bodies for state environmental monitoring (Rosprirodnadzor) in the regions where the Company operates. If the results of environmental monitoring indicate deviations from norms, then, as a rule, corrective measures of an organisational and technical nature are developed. The results of environmental monitoring are used

as the basis for investment decisions and in financial planning for the implementation of activities aimed at reducing the impact of production activities, as well as to monitor the effectiveness of implemented activities.

Requirements for contractors and suppliers of works and services in the area of environmental safety have been developed and are available at all of the Company's tender sites.

PhosAgro management receives weekly updates on all ongoing environmental issues, and quarterly reports are produced for the Chairman of the Health, Safety and Environment Committee of the Board of Directors. On a quarterly basis, the Board receives updates on any expenses or payments the Company has made for its environmental impact. In addition, the Board of Directors receives annual and semi-annual updates on PhosAgro's environmental protection initiatives and current environmental performance.

ENVIRONMENTAL PRINCIPLES

- **Reducing the amount of disturbed territory when developing new territories:** optimising the development of new territories in project documentation;
- **Conserving biodiversity, such as freshwater ecosystems and spawning streams:** construction of treatment facilities and the adoption of measures to replenish biological resources; preservation of wildlife migration routes;
- **Implementing a comprehensive programme for financing major conservation measures and initiatives for the conservation of biodiversity;**
- **Refusing to carry out works in specially protected natural areas or conservation areas, World Natural Heritage sites, wetlands of international importance (sites protected by the Ramsar Convention):** prohibiting employees, including contractors, from hunting or fishing in areas where the Company is implementing projects;
- **Confirming that the Company's activities are in compliance with legislative requirements and standards in the field of environmental safety:** requirements for conducting regular external environmental audits;
- **Carrying out a comprehensive environmental impact assessment for a project from the construction stage to the decommissioning stage within the scope of implementation of said project and any affiliated projects;**
- **Holding all partners in the supply chain responsible for their environmental impact:** the Company has certain environmental requirements for suppliers of products and services and for contractors that are published on open tender sites and are one of the fundamental criteria for choosing suppliers and contractors. Environmental and industrial monitoring of contractors is carried out on a mandatory basis, including the filing of oversight reports and the submission of state statistical reports.

KEY ENVIRONMENTAL MEASURES AT THE COMPANY'S ENTERPRISES IN 2017



KIROVSK BRANCH OF APATIT:

- Switching to new chemicals for hardening dusty surfaces at tailings facilities
- Selecting chemicals for cleaning waste water as part of the programme to reduce discharge of pollutants that is being implemented over 2015-2019
- Acquiring two waste treatment and recycling units
- Upgrading of the fuel and energy facility enabled a 30% reduction in fuel-oil consumption and made it possible to shut down four boiler rooms running on fuel oil. Work on upgrading the fuel and energy facility is continuing.



APATIT:

Implementation a four-party agreement with the Russian Ministry of Natural Resources and Environment, the Federal Service for the Supervision of Natural Resources, and the administration of the Vologda region, which includes the following plans:

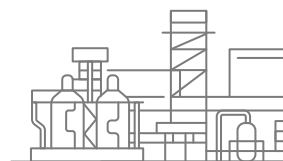
- the commissioning of waste-water treatment facilities for discharge into the Rybinsk reservoir, which will provide for the treatment, in accordance with regulations, of waste water from 10,000 cubic metres per day of ammonia production and domestic sewage containing phosphorous and nitrogen complexes, as well as the treatment of domestic sewage in the village of Novye Ugli
- continuing PhosAgro's 2,000 Trees programme.

Rehabilitation of aquatic biological resources: the release of juvenile pike into the Rybinsk reservoir in the Vologda region.



METACHEM:

- developing the construction design for a waste-water treatment facility on the Volkhov River, which will provide Metachem's required regulatory sewage treatment.



BALAKOVO BRANCH OF APATIT:

- closed-cycle technology is used in order to use as much process water as possible in production cycles and to reduce the volume of waste water.

≈4.2 RUB BLN

**EXPENDITURES ON
ENVIRONMENTAL MEASURES IN
2017 (INCREASED 18% YEAR-ON-
YEAR COMPARED TO 2016)**



Legislative and administrative framework

In general, Russian environmental law meets international standards, utilising the following main pieces of legislation: the Environmental Protection Law, the Environmental Expert Review Law, the Law on Industrial Waste and Consumption, the Law on Protection of Atmospheric Air and the Russian Federation Water Code. These pieces of legislation require an environmental impact assessment prior to the implementation of a new project and a positive report from the State Environmental Expert Review for the construction of waste disposal facilities. No construction or operation of waste disposal facilities is permitted until the Company is in receipt of a positive report from the State Environmental Expert Review (an essential precondition for financing and implementation). Since this requirement is also going to be applied to the construction of Category I facilities as of 1 January 2019, the requirement for an environmental impact

assessment is now being added to the terms of reference for the selection of contractors.

Regional legislation supports and expand on these federal laws and regulations. Russia is also a signatory to most of the major international environmental conventions and treaties, which, in the event of a conflict with Russian law, take precedence, as dictated by the Constitution of the Russian Federation and the Federal Law on Environmental Protection.

In general, any activity in Russia that may have an adverse impact on the environment is subject to:

- issuance of permits or licences (including for water use; subsoil use, for example, in mining; forest use; air emissions; disposal and recycling of waste; operation of hazardous industrial facilities)
- establishment of limits with respect to the amount of environmental impact

- payment for negative environmental impact (emissions and waste disposal)
- payment of fines for causing environmental damage
- liability up to and including criminal prosecution in the event of a violation of environmental legislation.

None of PhosAgro's enterprises use ozone-depleting substances in the production process. A small amount of carbon tetrachloride (CCl_4 , not more than 250 kg/year) is used for some laboratory testing processes. We do not undertake cross-border hazardous waste transportation, and our production sites are not situated in protected areas. Hence, there are no significant restrictions on our operations.



Permits and certificates

The Company's production sites hold all necessary licences and permits related to environmental protection.

We also undertake regular internal and external audits to assess our compliance and obtain certification, together with exposure assessments, international format safety

data sheets and recommendations for safe handling that are developed in compliance with the requirements of European Regulation No 1272/2008 on classification, labelling and packaging of substances and mixtures, and No 1907/2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) in the development of exposure scenarios.

In addition to observing Russian environmental law, we adhere to international standards relevant to our business to guide our approach. For example, the Balakovo branch of Apatit is the first Russian enterprise to be certified as compliant with the European GMP+ quality control standard for feed materials.

ISO AND OHSAS CERTIFICATES HELD BY PHOSAGRO ENTERPRISES:

	ISO 9001	OHSAS 18001	ISO 14001
Kirovsk branch of Apatit	Since 2011		
Apatit	Since 2004	Since 2008	Since 2006
Balakovo branch of Apatit	Since 2005		Since 2009

ENVIRONMENTAL REVIEW

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In 2017, JCS Apatit successfully passed a certification audit by the SGS Group, the world leader in terms of inspection, verification, testing and certification regarding compliance with the requirements of the International Fertilizer Association's (IFA) "Protect and Sustain" standard. The certification covers the design, development, production, sale and distribution of ammonia, complex mineral fertilizers, ammonium nitrate and urea. Passing the certification process in accordance with the IFA's high standards is proof of product safety, both at the production stage and for the end user, and also speaks to the advantages of working with clients, observing safety rules and occupational health and environmental standards, as well as the necessary quality for the transport and storage of production.

Awards

The PhosAgro Group, together with UNESCO and the International Union of Pure and Applied Chemistry (IUPAC), won the annual Leaders of Corporate Responsibility competition in the category of the Best Environmental Programme with their Green Chemistry for Life project.

The Leaders in Corporate Philanthropy is a joint project of the Donors Forum, the international audit and consulting company PwC and Vedomosti, which is aimed at supporting, developing and promoting corporate philanthropy. In 2017, 52 Russian and international companies that carry out philanthropic activities in Russia took part.

The goal of the project is to recognise the best philanthropic programmes and to share information about corporate philanthropy within the business community and in society in general. Since its establishment, the project's partners have included the Ministry of Economic Development of the Russian Federation and the Russian Union of Industrialists and Entrepreneurs.

Since 2014, the Green Chemistry for Life project has been supporting talented young scientists from all over the world who are conducting research in the field of green chemistry with the aim of protecting the environment and human health through the implementation of energy-efficient processes and environmentally friendly technologies on the basis of innovative ideas.



For the first time in the long history of UNESCO and of the UN system itself, this kind of initiative is being implemented through extra-budgetary funds provided by Russian business, i.e. PhosAgro. As part of the project, PhosAgro also established a special grant for research concerning the processing and application of phosphogypsum.

In addition, the PhosAgro Group, with its Our Favourite Cities project, was one of the top three winners of this competition in the category of the Best Project Revealing the Policy and Principles of a Company's Social Investments. As part of this project, the PhosAgro Group makes significant investments in the development of social

infrastructure and youth policies, culture and education, as well as support for sport, tourism, medicine and healthcare in the regions where it operates. Every year, the PhosAgro Group spends more than RUB 2.5 billion on charitable and social projects.

At the Russian Congress on Environmental Protection, PhosAgro was awarded a certificate from the Ministry of Natural Resources in the category of Active Corporate Environmental Policy in the Year of the Environment.

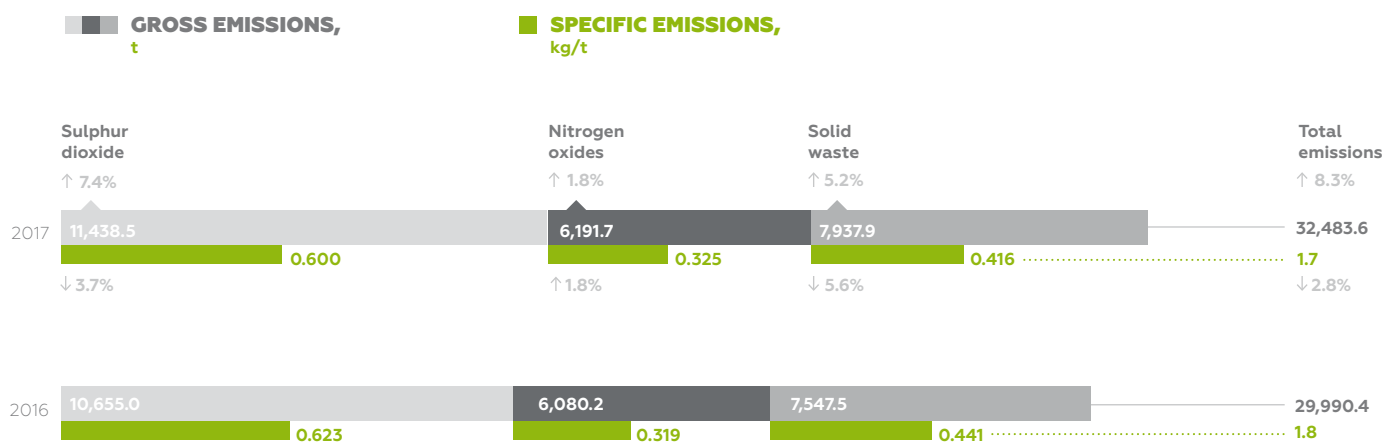
The head of the Balakovo branch of Apatit received a Letter of Gratitude from the National Scientific Research Institute of Irrigated Agriculture.

The Balakovo branch of Apatit won the 100 Best Organisations in Russia: Environment and Management competition. The head of the enterprise received an "Environmentalism of the Year - 2017" badge "for achievements in the field of sustainable management of natural resources".

The head of the aluminum fluoride shop and the chief specialist of the environmental control department of JSC "Apatit" were awarded with the Certificates of Honor by the Vologda region Environment and Resources Department in 2017 for active participation in the implementation of the activities of the Year of Ecology.

ENVIRONMENTAL IMPACT OF THE COMPANY'S PRODUCTION SITES IN 2017

EMISSIONS AND AIR QUALITY

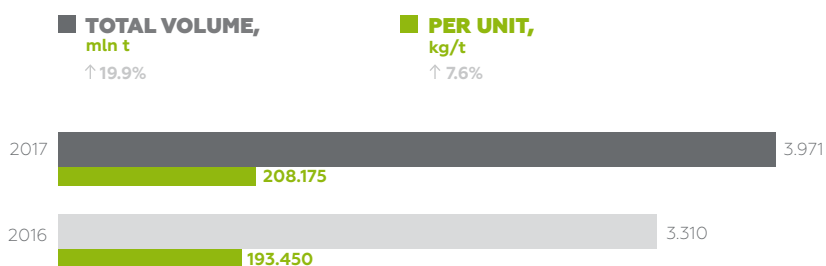


In 2017, the Group's production facilities increased their gross emissions into the atmosphere by 2.4 kt, or 8.3%, compared to 2016. The increase in impact was due to an increase in output by 11.5%.

Emissions of pollutants per tonne of produced products in 2017 decreased by 2.8% in relation to 2016 and amounted to 1.7 kg of emissions per tonne of production, compared to 1.8 kg/tonne in 2016

1.7 KG/TONNE
EMISSIONS
PER TONNE OF
PRODUCTION IN 2017

GREENHOUSE GAS



≈4 MLN T
TOTAL AMOUNT
OF EMISSIONS OF
GREENHOUSE GASSES
IN 2017

The increase in greenhouse gas emissions by the Group in 2017 relative to 2016 is due to the launch of a new production of ammonia at the Cherepovets production complex.

WASTE



As PhosAgro continually modernises its production facilities, one goal is to reduce the volume of waste produced, including through recycling. We also aim to reduce the danger that produced waste poses for the environment. At production facilities, some types of waste are used as raw materials in the production process. One key area where we are working on recycling solid waste is in the development of new technologies for reprocessing of phosphogypsum.

Production output increased by 11.5% to 19 million tonnes.

In 2017, the total volume of waste produced was 90.5 million tonnes. Approximately 88% of this volume was produced by the Apatit mining and beneficiation complex. The total amount of solid waste decreased by 3.8% year-on-year due to an 11% reduction in the production of rocks and overburden.

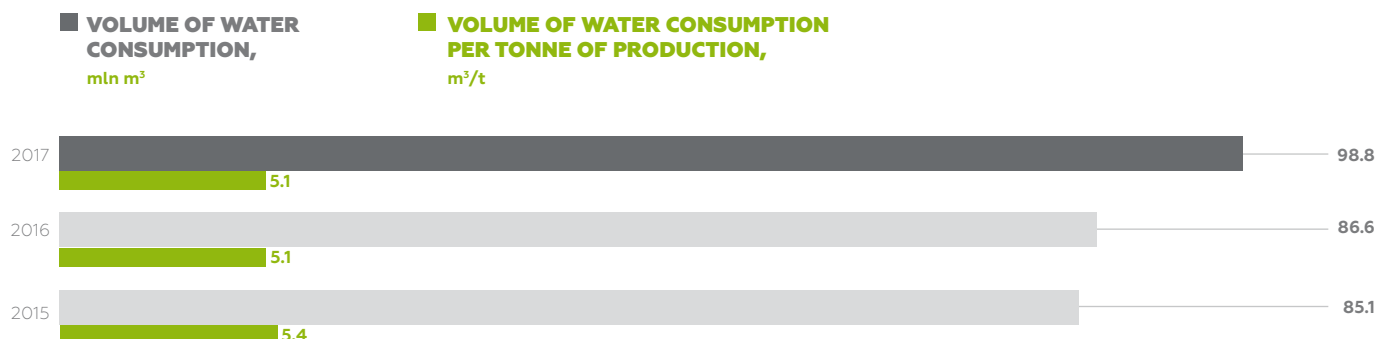
The majority of solid waste (up to 62%) consists of rocks and overburden from the Kirovsk branch of Apatit.

In 2017, the formation of phosphogypsum grew 11% due to an increase in the production capacity of phosphoric acid.

↓ **by 5.5 %**

**REDUCTION OF SOLID
WASTE PER TONNE OF
PRODUCTION OUTPUT
COMPARED TO 2016**

WATER USE



PhosAgro's subsidiaries try to implement the latest available technologies when using water in the production process, maximising use in cycles to reduce waste-water volumes. For example, the Balakovo branch of Apatit has a closed water circulation system that produces no waste water. The amount of recycled water in the water-rotation cycles at the Company's production facilities is more than 20 times greater than the annual intake of fresh water.

The Kirovsk branch of Apatit and Apatit are responsible for the majority of PhosAgro's water withdrawal, accounting for 55.7% and 33.8% of the total, respectively. In addition, the Kirovsk branch of Apatit provides drinking water for Kirovsk and Apatit. The largest volume of waste-water discharges, 93%, comes from the Kirovsk branch of Apatit.

In 2017, PhosAgro's total consumption of water for production purposes amounted to

98.8 million cubic metres, which was 14% higher year-on-year. Water consumption per unit of production decreased over the last two years by 5.5% to 5.1 cubic metres per tonne.

In 2017, water discharges by PhosAgro's production sites increased slightly, amounting to 214.7 million cubic metres. This was the result of an 11% increase in production output and the commissioning of biochemical waste-water treatment facilities at Apatit, which will ensure the treatment not only of industrial waste water from the production site but also of domestic sewage from the residential village.

Out of the total volume of waste water without treatment, 0.03% of is discharged, while 97.1% is treated in compliance with regulations.

The number of compliance orders issued by state environmental oversight and supervisory bodies in 2017 decreased by 36% year-on-year, i.e. from 14 to 10 units within the Group of Companies. The specific frequency of compliance notices in 2017 was 0.0005 for every thousand tonnes of production output.

↓ **5.5 %**

DECREASE IN TOTAL VOLUME OF WATER CONSUMPTION AT THE KIROVSK BRANCH OF APATIT

97.1 %

OUT OF THE TOTAL VOLUME OF WASTE WATER WITHOUT TREATMENT IS TREATED IN COMPLIANCE WITH REGULATIONS

ENERGY EFFICIENCY

81

GROSS VOLUME OF ELECTRICITY, kWh



HEATING ENERGY, Gcal



Improving production efficiency is a key element of the Group's strategy. The Company's efforts concern every aspect of the production process and are aimed at, among other things, ensuring efficient consumption of energy resources and developing its own power generation capacity. In order to improve energy efficiency, a system of resource-saving measures is being implemented across all the Group's enterprises, focusing on the following key areas:

- Increasing energy efficiency
- Expanding the Company's own power generation capacities
- Utilising heat—using the heat from gas-turbine exhaust gases for steam production
- Optimising energy resources

Electricity

PhosAgro used a total of 3,531 million kWh of electricity in 2017, an increase of 6% year-on-year, which was largely due to two factors: the launch of new capacities for start-up work on a new production site in Cherepovets, as well as increased fertilizer production.

In 2017, power consumption at the Group's key production sites—Apatit and the Balakovo branch of Apatit—amounted to 1,283 million kWh and 454 million kWh, respectively. At the same time, these facilities have their own power generation capacity. In 2017, Apatit and the Balakovo branch of Apatit produced 1,275 million kW, or 73.4%, of all the electricity they consumed.

Energy efficiency

PhosAgro's subsidiaries were 36.1% self-sufficient in electricity in 2017, which was achieved by recapturing heat from the production of sulphuric acid. In addition, the Company continues to implement programmes aimed at improving energy efficiency at all of the Group's enterprises. In particular, projects were implemented during the reporting period for the construction of a 25 MW steam-turbine plant and a boiler with a steam production capacity of 100 tonnes/hour.

5.3%

**YEAR-ON-YEAR DECREASE
IN PER-UNIT ELECTRICITY
CONSUMPTION**

36.1%

**PHOSAGRO IS PROVIDED
WITH ELECTRICITY FROM
ITS OWN SOURCES**

ENVIRONMENTAL REVIEW

continued

82

NATURAL GAS, m³

↑ 17%



Natural gas and fuel oil

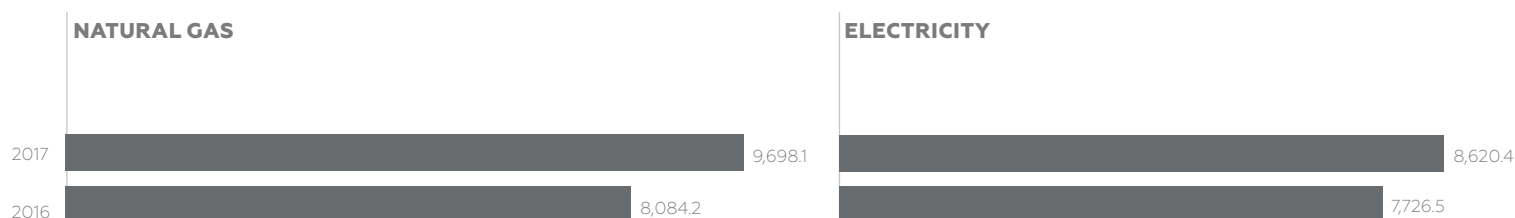
In 2017, PhosAgro's natural gas consumption increased by 17% year-on-year to 2,241 million cubic metres, which was largely because of the launch of new capacity for start-up work on a new ammonia production facility in Cherepovets, for which natural gas is a key raw material, and on a new urea production line. This made the Group completely self-sufficient in terms of ammonia consumption.

At the same time, natural gas consumption at the Balakovo branch of Apatit decreased by 2% year-on-year to 89 million cubic metres due to an increase in the volume of sulphuric acid production.

THE COMPANY'S CONSUMPTION OF NATURAL GAS INCREASED BY 17%, WHILE NATURAL GAS CONSUMPTION AT THE BALAKOVO BRANCH OF APATIT DECREASED BY 2% YEAR-ON-YEAR

COST OF ENERGY CONSUMPTION IN 2017¹

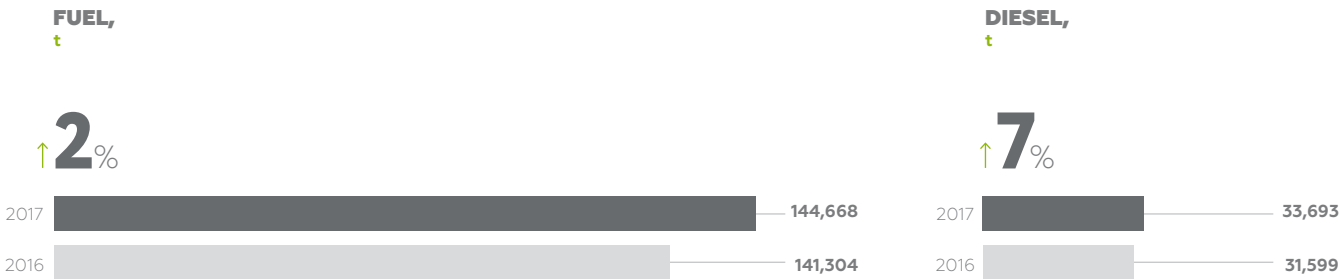
RUB mln



25,591 RUB MLN

COST OF ENERGY CONSUMPTION IN 2017

¹Including the cost of own produced energy resources

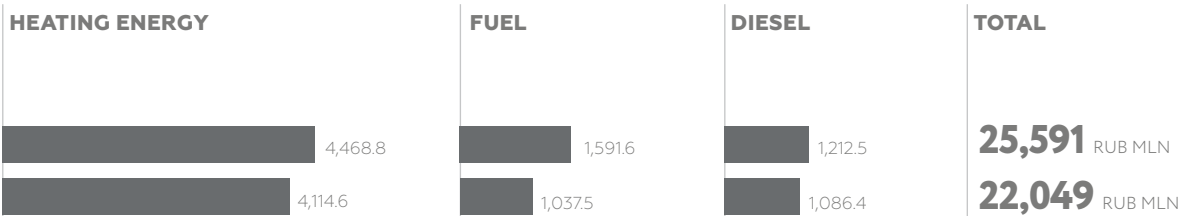


The consumption of fuel oil increased by 2% year-on-year to 145 thousand tonnes.

The Kirovsk branch of Apatit is the Company's only consumer of fuel oil. The increase in fuel oil consumption was a result of higher production volumes at Apatit's beneficiation facilities. Nevertheless, the Company noted that there has been a reduction in fuel-oil consumption since 2013, which is due to the optimisation of heating at Apatit's Vostochny mine, which involved the construction of two modular boiler rooms. As a result, the old fuel-oil boiler room at the Vostochny mine was decommissioned.

The consumption of fuel oil was further reduced by phasing out some infrastructure and closing the fuel-oil boiler room at the Tsentralny mine.

In 2017, the company completed work on the reconstruction of the GPP-5a main step-down substation, which made it possible to connect and start operations at the Ammonia-3 and Urea-3 plants (Cherepovets), as well as at the Kirovsk liquefied natural gas storage facility and 20 MW main ventilation plant.



OCCUPATIONAL HEALTH AND SAFETY (OH&S)

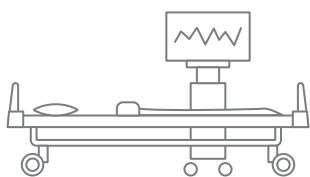
84

In 2017, the Company continued to improve its OH&S management system and saw significant achievements in reducing work-related accidents. On the whole, the Company saw a decrease in LTIFR from 0.52 in 2016 to 0.34 in 2017. The Company was able to achieve an even greater reduction in terms of work-related accidents in the Company's mining sector: at the Kirovsk branch of JSC Apatit, the reduction was 70%



5

**MINOR
INJURIES**



0

**SERIOUS
INJURIES**



1

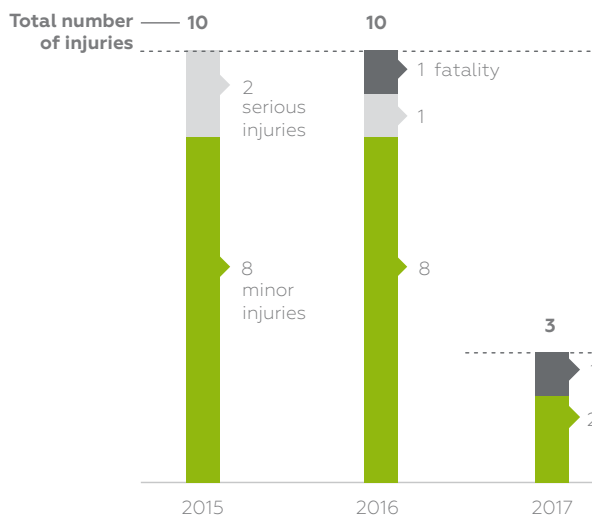
FATALITY

0.34

**LTIFR
(PER 1 MILLION
HOURS)**

NUMBER OF INJURIES IN THE KIROVSK BRANCH OF APATIT

IN ADDITION, IN 2017, ALL THE MINES BELONGING TO THE KIROVSK BRANCH OF APATIT WERE PROVIDED WITH ALL OF THE EQUIPMENT NEEDED TO SECURE THE MINE WORKS AND REINFORCE THE ROOFING



MINING SAFETY: AN AREA OF STRATEGIC IMPORTANCE

The significant reduction in the accident rate in the Company's mining sector was the result of ongoing efforts in 2017 to implement one of the priority areas in the Company's OH&S strategy adopted at the beginning of the year, i.e., to ensure mining safety. Work was carried out in two important areas covering both equipment and personnel.

In terms of equipment, this involved the application of approaches adopted in 2016 to ensure the safety and monitor the roofing of mining excavation sites. In 2017, the management and workers at the Company's mining subsidiary maintained their strict adherence to the Instructions for Securing and Monitoring the Roofing of Mining Excavation Sites at the Mines of the Kirovsk branch of Apatit, which were developed in 2016 in cooperation with Geotechnical Bureau LLC.

Thus, when installing anchorage (cables, polymer rods, self-locking anchors, cemented roof bolts), every mine aimed to strictly adhere to the established plan and, in some

cases, even tried to overfulfil it. The United Kirov Mine installed over 13,000 more anchorage points than the plan called for; the Rasvumchorsky Mine installed nearly 6,000 more polymer rods than the plan called for. The approach to roofing support that was developed in 2016 calls for the reinforcement of a sufficiently long stretch of mine works. As of the end of 2017, in accordance with the plan, about 3,500 metres still needed to be reinforced, and the completion of this work is planned for 2018.

In addition, in 2017, all the mines belonging to the Kirovsk branch of Apatit were provided with all of the equipment needed to secure the mine works and reinforce the roofing.

In terms of personnel and mine safety, the Company's efforts consisted in further involving senior and middle management, as well as workers, in actions related to ensuring safety. The Company conducted a large number of initiatives aimed at training and engaging staff.

On the subject of mining safety, the following achievements from 2017 should be mentioned:

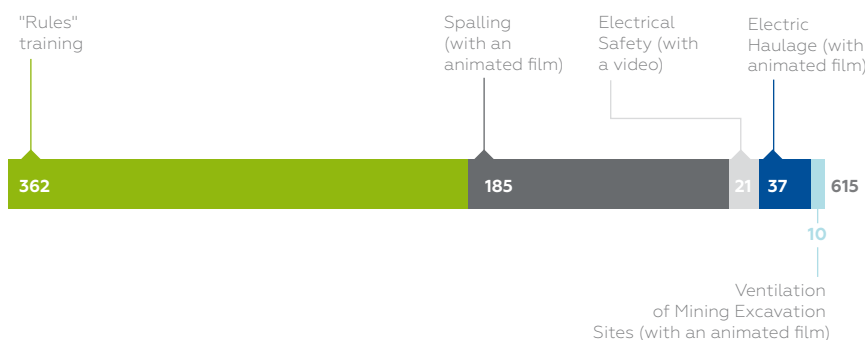
Training personnel through new internal training courses.

In 2017, the Company's training facility developed several internal training courses that were attended by a large number of managers, specialists and workers. For example, 362 employees of the Company's Kirovsk branch of Apatit took part in a "Rules" course, the purpose of which was to explain, through specific and practical examples, why rules exist in the workplace and in everyday life, how they are formulated and why it is important to be aware of them and to comply with them. In addition, four more internal training courses were developed, each of which was accompanied by a specially created animated film. These included courses on "Spalling", "Electrical Safety", "Electrical Haulage" and "Ventilation of Mining Excavation Sites".

NUMBER OF EMPLOYEES TRAINED THROUGH INTERNAL TRAINING COURSES IN 2017

70%

DECREASE THE NUMBER OF INJURIES IN 2017



OCCUPATIONAL HEALTH AND SAFETY (OH&S)

continued

86

Particular attention was paid to spalling.

Throughout 2017, particular attention was paid to increasing the awareness of employees working underground to the elimination of spalling. Spalling—pieces of rock that break off from the roof or walls of mine works—represents one of the greatest dangers when working underground. This happens rather frequently, and it is important for the Company that employees not turn a blind eye to this threat, so that workers are able to recognise spalling in the early stages of its formation and that they strictly comply with the rule prohibiting work in the vicinity of spalling. In 2017, a series of meetings were organised with mine workers for this purpose in which employees discussed, in a fairly informal atmosphere, their personal experience in recognising spalling and in preventing it from threatening their safety. Based on the results of these meetings, the Company published a brochure about 100 incidents involving spalling.

THE COMPANY IS PLANNING TO CREATE AND IMPLEMENT INTERNAL TRAINING COURSES IN THE FUTURE INCLUDING SEVERAL COURSES IN 2018

on work safety for shaft workers, work safety in open-pit mines, and on road safety in mines and quarries.

Regarding all of PhosAgro's divisions (mining, beneficiation, processing), the decision taken in 2017 to carry out comprehensive OH&S assessments in the Company's structural divisions should be highlighted. These assessments are conducted on a regular basis according to a schedule approved in advance, and with the participation of various experts. The structural divisions where such assessments are conducted benefit greatly from the fresh look taken by these experts. In addition, it was decided in 2017 that it would be mandatory to analyse the results

of these comprehensive assessments at all of the Company's divisions. The purpose of this analysis is to identify recurring violations and problems in comparison with previous assessments. When the same observations are repeated, this indicates that any corrective measures taken earlier were ineffective. Consequently, the corrective measures developed following the most recent assessment need be even more effective.

615
EMPLOYEES
TRAINED THROUGH
INTERNAL TRAINING
COURSES IN 2017

ROAD SAFETY

The activities of PhosAgro Group companies, just like those of any other large industrial companies, depend to a large extent on the safety of passenger and freight transport. This is a very important issue for PhosAgro Group companies right now. For example, all of the Group's chemical enterprises are located outside urban settlements, so staff members are transported to and from work by bus. This means that the safety of bus traffic on public roads is a very important aspect of ensuring safe, uninterrupted production. In addition, the safety of both passenger and freight transport on the grounds of the Group's companies is also important.

In 2017, the Company continued planned and systematic work to ensure the safety of road transport:

- Regular technical inspections of buses were carried out, including by a special mobile team.
- Drivers received special seasonal training prior to the start of the autumn-winter and spring-summer periods. These training sessions dealt with issues related to vehicle transport under changing conditions
- Compliance with safety rules when passengers were boarding and being dropped off on the grounds of the Kirovsk branch of Apatit was monitored on a regular basis. Selective monitoring was also carried out at bus stops outside the industrial site
- Plans for the safe movement of pedestrians and equipment on the grounds of certain structural subdivisions of Group enterprises were updated
- Plans for preparing equipment for the winter period at contractor organisations and subsidiaries were developed and implemented
- Monthly checks were conducted regarding compliance with traffic regulations on the grounds of structural units



IMPROVING THE QUALITY OF INTRODUCTORY BRIEFINGS

One of the areas that received increased attention in 2017 was the improvement of the quality of introductory briefings on occupational health and industrial safety for new employees of Group enterprises, as well as for employees of contractors before their admission onto Company grounds. This work was carried out in two areas: improving the quality of the content of briefing materials and improving the quality of the presentation of this information to listeners. Introductory briefings are the first stage in the interaction between new employees or contractors and the Company, and it is very important that, after an introductory briefing, employees are aware of and understand the main dangers they may encounter on the grounds of Company enterprises and that they also are aware of, understand and are ready to adhere to the necessary safety measures.

As a result of this work, several changes were made to the briefing programme and to the methods used to present materials:

- Added to the programme of introductory briefings was information on the most typical and most widespread violations of safety rules committed by both Company and contract personnel, as well as information on extreme cases involving the personnel of contract organisations that occurred on the grounds of Company enterprises. By having to contemplate this sort of information, listeners are forced to assimilate it much more carefully, and to picture themselves and their future workplace in light of it.
- Introductory briefings have to combine a prepared presentation, along with photo and video materials. Presenting the material in this way ensures that it is not monotonous, and it allows the instructor to react quickly if they lose their audience's attention or to answer questions that arise.

- The last stage of any introductory briefing is a short test intended to develop further interest in the material.

One of the themes of 2017 was the search for new solutions, including at chemical cluster enterprises. In particular, at the Balakovo branch of Apatit, a practice of holding so-called STOP-hours was introduced. These are short meetings where staff can identify and discuss the most dangerous locations in their structural unit. They also provide an opportunity to repeat the importance of compliance with safety rules when working at these sites.

OUR PEOPLE ARE THE KEY TO OUR SUCCESS

We create value for our employees and other stakeholders by investing in our people: PhosAgro aims to provide stable employment, safe working conditions and fulfilling job opportunities. We start at the level of primary school and continue to invest in our people throughout their careers with PhosAgro.



17,220

PEOPLE
TOTAL HEADCOUNT

89



Strategy highlights

Our people are our most important asset: without their hard work, we would not be able to achieve our strategic goal of creating shareholder value. Our recruitment and retention efforts help ensure that we have the right people for the job.

We aim to maintain our reputation as an employer of choice in the regions where we operate.

We use a KPI system to link executive remuneration to priorities like health and safety, as well as financial performance.

We strive to incentivise our staff by providing competitive wages, paying close attention to the conditions at our work sites and offering generous non-monetary benefits.

We rely on a talent pipeline of staff with the potential to take on leadership and/or more technically challenging roles to ensure our viability in the long term.

We help prepare future generations of PhosAgro employees by supporting school and university programmes that encourage students to pursue STEM studies.

We train our staff to prepare them to better navigate our ever-changing working environment.

Employment policy highlights

Our policy focuses on ensuring that our staff remain healthy and properly incentivised. In the coming year, we plan to reassess social benefits for the overall PhosAgro Group, as well as analyse the collective agreements of PhosAgro Group's main production facilities. Overall, our policy priorities in this area are as follows:

- We place an increased priority on preventive healthcare for our young and middle-aged employees who have been with us for at least two years
- We have begun moving towards a standardised collective agreement with our workers
- We support the participation of our staff in exercise and sports programmes with the aim of improving both their personal health and their work productivity
- We have analysed our accident and health insurance policies to develop a single approach and unified criteria for selecting providers
- We have revamped our recreational offerings for employees and their children
- We have worked to standardise the social policies of our subsidiaries

WAGE SYSTEM HIGHLIGHTS

Executive remuneration

The Company's wage and incentivisation policy is aimed at encouraging staff to increase their interest in performance and improve the quality of their work in order to achieve business goals by creating an effective remuneration system overall.

The Company's payroll system is in full compliance with labour laws. In addition, a package of compensation and benefits is available for certain categories of employees in accordance with best global practices, as well as additional compensation and benefits for valuable employees recruited from other cities.

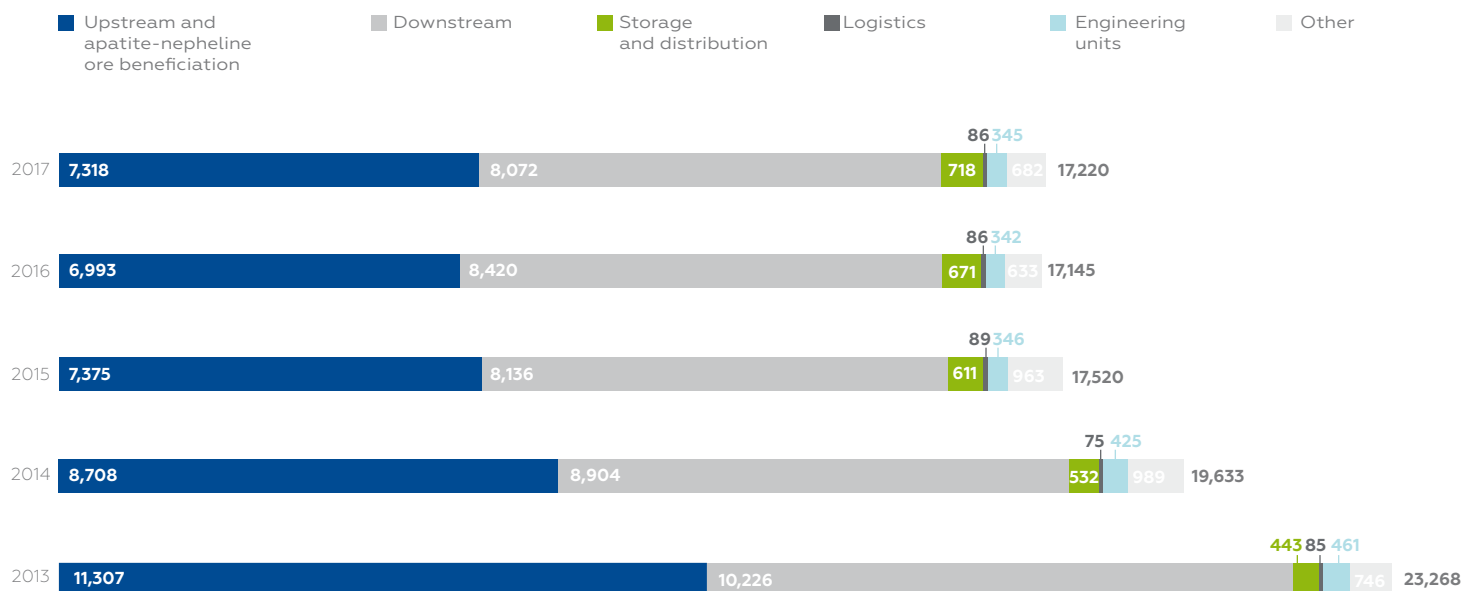
We introduced a KPI system in 2014, which began by linking top executive remuneration via a set of uniform standards to priorities like health and safety performance at PhosAgro's main production facilities, as well as at the management company and subsidiary levels. In 2016, we expanded the KPI system to encompass all PhosAgro subsidiaries, as well as additional categories of staff.

Since 2015, we have been introducing additional incentivisation programmes for employees of the main production facilities. Incentivisation schemes have been developed depending on the nature of production facilities' work cycle. At facilities requiring fast-paced output of a variety of products, incentivisation is aimed at reducing downtime, reducing the time required for transitions from

one product to another and increasing productivity. For other facilities, incentivisation programmes are aimed at preventing unplanned shutdowns. In addition, the Company introduced an incentivisation scheme for maintenance staff that is focused on increasing the availability of equipment and improving the quality of repairs and the fulfilment of production plans. The goals of individual units provide the basis for the structure of incentivisation schemes: for procurement, this means a price-cap index and timely deliveries; for logistics, it means cost reductions for domestic logistics or exports, etc.

Incentivisation schemes for stakeholders in both organisational and investment projects have been introduced and are constantly being improved.

PERCENTAGE OF STAFF



In 2017, for example, work began on the introduction of KPIs for production workers. This new incentivisation scheme is an integral part of the development of the Company's business system, based on building a culture of continuous improvement in all aspects of the Company's activities, including the achievement of strategic goals, by involving production personnel in improvement processes. Every one of our employees should think about not only how to make their own process more efficient, but also to work with the Company to achieve the same goals. For this purpose, the executive director's performance is broken down from top to bottom: production managers - site managers - shift personnel. The new incentivisation scheme is clear for staff at any level: how additional effort on the part of every employee during their shift affects the achievement of the Company's goals.

Employee benefits

We strive to motivate our staff by providing competitive wages, paying close attention to the conditions at our worksites and the quality of our employee dining facilities, as well as by offering generous non-monetary benefits like corporate medical, rest and recreation programmes for employees and their family members. In addition, our staff enjoy private pension plans, housing programmes, corporate sport facilities and numerous sporting and cultural events.

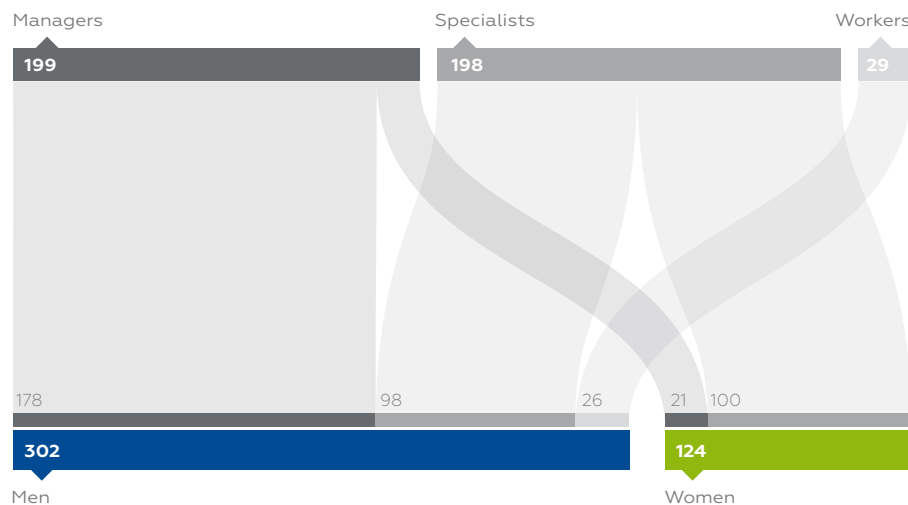
Communication and feedback

We have a multichannel communication and feedback programme that allows employees to address employment-related or other issues. The formats include Q&As in the corporate newspaper, town-hall meetings for staff and management and an anonymous whistle-blower hotline, allowing staff to choose from various degrees of anonymity when deciding how to raise an issue.

Our employees also use the corporate intranet for internal messaging, receiving announcements, planning and accessing informational resources.

PERCENTAGE OF STAFF PARTICIPATING IN PERIODIC PERFORMANCE AND CAREER DEVELOPMENT ASSESSMENTS, BROKEN DOWN BY SEX AND EMPLOYEE CATEGORIES, 2017.

3.5%
OF EMPLOYEES
**TOOK PART
IN PERIODIC
PERFORMANCE AND
CAREER DEVELOPMENT
ASSESSMENTS USING
THE KPI SYSTEM**



Training and development

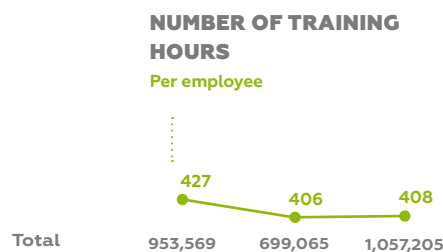
We rely on a talent pipeline of staff with the potential to take on leadership and/or more technically challenging roles to ensure our viability in the long term. Our focus on training and developing our people also helps us hedge against a potential shortage of talent in the future. One aspect of this that we prioritise is including schools, universities and our own staff programmes in our recruitment and training initiatives.

PhosAgro Classes

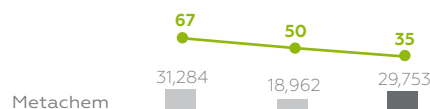
Our PhosAgro Classes initiative encourages school students in the regions where the Company operates to pursue STEM (science, technology, engineering and mathematics) studies. The programme's annual budget totals more than RUB 20 million.

We implement a unique multistage programme for personnel training and development: from classroom education with in-depth study of STEM subjects (PhosAgro Classes) to executive mentoring, professional training and development. We are thus able to create a talent pipeline of staff with the potential to take on leadership and/or more technically challenging roles to ensure our viability in the long term. Our focus on training and developing our people also helps us hedge against a potential shortage of talent in the future, especially in areas where it can be difficult to find candidates with the skill sets that we need.

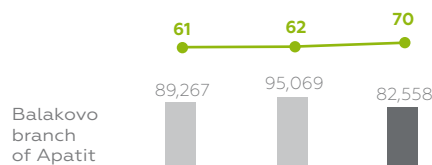
An interactive educational centre called Green Planet was opened at the Cherepovets site on 27 May 2017. The centre's goals are as follows:



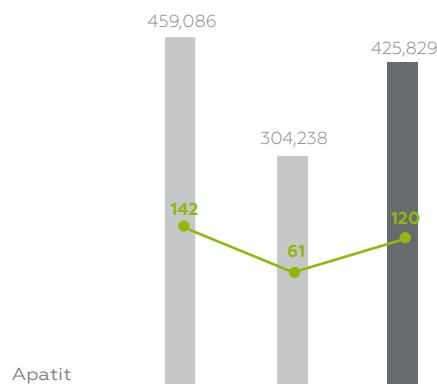
Total 953,569 699,065 1,057,205



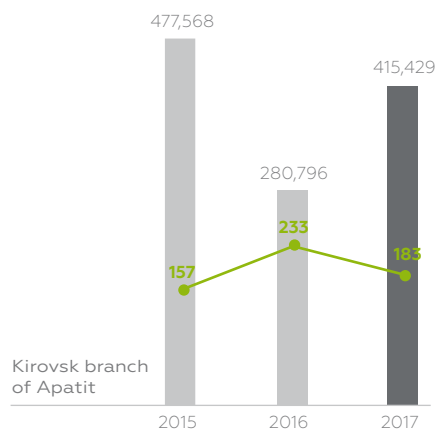
Metachem



Balakovo branch of Apatit

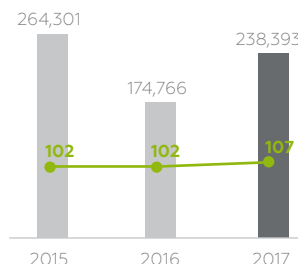


Apatit



Kirovsk branch of Apatit

GROUP AVERAGE



>953,000

THE TOTAL NUMBER OF TRAINING HOURS UNDERTAKEN THROUGH THE PERSONNEL DEVELOPMENT PROGRAMME

≈120

HOURS PER EMPLOYEE

For comparison: in 2016, the total number of training hours came to 700,000, which was an average of 102 hours per employee. The total number of training hours increased compared to the previous year due to the construction of new production facilities, the introduction of new training programmes to improve the culture of workplace safety and the development of lean production tools.



- Professional orientation;
- Increasing the prestige and attractiveness of both blue-collar and engineering professions;
- Environmental education, production and educational tourism;
- Exhibitions on PhosAgro's history and success, and also about our social responsibility in the cities where we operate.

Exhibitions have included the following topics:

- Human beings and the planet
- A fertile planet is our good fortune
- From the depths of the Earth
- Fertilizer production
- PhosAgro fertilizers: from factory to field
- PhosAgro: the path to leadership
- The people of PhosAgro
- Science, engineering and the environment
- Interactive laboratory

- Interactive garden

The centre offers both educational (on various subjects) and entertainment activities. Its entertainment programmes include:

- Quest: The Environmental Path (12+)
- Quest: The Cheerful Alphabet (in English) (10+)
- Quest: Read and Write in PhosAgro Country (5+)

In total, 10,128 people visited the centre in 2017, including 6,808 schoolchildren, while the remainder were adults. The centre hosted 544 events, including 68 quests and 476 sightseeing tours.

High-Potential Graduates

We build upon the foundation laid by PhosAgro Classes by partnering with universities through our High-Potential Graduates programme as an avenue to better reach university students interested in working at PhosAgro. We offer programme recruits a competitive salary, as well as relocation and housing support, and we assign them a mentor upon their arrival at PhosAgro. The programme's key tasks are to prepare a talent pipeline for key positions within the Company and to identify key areas and career paths for talented young specialists so as to prepare future executives.

Professional training and development

We use our Phosagro Education Centre to help our staff prepare for both external (legislative/regulatory) and internal (related to optimisation, changes to production or business processes) changes. The Centre helps run our long-term HR initiatives, like PhosAgro Classes, High-Potential Graduates and the Staff Reserve programme, and it holds competitions for professional skills and young managers.

Professional management training

This programme includes training and development courses for groups of 14-16 employees on the following topics:

- personnel management, planning, goal setting, organisational activities and oversight
- results-oriented work styles
- management skills
- decision-making
- effective communication
- leadership and building relationships
- organisation and management
- mentoring

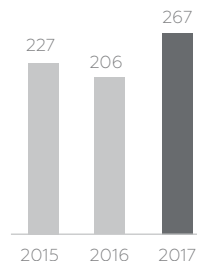
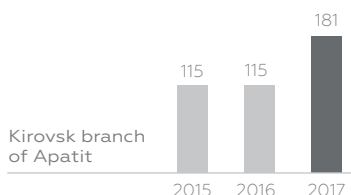
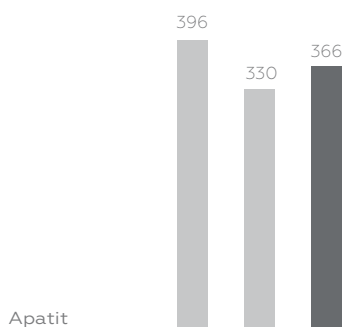
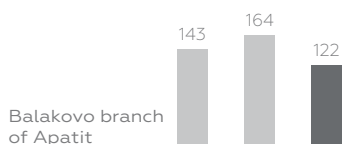
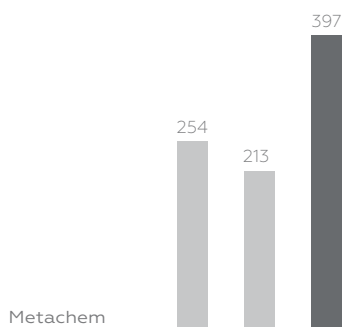
Staff Reserve

PhosAgro relies on its Staff Reserve initiative as a means of identifying talented staff with the potential to expand their roles and step into more senior positions, and by providing additional training to help them achieve these goals. The programme includes management training courses on personal and business skills like decision-making, leadership and delegation, conflict management, project management, communication skills and staff mentoring.

NUMBER OF WORKERS PARTICIPATING IN PROFESSIONAL TRAINING PROGRAMMES

GROUP AVERAGE

Total **908** **822** **1,066**



1,066
EMPLOYEES PARTICIPATED IN TRAINING PROGRAMMES IN 2017 (COMPARED TO 822 EMPLOYEES IN 2016).

The increase was due to the need to train personnel on the development of the production system and to improve the culture of safety at the Company.

Equal opportunity

We pride ourselves on being an employer of choice in the regions where we operate, and our equal opportunity programme is one of the cornerstones of our reputation. We take a straightforward approach to equal opportunity: we strive to select the best person for each role without regard to gender, sexual orientation, religion, ethnicity or race. We take our obligations under Russian federal and regional laws seriously, which stipulate a business's social responsibilities and obligations to its employees. This includes not using child or forced labour and ensuring that our staff have the right to exercise freedom of association and collective bargaining.

How we measure success

To further develop our employees' personal and professional skills in 2018, we plan to hold workshops on cross-functional training, proactive thinking, change management and time management.

We also plan to focus on our staff's professional development via the following initiatives:

- Strategic sessions on the development of PhosAgro's business system
- Training activities on the use of lean production tools
- A repair safety course for employees of PhosAgro facilities, subsidiaries and contractors
- Continuation of the training programme for users of the new Oracle system
- A training course for HSE staff
- Training on creating and conducting presentations
- Training on cross-functional collaboration

NUMBER OF TRAINING COURSES AT- TENDED

Total **8,342** **7,599** **9,056**

Metachem 470 157 103

Balakovo branch of Apatit 1,602 1,622 1,360

Apatit 3,233 4,560 5,133

Kirovsk branch of Apatit 3,037 1,260 2,910

GROUP AVERAGE

2,086 1,900 2,377

2015 2016 2017

9,506
TRAINING COURSES
**ATTENDED BY
PHOSAGRO
EMPLOYEES IN 2017**

which surpassed the results for 2016 (7,599 courses). The increase was the result of the need to train personnel on the development of the production system and to improve the culture of safety at the Company.

TRAINING AND DEVELOPMENT

PHOSAGRO CLASSES



A total of 250 students took part in the PhosAgro Classes programme in 2017, all of whom excel at, and are interested in studying chemistry, physics, mathematics and computer science. The programme graduated 125 students from five schools in 2017, 56% of whom went on to join technical degree programmes with a potential career track with PhosAgro. Another 16% were accepted into universities on sponsored placement programmes.

Our annual goal remains to have 125 participants join PhosAgro Classes in the five schools in five Russian cities where we run the programme. We hope that 50% of these students will join PhosAgro by 2021.

HIGH-POTENTIAL GRADUATES



PhosAgro recruited 44 young specialists under the High-Potential Graduates programme in 2017. This brought to 234 the total number of graduates who have joined the Company under this programme since its inception in 2012. A total of 185 of these employees are still with PhosAgro today, pursuing careers in mineralogy, geology, hydraulic engineering, chemistry, thermal energy and electricity production, rail transport, open-pit and underground mining, and mine surveying.

Of the programme participants still employed with PhosAgro, a total of 37% had received promotions and/or had been included in the Staff Reserve as of December 2017, and many of them had successfully completed the projects that they were entrusted with when they joined the Company.

ORACLE 12



Throughout 2017, the Company conducted a series of training courses and seminars for key users of the Oracle 12 system. Users were trained in a number of areas: information system administration, finance and accounting, purchasing and inventory, production, organisational change, projects and contracts, repairs, sales, budgeting and costs, management reporting, integrated planning, trading, regulatory and reference information, development. Company executives also took part in the training courses.

CROSS-FUNCTIONAL TRAINING



Throughout 2017, more than 100 PhosAgro employees took part in the first programme on the application of lean production tools. The goal of the programme was to develop PhosAgro's business system, to change the Company's approach to the performance of standard operations and the way of thinking of the majority of production personnel. The course included a section on the continuous improvement of production efficiency.

Development of a Culture of Safety

A project called "Development of a Culture of Safety" was implemented in 2017 in order to increase accountability among technical and engineering personnel employed in production units, as well as to reduce the accident rate and increase the accountability of employees for compliance with safety regu-

lations. As part of the project, work was carried out on the creation of a training video on workplace safety, and training programmes were also developed and implemented. The training video included animated content and video footage on the topics "Formation of Spalling", "Electrical Safety", "Electrical Haulage" and "Ventilation of mining excavation sites", which were also used directly as part of the training. More than 600 people took part in the project. Employees who underwent training developed skills in the use of modern methods and tools for preparing instructions. They also came to realise the need to fine-tune instructions with the help of modern teaching methods so as to become consciously aware of the rules regarding their own safety and that of their co-workers.

OTHER PROGRAMMES



Other key training and development events in 2017 included:

- In June, a comprehensive assessment was carried out of the professional competencies of all Company employees involved in making and verifying cost estimates. Based on the results of the evaluation, candidates for the staff reserve were identified; a professional training programme was also developed and implemented for employees.
- A series of training sessions on developing and conducting presentations was held in which more than 60 people took part.
- Orientation seminars for new employees continued to be held on an ongoing basis. Participation in these seminars helps new employees become familiar with the Company and the production site. It also provides them with interesting details about the principles of working with personnel, the Company's social policy and other aspects.

SOCIAL INVESTMENT

- 98 PhosAgro carries out charitable activities and community investment programmes primarily in the Murmansk, Vologda, Saratov and Leningrad regions, as well as in the Central Federal District.



The purpose of these activities is to promote sustainable socio-economic development in regions where the Company operates (para. 1.2 of the Policy on Charitable Activities of JSC Apatit and of Managed Companies).

TO ACHIEVE THIS GOAL, THE COMPANY HAS SET THREE MAIN TASKS FOR ITSELF:

- 1** To assist the authorities and local self-government in **creating modern social infrastructure in the cities where the Company operates** (providing equipment for health facilities, assisting with the development of municipal services, building and/or renovating sport and leisure facilities, etc.).
- 2** To develop and implement projects for **children and young people**: educational projects related to vocational guidance, the study of technology and engineering, further education and the preservation of cultural heritage, healthy lifestyles.
- 3** To support **vulnerable segments of the population**, helping them in terms of treatment, development and obtaining the assistance they need.

The Company implements charitable activities on account of the public benefit it brings, as well as on the basis of its partnership with state authorities and local self-governments, with the local community and civic organisations, with educational institutions and with other stakeholders.

The Company's charitable activities are carried out in accordance with the Federal Law on Charitable Activities and Charitable Organisations and the Federal Law on Advertising and on the basis of its own bylaws.

Company bylaws:

- Code of Ethics of PJSC PhosAgro;
- Code of Ethics of JSC Apatit;
- Codes of Ethics at every company managed by Apatit;
- Policy on Charitable Activities of PJSC PhosAgro, of JSC Apatit and of the companies managed by JSC Apatit;
- Rules for the Provision of Charitable Assistance by JSC Apatit and the Companies It Manages;
- Regulation on Interaction between Structural Divisions and on the Processing of Documents of JSC Apatit and Managed Companies for the Provision of Charitable Assistance.

All of the above-mentioned documents are public and are posted on the Company's website except for the Regulation, which concerns the administration of activities, and the Code of Ethics, which is available to every employee on the Company's intranet.

To ensure that the funds allocated for charitable activities are spent as efficiently and effectively as possible, the Company has identified priority areas where charitable assistance is possible:

- social support and protection of citizens, including improving the financial situation of the poor, social rehabilitation for the unemployed, the disabled and others;
 - support for education, science, culture, art and spiritual growth;
 - support for preventative care and public health, as well as promoting healthy lifestyles and improving the psychological well-being of citizens;
 - support for physical education and sport (not including professional sports);
 - promoting volunteerism;
 - promoting the patriotic, spiritual and moral upbringing of children and adolescents;
 - the protection and proper maintenance of buildings, facilities and territories of historical, religious, cultural or environmental significance, including burial sites.
- (para. 4.2 of the Policy on Charitable Activities)

SOCIAL INVESTMENT

continued

100

Management of the system of charitable activities:

Preferring to have an independent administration for its charitable activities, the Company established a unit called the Office for External Communications.

At the companies managed by JSC Apatit, there are enough highly qualified specialists to monitor the implementation of programmes in the area of finance, economics and social policy.

The budget for charitable projects is established every year as part of the unified budget planning process and is approved by the Company's Management Board.

In accordance with the Company's Policy on Charitable Activities, the main criteria for the selection of projects are as follows:

- the aim of the project should be to provide support to particular groups in society, civic organisations or charitable foundations;
- the project should not contravene the principles or requirements of the Company's policies or other bylaws;
- the project must not be a tacit payment for a service, action, inaction, collusion, patronage, or other unlawful advantage provided to the Company or its partners.

New projects are considered by the Company's Management Board in accordance with the procedure established by the internal regulations.

Every year, the Management Board reviews the results of activities in this area and decides whether to continue supporting a programme or project or to discontinue its support.

New projects may be proposed for consideration as follows:

- upon the proposal of Company experts for the creation of favourable conditions in the cities where the Company operates (training professional personnel, support for veterans' organisations, planting trees, breeding juvenile fish, etc.);
- following public hearings;
- based on agreements discussed with state authorities and local self-government;
- on the basis of opinion surveys;
- based on meetings between Company executives and representatives of civic organisations.

Financing is launched for new projects on the basis of a Management Board decision. An essential factor in making a decision is the availability of partners (state authorities, local governments, non-profit organisations, etc.).

The provision of targeted assistance and work involving appeals from private individuals is carried out pursuant to a decision of the Commission for Charitable Projects at every Company enterprise, within the limits of the funds budgeted for such purposes. Decisions to allocate funds are documented in the minutes of Commission meetings.

THE MAJORITY OF CHARITY PROJECTS ARE LONG-TERM

COMMISSION FOR CHARITABLE PROJECTS

Management Board and CEO

- Executive body
- Take decisions on financing and support for projects and programmes in the areas of charity, sponsorship and community investment after reviewing reports (within the limits of the allocated funds).

Deputy CEO

- Provides leadership and coordination in the areas of charity, sponsorship and community investment.

The Office for External Communications

- Initiates regulations, prepares and processes all information on projects being implemented, and organises public hearings, sociological studies, etc.

The Department for Social Development at each of the Company's enterprises

- Handles the technical work: agreeing contract terms, transferring funds, verifying reports from the beneficiaries.

The Commission for Social Issues and Charity at each of the companies managed by JSC Apatit

- Considers new applications, checks and processes documents, and makes proposals for support within the limits of the funds allocated for these purposes for each of the Company's enterprises.

List of community investment programmes

The majority of programmes are implemented in partnership with regional government authorities and local self-government, since the state is the most reliable partner.

Some projects are implemented through established autonomous non-profit organisations with the participation of state and local self-government bodies and the participation of the Company itself.

The Company has established programmes that involve specific goals and objectives (see the Company's website, phosagro.ru).

At present, the horizon for planning charitable activities is from one to two years. Responsible managers are assigned to every programme and project pursuant to the local regulations of the Company's enterprises, since all programmes are replicated in the regions where the Company operates.

The following activities are carried out to evaluate the effectiveness of programmes and projects:

- opinion surveys involving external professional experts from among the beneficiaries, civil society, state authorities and local self-government;
- internal opinion surveys among Company managers of various levels and ordinary employees;
- programme and project managers assess the activities and their impact on the beneficiaries;
- public hearings in the cities where the Company operates;
- an annual review of the results of charitable activities at a meeting of the Company's Management Board.

**ALL PROGRAMMES
ARE REPLICATED
IN THE REGIONS
WHERE THE COMPANY
OPERATES**

101

2017 RESULTS:**SOCIAL DEVELOPMENT IN THE REGIONS
WHERE THE COMPANY OPERATES**

667.6

**EDUCATION
AND YOUTH SPORT**

425.9

**SPIRITUAL
RENEWAL**

316.4

OTHER

161.1

1,571

RUB MLN

**THE TOTAL AMOUNT OF THE CONTRIBUTIONS
FOR SOCIAL NEEDS AND CHARITABLE
ACTIVITIES IN 2017**

102 PhosAgro's business conduct policy framework and management procedures are based on best practice standards.

HIGHLIGHTS OF THIS FRAMEWORK INCLUDE:

- Our Government Relations Policy dictates that PhosAgro's relationships with government bodies and representatives must be legal and ethical, and based on principles of fairness and partnership. In accordance with this policy, interactions involving government bodies should only relate to PhosAgro's strategic or operational matters.
- Our Provision on Conflicts of Interest establishes rules for identifying and addressing potential conflicts of interest.
- Our Anti-corruption Policy states that our directors and senior management must adhere to high standards and set an example for the entire business. It commits all employees to a zero tolerance approach to corruption.
- Our Code of Ethics specifies the rules for relationships with stakeholders ranging from employees, shareholders, government officials and NGOs to customers, suppliers and other business partners. It commits PhosAgro to engaging with stakeholders in a fair and proper manner.
- PhosAgro's Charity Policy commits us to supporting sustainable development in the regions where we operate. PhosAgro's charitable giving is based on the following principles: it must address a clear need and be used for clear purposes, the use of funds is closely monitored, and transparency and disclosure of information must be ensured. We do not engage in charitable giving to representatives of the Government, to political parties or movements, or to commercial organisations. This policy sets priority areas for charitable giving, including education, sport, health and well-being, and vulnerable members of society such as veterans and the elderly.
- PhosAgro does not participate in political activities or provide financial support to political organisations.

EVERY NEW EMPLOYEE MUST COMPLETE AN INTRODUCTORY COURSE ON CORPORATE CONDUCT AND THE KEY PROVISIONS OF COMPANY REGULATIONS IN THIS AREA

SYSTEM HIGHLIGHTS

- PhosAgro has in place a whistle-blowing procedure that includes a telephone hotline. In order to provide open access to the hotline, information on all available channels of communication is posted on the Company's public website and on its intranet portal. Any employee has the right to inform the hotline about evidence of corruption; violations of the rules of the Company's internal regulations; evidence of potential and/or real conflicts of interest; on violations of workplace health and safety, environmental, and any other Company policies.
- All employees receive regular training and undergo testing on preventing corruption as part of a company-wide process. This exercise aims to build an understanding of the importance of preventing corruption and of maintaining a culture of corruption avoidance throughout the business.
- Apatit maintains a Commission for Combating Fraud and Corruption and Regulating Conflicts of Interest. Commission members are appointed by the Chief Executive Officer. The main objectives of the Commission are to prepare proposals for the implementation of policies to combat fraud and corruption, the preparation of proposals and recommendations for the resolution of conflicts of interest. As part of the implementation of measures to resolve conflicts of interest, the Company's employees are required to disclose, in a timely manner, information on the existence of a real or potential conflict of interest in the performance of their duties. The Company organises annual filling of a declaration of conflict of interests by employees.

**THE COMPANY STRIVES
TO ENSURE THAT 100% OF
ITS SUPPLIER CONTRACTS
INCLUDE ANTI-CORRUPTION
CLAUSES**

STAKEHOLDER ENGAGEMENT

104

We create long-term value by building solid and sustainable relationships with our stakeholders. PhosAgro aims to engage in a strategic way with the groups that are affected by our business or may impact it. Our ability to understand and respond to stakeholders' evolving expectations helps us to create a sustainable and strong company.

INVESTMENT AND FINANCE COMMUNITY

WHY WE INTERACT



To facilitate an understanding of the long-term sustainability and potential value of PhosAgro



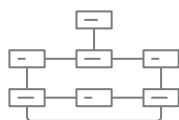
To communicate updates on PhosAgro's strategic priorities and progress we have made



To improve liquidity, share price and borrowing costs by attracting a wider pool of investors



To expand the Company's access to a variety of capital market instruments



To explain how our corporate governance systems work



To generate new ideas through a dialogue with investors

HOW WE CREATE VALUE

We continue to implement a generous dividend policy (the volume of dividend payments to shareholders based on the company's performance in 2017 **RUB 10.5 billion** or RUB 27/GDR).

Free float increased to **25.87%** following the Company's SPO.

MSCI Russia index weighting increased.

ADTV in 2017 was **USD 5.7 million up by 6%** compared to 2016.

We have received investment-grade ratings from **Standard & Poor's, Fitch and Moody's** (after the reporting date).



HOW WE INTERACT

- Roadshows
- One-on-one meetings with investors
- Investor conferences
- Conference calls on financial results
- Perception studies
- Ongoing engagement with analysts
- Regulatory press releases
- AGM and formal reporting
- Corporate website
- Maintain a dedicated in-house investor relations team
- Three independent non-executive directors on the Board of Directors ensure that the interests of shareholders are represented

PERFORMANCE IN 2017

Conducted four non-deal roadshows with Company management in key financial market centres, including Frankfurt, Vienna, Paris, Warsaw, Copenhagen, New York, Boston, London, Amsterdam.

Held over 200 one-on-one and group meetings with investors and analysts

Organised four conference calls and webcasts for analysts and investors to discuss the Company's financial results

Distributed over 200 mandatory press releases in the Russian Federation via the corporate information disclosure centre and Interfax

Disclosed 52 press releases via the UK regulatory news service

>200

MEETINGS WITH INVESTORS
AND ANALYSTS

**WERE HELD AT INVESTMENT
CONFERENCES**

4

NON-DEAL ROADSHOWS

**WERE CONDUCTED WITH COMPANY
MANAGEMENT IN KEY FINANCIAL
MARKET CENTRES**

STAKEHOLDER ENGAGEMENT

continued

106

REGIONAL GOVERNMENTS AND LOCAL COMMUNITIES

WHY WE INTERACT



To ensure that we act as a good neighbour



To support the sustainable socio-economic welfare of the regions where we work



To address community needs, including social or environmental concerns



To promote the health and well-being of the communities where we operate



To maintain a dialogue around government policies or potential regulatory changes that may affect our business



To improve social infrastructure and implement partnerships with regional authorities

HOW WE CREATE VALUE

We help ensure that **the local communities** that supply the workforce for our production sites **are healthy and well-educated**.

We pay taxes into local and federal budgets.

We help improve **comfort and quality of life of community residents** by cooperating with local and regional governments in priority areas of development.

We invest in **the long-term economic sustainability of mono-towns**, help diversify the economy and support the creation of new jobs that are not directly dependent on PhosAgro.



For more information, see the Social review section of this report on page 98–101

1.5 RUB BLN

SPENT ON SOCIAL PROGRAMMES AND CHARITABLE GIVING

9 PUBLIC HEARINGS

HELD FOR LOCAL COMMUNITIES REGARDING PHOSAGRO'S OPERATIONS AND DEVELOPMENT PLANS

HOW WE INTERACT

- Implementing environmental programmes
- Implementing cooperation agreements with regional governments based on regional development needs
- Supporting social and sporting organisations
- Sponsoring PhosAgro Classes to promote advanced chemistry education for school-aged children
- Implementing university scholarship and recruitment programmes aimed at encouraging the study of chemistry
- Implementing the Healthy and Educated Children of Russia programme
- Developing of sports in the regions where the Company is present
- Organising recreational activities for workers and their families
- Providing for medical treatment for employees, and funding medical infrastructure for the residents in the regions where we operate
- Providing for education and development of moral, spiritual and patriotic values and traditions for the younger generation
- Developing programmes to protect the socio-economic rights of veterans, and providing material assistance to participants and veterans of World War II and members of their families
- Holding regular meetings with government and community representatives
- Investing in universities and technical colleges that provide education relevant to people seeking careers at PhosAgro

PERFORMANCE IN 2017

Participation of the head of the Federal Service for Supervision of Natural Resources, Artyom Sidorov, in the opening ceremony dedicated to the commissioning of new biological and chemical water treatment facilities with a capacity of 10,000 m³ per day at Apatit

Organised the Green Marathon, an environmental event with municipal civic organisations

Organised the Regulation of Greenhouse Gas Emissions conference at Apatit as part of the Vologda Region Climate Week

Conducted an event dedicated to the Year of the Environment, i.e. the release of stock fish into the Volkhov River

Conducted citywide events dedicated to Chemist's Day in the regions where the Company operates

As part of the implementation of its Social Responsibility Policy, the Company assisted the administrations of the cities where it operates in addressing the deficit of specialised doctors

Since 2016, PhosAgro has been cooperating with the Bakulev Hospital of the Ministry of Health of Russia in a programme aimed at improving health and reducing the death rate of the Russian population from cardiovascular diseases

Activities dedicated to the consecration of the Azov temples: the church of St Barbara the Great Martyr at the phosphate facility, the temple of the holy prophet Elisha at the nitrogen facility, the temple of the healer Panteleimon at the Sosnovka recreation centre

The Governor of the Vologda region, Oleg Kuvshinnikov; the head of the city administration of Cherepovets, Maragarita Guseva; and the Mayor of Cherepovets, Elena Avdeeva took part in a meeting of Apatit employees dedicated to summarising the production and economic results of the enterprise in 2017

Participation in the international scientific and practical conference "Worthy Shift" (staff recruitment)

STAKEHOLDER ENGAGEMENT

continued

108

EMPLOYEES AND TRADE UNIONS

WHY WE INTERACT



To promote a corporate culture that is aligned with PhosAgro's strategic goals



To ensure that employee motivation is appropriate and effective



To provide meaningful social guarantees for current and retired employees



To maintain constructive relationships with trade union organizations and employees



To use human resources responsibly and effectively



To provide relevant professional development opportunities for our employees



HOW WE INTERACT

- Collective agreements negotiated with trade union organizations incorporating conditions and compensation for employees (usually for three-year terms, entered into with each of our production entities)
- Trade union organizations continue to engage in the development of PhosAgro's workplace health and safety programmes
- Collaboration with trade union organizations, including sporting and cultural events, joint participation in workplace health and safety committees, nomination of workplace health and safety representatives and participation in health and safety workshops
- Employee development programmes, including our Staff Reserve Programme
- Employee surveys, presentations, bulletin boards, intranet and corporate newspapers
- Meetings with general directors of production sites and management responsible for social and HR issues together with trade union organization representatives
- Whistle-blower hotline: dedicated email addresses for complaints, telephone hotlines for inquiries about social issues, reporting violations

PERFORMANCE IN 2017

Signed collective agreements negotiated with trade unions at Apatit and Metachem

Trade union organizations, with the support of PhosAgro, arrange the following events annually:

- PhosAgro Stars Festival;
- Company-wide sporting competitions; professional skills competitions (including welding, lathe turning and electrical work);
- professional development workshops on topics like workplace health and safety, and management skills

General directors and HR personnel at production facilities, together with trade union organizations, regularly meet with employees; every corporate newspaper provides contact information for feedback, and in the event of a violation of Company rules, employees are encouraged to call dedicated hotlines

HOW WE CREATE VALUE

By providing fulfilling careers that **reward, recognise, motivate and develop our people**, we create a sustainable business that is a global leader in its sector; we deliver training programmes to help employees meet their personal career goals and benefit the Company.

0.34

LTIFR IN 2017



For more information, see the People review section of this report
on page 98–101

STAKEHOLDER ENGAGEMENT

continued

110

MEDIA AND THE GENERAL PUBLIC

WHY WE INTERACT



To develop and protect PhosAgro's reputation among all of its stakeholders



To enhance the public's perception and understanding of the Company



To inform stakeholders about the Company's plans, performance and priorities



To promote understanding of the role of mineral fertilizers in supporting global food security



HOW WE INTERACT

- Media relations, including regular meetings and briefings with journalists, access to senior management, site tours for press and press releases
- Attend public hearings exhibitions and congresses
- Corporate website, social media

PERFORMANCE IN 2017

Published four weekly newspapers at production sites and the monthly corporate newspaper

PhosAgro and its subsidiaries published over 230 press releases

Domestic and international media mentioned PhosAgro over 20,000 times

The CEO of PJSC PhosAgro conducted regular meetings and interviews with Russian and foreign journalists, providing expert comments on important Company and industry events to leading publications in Russia, Europe, Latin America and the United States

The CEO of PJSC PhosAgro spoke with press as part of various domestic and international events, including the St Petersburg International Economic Forum, the World Economic Forum in Davos, the International Fertilizer Association conference, the Sochi International Economic Forum and other industry and investment conferences

The CEO of PJSC PhosAgro participated in international and regional industry conferences

The CEO of PJSC PhosAgro maintained membership in Russian and international professional associations (Andrey Guryev was elected President of the Russian Association of Fertilizer Producers and was reappointed as the Vice President for Eastern Europe and Central Asia of the International Fertilizer Association)

Organised PR support for a variety of corporate events, awards and investments during the year

HOW WE CREATE VALUE

We **protect the reputation of our Company** and make sure the public is informed about our activities.

> **230**

PRESS RELEASES
**WERE PUBLISHED
BY PHOSAGRO
IN 2017**

STAKEHOLDER ENGAGEMENT

continued

112

BUSINESS PARTNERS

WHY WE INTERACT



To support consumer health



To promote an understanding of major issues affecting the fertilizer and mining industries



To establish a business relationship built on trust and respect



To ensure a mutual understanding of obligations and expectations of the relationship



To inform partners about PhosAgro's safety, corporate conduct and other policies that affect relationships with business partners



HOW WE INTERACT

- Contracts and agreements
- Cooperate with other interested parties to promote a joint position on issues affecting our industry
- Support for international applied research and sustainability projects
- Negotiations with consumers, publications and distribution of advertising materials
- Membership in industry associations

PERFORMANCE IN 2017

Participated in 20 domestic and international professional associations

Participated in a conference to award grants given out under the PhosAgro/UNESCO/IUPAC Green Chemistry for Life programme sponsored by PhosAgro to support promising projects by young chemists

HOW WE CREATE VALUE

We are a **reliable partner and a sought-after client** within our industry.

We implement **best practice policies in workplace safety and corporate conduct**, and hold our suppliers to the same standards.

We **work with our peers** to ensure that the industry's voice is properly represented around the world.

We support scientific research to help develop **green chemistry** technologies, including in the field of crop nutrients.

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GRADES OF FERTILIZERS
**IN PHOSAGRO'S PORTFOLIO
HELP US MEET THE NEEDS OF
FARMERS IN 100 COUNTRIES
AROUND THE WORLD**

STAKEHOLDER ENGAGEMENT

continued

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FARMERS

WHY WE INTERACT



To provide the agricultural producer with high-quality mineral fertilizers at a competitive price



To maintain health and preserving soil fertility by providing only pure nutrients without harmful impurities and heavy metals



To assist in ensuring food security and caring for future generations



To popularize of the responsible and dietary ceiling elements of fertilizer application, the «green» farming



HOW WE INTERACT

- In our domestic market: through feedback from our distribution network, which works directly with Russian farmers and agricultural holdings
- International markets: establishment of our own trading operations in priority markets, bringing us closer to farmers
- Membership in industry organisations like the International Plant Nutrient Institute and the International Fertilizer Association
- Conducting research in collaboration with leading European research institutes (Wageningen University, the Netherlands and the University of Milan, Italy). Comprehensive studies are conducted to assess the impact of fertilizers with high and low heavy metal content on their accumulation in the soil and in crops, which largely determines the safety of food products

PERFORMANCE IN 2017

Participated in 20 domestic and international meetings, seminars, exhibitions, conferences and forums dedicated to agriculture and/or fertilizers

Began conducting Field Day seminars for agricultural cooperatives, farmers and agronomists

Introduced customised recommendations for the application of fertilizers based on region, crop, soil and other conditions

Gave out sample products to introduce farmers to new grades of fertilizers

Opened a new sales office in Belgrade (Serbia) to enhance our ability to work directly with farmers in our priority export markets

Launched new grades of PKS, as well as NPK and NPS fertilizers containing micro-elements (boron and zinc)

Cooperating with IPNI to develop recommendations for the application of phosphate-based and complex fertilizers for soy, wheat, corn and sugar beets in order to provide farmers with recommendations in accordance with 4R Nutrient Stewardship principles

Promotion of responsible application of mineral fertilizers for sustainable farming that minimises environmental impact

HOW WE CREATE VALUE

Our **Strategy to 2020** is aimed at bringing us **closer to farmers**.

We offer customers **39 fertilizer grades** with a wide array of nutrient and micronutrient concentrations.

We continue **investing in further enhancing** our product offering.

Our fertilizers have one of the lowest levels of impurities due to the exceptionally **high quality of the apatite ore** we mine and use as a raw material.

We provide **information about the positive effects of phosphate-based fertilizers** on crop output and their important role in global food security.

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DOMESTIC AND
INTERNATIONAL EVENTS

**DEDICATED TO AGRICULTURE
AND/OR FERTILIZERS**

MANAGING OUR RISKS

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In 2017, PhosAgro ensured the effective functioning of its risk management system by identifying and assessing risks in a timely manner and developing and implementing measures to manage those risks.

RISK MANAGEMENT SYSTEM

Board of Directors

- Has overall responsibility for management of financial and non-financial risks
- Establishes and monitors the performance of the risk management system
- Holds management accountable for implementation of the risk management system

Risk Management Committee

- Carries out regular assessments of the risk management system and principles
- Provides recommendations to the Board on necessary changes and improvements to the financial risk management system

Audit Committee

- Has oversight responsibility for the finance function
- Provides recommendations to the Board on necessary changes and improvements to the financial risk management system

Risk Commission

- Reviews the status of risk management
- Evaluates the effectiveness of risk management measures

Internal Audit Department

- Carries out regular assessments of the Company's internal control and risk management systems
- Oversees compliance of PhosAgro's financial and economic operations with Russian legislation and the Company's Charter
- Develops recommendations for the Audit Committee and the Board of Directors on sound strategic changes to the risk management system

Risk Management Department

- Facilitates work across the Company's divisions to identify and assess risks, as well as develop programmes to manage and minimise risks
- Provides PhosAgro employees with methodological and consultative support on issues related to risk management
- Organises risk management training

Executive management (CEO and Management Board)

- Oversees implementation of, and adherence to, risk management policies
- Monitors and manages risks relevant to job functions
- Carries out risk identification and reporting
- Performs operational risk management

The Board of Directors reviewed information on managing the Company's key risks on a quarterly basis. The Company's senior management devoted significant attention to managing key risks, the Company's management-level Risk Commission regularly reviewed the status of implementation of risk management activities and, when necessary, initiated changes in order to improve the management of key risks.

In 2017, the Company continued to develop its risk management system, in particular:

- A project was carried out to integrate the risk management system into operational business processes at the Company's key production sites;
- The internal control system was modified on the basis of a risk-oriented approach with the purpose of ensuring effective oversight over the achievement of the Company's objectives;
- A system for monitoring key risk indicators was introduced and automated to a significant extent, making it possible to monitor changes in the main risk areas on a monthly basis;
- An online course was developed to train Company employees on the methodology and practical aspects of using the risk management system.

No significant changes were made to the Company's corporate governance system in 2017 overall as a result of changes to the risk management system. The Risk Management Committee coordinates issues related to risk management on behalf of the Board of Directors, and both the Risk Commission and the Risk Management Department coordinate risk management on behalf of Company management. The Director of the Risk Management Department reports operationally to the CEO and functionally to the chair of the Board's Risk Management Committee.

An evaluation of PhosAgro's risk management system for 2017, undertaken as part of an internal Company audit, confirmed that it was at the level of other leading Russian companies, as well as the fact that it had improved, particularly in the areas of knowledge development and the creation of infrastructure for the corporate risk management system. In 2018, the Company plans to maintain the effective functioning of its risk management system.

The risks outlined in this report that may impact the Company do not constitute an exhaustive list. The report aims only to identify the key risks.

STRATEGIC RISKS

RISK OF INADEQUATE STRATEGIC PLANNING

Risk of inadequate strategic planning associated with the adoption of an incorrect strategic decision and associated management decisions, resulting from an erroneous assessment of internal and external factors that have an impact on the Company's prospects for development and its ability to achieve its strategic objectives.

Measures for minimising risk

In 2017, the Strategy to 2020 was implemented, and work continued on finalising the Company's development strategy through 2025. There is a system in place that monitors both internal and external factors that could have an impact on implementation of the strategy. PhosAgro also carries out regular analyses comparing best industry practices to the practices it employs, or plans to employ, to assess costs and benefits in order to facilitate optimal decision-making.

SOCIAL AND HUMAN RESOURCES RISKS

Social and human resources risks are those associated with the hiring, development and retention of employees, as well as risks in relations with local communities and the risk of adverse social situations in regions of operation.

Measures for minimising risk

PhosAgro carries out independent and joint programmes aimed at attracting talented young specialists, including from other regions, developing employees' professional competencies and increasing employee motivation to ensure long-term retention. In 2017, the Company adopted a Human Resources Policy that identifies the main areas of personnel management that facilitate the achievement of the Company's business goals.

PRODUCTION RISKS

PRODUCTION RISKS

Risks in the production process are negative events of a technical/ industrial nature or naturally occurring events that lead to disruptions in the production process: downtime of production equipment, outages, incidents and accidents at production sites and production infrastructure facilities, failure to meet planned production volumes.

Measures for minimising risk

PhosAgro aims to operate all types of equipment without breakdowns or unplanned stoppages, and to take steps to limit the length of unplanned stoppages when they do occur. With this aim in mind, the Company invests in building new and upgrading existing production and power-generating equipment, schedules preventative maintenance of equipment and major overhauls, while using back-up equipment and creating a reserve of components, accessories and spare parts. In addition, a programme to boost the quality and reliability of repair work carried out by suppliers is in place, while insurance covers the Company's hazardous production facilities and property.

WORKPLACE HEALTH AND SAFETY RISKS

Workplace health and safety risks are related to injury, occupational illnesses, accidents and incidents at hazardous production facilities, as well as risks associated with discrepancies between the workplace health and safety elements of the risk management system and legal requirements.

Measures for minimising risk

PhosAgro ensures workplace health and safety in compliance with relevant legislation and global best practices in this area. To this end, the Company carries out training for staff and checks their knowledge related to workplace health and safety, promotes a culture of safety, ensures that all contractors adhere to workplace health and safety standards, carries out safety audits and inspections to ensure compliance with the relevant regulations and requirements of the OHSAS 18001 standard on the part of both Company enterprises and suppliers. In 2017, the Company adopted a Strategy for Workplace Health and Safety that specifies targeted programmes to reduce the risks associated with various types of Company activities.

ENVIRONMENTAL RISKS

Environmental risks cover the occurrence of potential damage to the environment as a result of the Company's activities.

Measures for minimising risk

PhosAgro regularly analyses and assesses its impact on the environment. In an effort to limit its environmental impact, the Company is modernising its clean-up and storage system and is putting energy-efficiency programmes in place. The Company partners with UNESCO and the International Union of Pure and Applied Chemistry (IUPAC) to provide grants for research in the field of green chemistry with the aim of protecting the environment and human health through the implementation of energy-efficient processes and environmentally friendly technologies on the basis of innovative ideas. PhosAgro's investment projects make use of the best available technologies to reduce the unit costs of raw materials and energy, as well as emissions of regulated substances.

MANAGING OUR RISKS

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OPERATIONAL RISKS

PROJECT RISKS

Project risks are related to exceeding planned budgets and timelines for the completion of new construction and modernisation projects, as well as the failure to achieve efficiency targets related to projects.

Measures for minimising risk

PhosAgro strives to adhere to project budgets and timelines, and to take a unified approach to implementation with the help of project management tools. All projects go through a multi-step review and approval process. For large-scale and strategically-important projects, a project office is set up. Fixed-price contracts are also used. The Company conducts regular monitoring of progress against project budgets and deadlines.

RISKS OF INEFFICIENCY AND INFRINGEMENT OF BUSINESS PROCESSES

Risks associated with inefficiency or the intentional or unintentional infringement of the Company's business processes, including counterparty risk related to the supply chain.

Measures for minimising risk

PhosAgro aims to support the efficient functioning of all of the Company's business processes and systems. To achieve this, the efficiency of business processes is regularly evaluated, bottlenecks are identified, and measures to improve efficiency or eliminate bottlenecks are developed and implemented.

The Company also aims to minimise risk in its supply chain by choosing suppliers through competitive tender processes. For these purposes, PhosAgro uses multistage tender procedures and signs long-term supply contracts with its most reliable suppliers. The Company also carries out a number of measures to reduce the risks associated with disruptions to its business processes caused by failures of its IT infrastructure, cyberattacks and other external factors.

TAXATION RISKS

Taxation risks are related to potential claims by the tax authorities that the Company has not correctly filed its tax return or made payments on time.

Measures for minimising risk

PhosAgro complies with tax legislation in the countries where it operates. Tax legislation, including planned changes, is monitored; law enforcement practices are analysed; clarifications are sought from government bodies regarding tax assessments; law firms, accountants and tax authorities are consulted on questions related to various tax-related laws.

INFORMATION
SECURITY RISKS

Risks in the field of information security are risks associated with losses caused to Company property and assets by means of unauthorised access to its information systems or by the disclosure of confidential information.

Measures for minimising risk

The Company carries out various measures aimed at preventing unauthorised access to its information systems as well as disclosure of confidential information. Various technical and software solutions, including encryption, are used to control access to information resources and systems; access rights to information are regulated according to different user groups; there is a clear definition of what constitutes confidential information and how it should be handled; periodic audits are carried out to ensure strict compliance with the Company's confidentiality policy.

RISKS TO ECONOMIC
SECURITY

Economic security risks are related to losses caused to Company property and assets as a result of legal violations in the economic sphere committed by employees or third parties, including fraud and theft.

Measures for minimising risk

The Company takes measures aimed at preventing potential losses to its property and assets as a result of legal violations in the economic sphere. A system controlling access to the Company's administrative and production facilities is in place; a clear division of responsibility is established when it comes to concluding contracts or transactions; checks are carried out on all counterparties before contracts are executed; a hotline has been created to enable the Company to receive feedback from employees. Moreover, additional oversight checks are carried out by various departments within the Company.

MANAGING OUR RISKS

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REGULATORY RISKS

COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

Compliance with legal and regulatory requirements covers the risk of the untimely receipt/extension of licences, as well as risks related to changes in legislation that could lead to an increase in the cost of doing business, the implementation of restrictive measures by regulatory bodies, a reduction in investment appeal and/or changes in the competitive environment.

Measures for minimising risk

The Company ensures full compliance in its activities with applicable legislation. In order to ensure that it receives information about potential legislative changes in a timely manner, the Company closely tracks initiatives at the government and regulatory level, and takes part in discussions of legislative initiatives and preparation of recommendations through professional associations. The Company acts in a timely manner in preparing and submitting documents to receive or prolong the licences needed to carry out its business.

CORRUPTION RISKS

Corruption risks associated with losses resulting from penalties levied against the Company by state authorities as a result of non-compliance or inadequate compliance on the part of the Company or its employees with the requirements of applicable anti-corruption legislation.

Measures for minimising risk

The Company ensures compliance on the part of its enterprises and partners with the requirements of relevant anti-corruption legislation. It conducts training focused on combatting corruption and on how to apply anti-corruption legislation in practice, and a principle of zero tolerance is communicated to all employees and counterparties with respect to corruption, and they are warned that they will be held accountable for any violation of anti-corruption legislation. The Company is a member of the Anti-Corruption Charter of Russian Business.

REPUTATIONAL RISKS

REPUTATIONAL RISKS

Reputational risks cover damage to the Company's business reputation as a result of unauthorised disclosure in the media of information about the Company's operations, financial results, upper management, etc.

Measures for minimising risk

The Company is transparent and discloses all material facts and developments, while also having adopted an information policy and media engagement policy. The Company publishes information about its business on its website and in the media, provides comments in response to media enquiries and regularly monitors all relevant coverage in both Russian and international media.

FINANCIAL RISKS

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CREDIT RISKS

Credit risks resulting in potential financial losses caused by the failure of buyers, commercial contractors, suppliers, banks, insurance companies, clearing centres or other financial contractors to fulfil their financial obligations to the Company in full and on time.

Measures for minimising risk

The Company has adopted policies on managing credit risk that employ different methods of managing and reducing credit risk, including by completing deliveries after full or partial prepayments, with full or partial insurance of credit risk and by using letters of credit. Delivery without prepayment and insurance is only permitted for long-established clients. Providing advance payments to suppliers and contractors is only considered after the counterparties have been tested for reliability, and also after the provision of bank guarantees in the event that the sum of the advance payment exceeds established internal limits. The Company works with banks, other financial organisations and insurance companies with a high level of financial stability and that meet the criteria set out by the Company's treasury policy.

The Company monitors all covenants applicable to existing loans on a regular basis.

CURRENCY RISKS

Currency risks resulting in potential financial losses caused by unfavourable changes in exchange rates with respect to the Company's base currency.

Measures for minimising risk

In the current environment of volatility with respect to the price of oil and fluctuations in the rouble exchange rate against major currencies, the Company aims to align the currency structure of its debt financing with the currency structure of its sales. Most of the Company's debt is denominated in US dollars as a natural hedge against primarily USD-denominated sales. The Company carefully tracks analyst forecasts and factors that can influence the rouble exchange rate against major currencies. Where needed, the Company is able to use full or partial hedging instruments against its currency positions.

MARKETABLE GOODS RISKS

Marketable goods risks cover possible losses associated with unfavourable changes in the market prices for mineral fertilizers and other products, as well as increases in the price of the main raw materials and equipment that the Company purchases.

Measures for minimising risk

In the current environment of reduced prices for its core products, the Company is continually optimising its sales structure according to fertilizer brands and regional sales focus in order to maximise margins, while also increasing the share of fertilizer sales to end users, increasing production efficiency and providing add-on services to customers such as packaging, blending and storage.

In 2017, PhosAgro opened a trade office in Belgrade (Serbia), in addition to its existing offices in Hamburg (Germany), Biarritz (France), Zug (Switzerland), Warsaw (Poland), Sao Paulo (Brazil) and Singapore. With a presence in priority export markets, the Company will be able to respond more quickly to changes in market demand and customer needs. Also in 2017, Argentina (the second-largest market in Latin America following Brazil) lifted its 6 per cent import duty on Russian-produced DAP.

In order to reduce the cost of raw materials and equipment, the Company conducts tenders among multiple suppliers, conducts long-term supply contracts and develops lasting relationships with its suppliers.



5.

CORPORATE GOVERNANCE



COMMITTED TO BEST PRACTICES IN CORPORATE GOVERNANCE

>50%

OF MEMBERS OF THE
BOARD OF DIRECTORS
ARE INDEPENDENT
DIRECTORS



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SYSTEM AND PRINCIPLES OF CORPORATE GOVERNANCE

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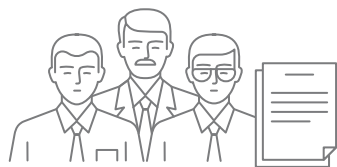
Sven Ombudstvedt

Chairman
of the Board
of Directors



2017 was especially meaningful for the Company on account of the completion of a number of strategically important projects, in particular the construction of new ammonia and granulated urea production facilities at the Company's Cherepovets site. These projects are an integral part of the Strategy to 2020 that was approved by the Company's Board of Directors at the end of 2016. Due to the timely and successful start-up of these facilities and the implementation of other measures foreseen by the strategy, the Board can state that the Company has clearly implemented its strategic goals.

OUR CORPORATE GOVERNANCE PRINCIPLES



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.



EQUALITY

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

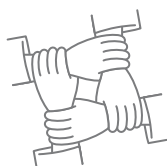
Instead of stopping there, however, the Company began, in 2017, working on a development strategy through 2025. Within the framework of the development goals identified by the Board of Directors, the Company formulated a programme of measures to ensure that positions gained in world markets are maintained and strengthened. Both production facilities and sales offices in Russian and priority foreign markets are considered to be of particular importance.

The Company paid particular attention in 2017 to improving the efficiency of existing production facilities. Through the implementation of a number of targeted projects and our daily work in this area, the Company has become a leader in the Russian Federation in terms of labour productivity.

As before, under the close attention of the Board of Directors, key areas for the Company's work included improving the management systems for workplace health, industrial safety and environmental protection, as well as human resources management.

One Board meeting was held at the Company's Cherepovets production site, where Board members had the opportunity to familiarise themselves with the results of previous investment decisions, see the scale of the construction of new and reconstruction of existing industrial facilities, and see for themselves the commitment of the Company's management to best practices in the organisation of production processes and in the areas of workplace health, industrial safety and the environment.

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 2017 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.



RESPONSIBILITY

PhosAgro recognises the rights of all stakeholders, is constantly improving its system for interacting with them and carefully studies their needs and expectations in its effort to strengthen mutually beneficial relations.



TRANSPARENCY

PhosAgro ensures that reliable information about all material facts relating to its operations is disclosed in a suitable manner, including information on its financial situation, social and environmental indicators, operating results, ownership structure and corporate governance.

SYSTEM AND PRINCIPLES OF CORPORATE GOVERNANCE

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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's corporate governance system is constantly being improved. The objectives of such changes are to improve internal efficiency and external competitiveness, including improving the acceptance of corporate governance practices on the part of 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%.

Our General Shareholders' Meeting is the principal forum through which the Company's shareholders take decisions on the most significant issues affecting 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 their implementation by the Management Board and the Chief Executive Officer. 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 between 1 March and 30 June each year. 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 or by absentee ballot. All shareholders entitled to participate in a General Shareholders' Meeting are notified of the Meeting by a notice sent by post or in person in most cases no less than 30 days prior to a Meeting and no

less than 20 days prior to an Extraordinary General Shareholders' 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 2017, the main subject of which was the distribution of dividends for the corresponding quarter in accordance with the Company's dividend policy.

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.

Members of the Board of Directors are elected by the general meeting of shareholders by cumulative voting for the period until the next annual general meeting of shareholders.

The Board of Directors is constantly working to improve the efficiency of its activities, its implementation of the recommendations of the Central Bank on corporate governance and its compliance with international corporate governance standards.

Since 2011, PhosAgro's Board of Directors, as well as its main committees – the Audit Committee and the Remuneration and Human Resources Committee – have been chaired by independent directors. In 2017, the Board of Directors was expanded to include 10 members. This was due both to the requirements of Russian corporate legislation and to the Company's desire to recruit as many independent directors as possible. Since the number of shareholders in the company exceeds 10,000, there should be, according to Russian corporate legislation, no fewer than nine Board members. The new make-up of the Board of Directors was determined at the Extraordinary General Shareholders' Meeting held on 2 October 2017, when two new independent directors were added, Natalia Pashkevich and Andrey Sharonov, who bring to the Board their unique knowledge, skills and competencies. As a result, the size of the Board increased to 10 members, five of whom are independent non-executive directors. This step confirms the Company's commitment to best practices in the area of corporate governance. To familiarise new Board members with the specifics of the Company's operations as efficiently as possible, the Board approved in 2017 an orientation programme for newly elected directors.

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 last 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.

SYSTEM AND PRINCIPLES OF CORPORATE GOVERNANCE

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Areas of the Board's activities

The main areas of activities undertaken by the Board of Directors in 2017 included:

- evaluating activities and using the KPI system to determine the size of bonus payments for executives and management for 2017;
- 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;
- approving the Company's Regulations on Human Resources Management;
- recommending that the General Shareholders' Meeting amend the Company's Charter and Regulations on the General Shareholders' Meeting (the amendments were approved by the General Shareholders' Meeting);
- ensuring compliance with the Company's Information Policy and determining the Information Policy priorities for 2017;
- assessing the degree to which the requirements of the Company's Insider Information Policy were met, and introducing amendments to the Policy;
- monitoring implementation of the Company's development strategy until 2020;
- monitoring implementation of the Company's sales strategy;
- evaluating the results of implementation of key investments made by the Company's enterprises;
- summarising the results of the work of the CEO over four years;
- oversight over activities regarding relations with shareholders, investors and other stakeholders;
- supervising activities aimed at formulating a development strategy to 2025;
- issues of cybersecurity;
- determining the Company's operational priorities for 2018;
- reviewing the Company's budget for 2018.

IN 2017, THE BOARD OF DIRECTORS HELD 12 MEETINGS COVERING A TOTAL OF 86 ISSUES

Board member	Year of birth	Held		Attended									
		Board of Directors	Audit Committee	Strategy Committee	Remuneration and Human Resources Committee	Risk Management Committee	Environment, Health and Safety Committee						
Andrey A. Guryev	1982	12	12	3	3	4	4	3	3				
Igor Antoshin ¹²	1963	12	9					3	2				
Andrey G. Guryev	1960	12	12	3	3								
Sven Ombudstvedt	1966	12	12	5	5	4	4	3	3				
Natalia Pashkevich ¹	1939	12	3										
Marcus Rhodes	1961	12	12	5	5	4	4						
Ivan Rodionov	1953	12	12			4	4						
James Rogers	1942	12	12	5	5	4	4						
Mikhail Rybnikov ²	1975	12	12	3	3	4	3	3	1				
Alexander Sharabaika ¹²	1977	12	3			4	1						
Andrey Sharonov ¹²	1964	12	3	5	1								

¹ Igor Antoshin was a member of the Board until 2 October 2017; Natalia Pashkevich, Alexander Sharabaika and Andrey Sharonov have been members since 2 October 2017.

² Igor Antoshin was Chairman of the Environment, Health and Safety Committee until 2 October 2017; Mikhail Rybnikov has chaired the Committee since 5 October 2017; Mikhail Rybnikov was a member of the Risk Committee until 5 October 2017; Alexander Sharabaika has been a member of the Committee since 5 October 2017; Andrey Sharonov has been a member of the Audit Committee since 5 October 2017.

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

In 2017, the Company's independent directors took part in activities associated with Investor Day in London, as well as the St Petersburg International Economic Forum, where they presented the Company's interests to the investment community and the media. In November, meetings of the Board of Directors and of the Remuneration and Human Resources Committee were held for the first time at the Company's Cherepovets site. The meetings considered, among other issues, the results of the implementation of the Company's strategic investment projects in Cherepovets; the principles, areas and results of the Company's activities in the field of project management; production results for 2017 and plans for 2018.

Planning and evaluation of the activities of the Board of Directors

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.

In accordance with the provisions of the Corporate Governance Code recommended for use by the Bank of Russia, the Company performs an annual assessment of the work of the Board of Directors. Once every three years, this assessment is conducted by a third party with the necessary expertise. For example, based on the Company's results in 2016, an assessment of the Board was conducted by PriceWaterhouseCoopers, the main conclusions of which were as follows:

1. In general, the current composition of the Board of Directors meets the requirements of the Listing Rules and the recommendations of the Code.
2. The Board of Directors is also balanced in terms of the knowledge, skills and experience of its members, as well as in terms of their independence.

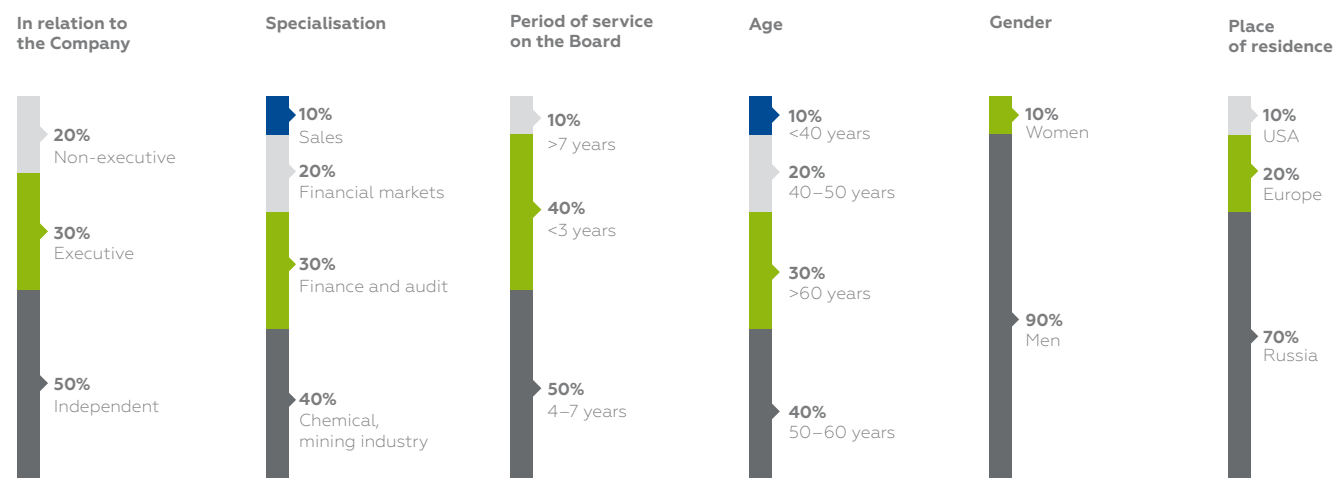
In November 2017, the Board of Directors decided to conduct a self-evaluation at the beginning of 2018, and also approved the methodology, timetable and the individuals responsible for carrying out the assessment.

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.

STRUCTURE OF THE BOARD OF DIRECTORS



SYSTEM AND PRINCIPLES OF CORPORATE GOVERNANCE

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Executive bodies

The day-to-day operations of the Company and implementation of the adopted strategy shall be managed by its collective executive body (management board) and its sole executive body (Chief Executive Officer, CEO).

Management board

The matters that fall within the competence of the Management Board are set out in the Charter, and include:

- reviewing, revising and approving PhosAgro's quarterly and annual budgets
- developing PhosAgro's capital expenditure plans and strategy with respect to any new business activities
- making decisions on entering into, changing and terminating by the Company of transactions related to alienation or the possibility of alienation of securities owned by the Company, shares in the authorized capitals 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
- electing and removal of the secretary of the Management Board and their powers

During the reporting period, the Management Board held eight meetings, at which it reviewed the Company's quarterly financial and operational performance. It summarised the results of the Company's 2016 activities in March, identified the Company's priority activities for 2018 in November, and approved the 2018 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:

- deciding on all issues related to the Company that do not fall within the competence of the General Shareholders' Meeting, the Board of Directors or the Management Board
- 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 2017. 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

1. To pay remuneration to the members of PhosAgro's Board of Directors, who are elected by a decision of the General Shareholders' Meeting, in the period of the performance of their duties, and to reimburse costs associated with the performance of their duties as members of PhosAgro's Board of Directors.
2. To establish that compensation is provided for actual expenses incurred by members of PhosAgro's Board of Directors in connection with the performance of their functions as members of the Board of Directors.
3. To determine the procedure, terms and amount of remuneration and compensation to be paid to members of PhosAgro's Board of Directors.
 - 3.1. Fixed (quarterly) remuneration is payable only to members of the Board of Directors who are independent in accordance with the requirements (criteria) established by the Company's Regulation on the Board of Directors and other bylaws. Additional remuneration (quarterly) is payable to the chairpersons of the committees of the Board of Directors who are independent in accordance with the requirements (criteria) established by the Company's Regulation on the Board of Directors and other bylaws, as well as to members of the Board of Directors who are not employees of the Company.

3.2. Remuneration is paid quarterly, not later than 20 days from the end of the reporting quarter in the following amounts:

- Fixed (quarterly) remuneration to the Chairman of the Board of Directors, being an independent director, in an amount equivalent to USD 90,000.00 for a full quarter at the official exchange rate established by the Central Bank of Russia on the last day of the quarter for which the payment is made; to other independent directors in an amount equivalent to USD 45,000.00 for a full quarter at the official exchange rate established by the Central Bank of Russia on the last day of the quarter for which the payment is made.
- Additional (quarterly) remuneration is paid to the chairpersons of the committees of the Board of Directors who are independent directors or who are not employees of the Company, in an amount equivalent to USD 30,000.00 for a full quarter, according to the official exchange rate established by the Central Bank of Russia on the last day of the quarter for which the payment is made.

3.3. Reimbursement for expenses is paid within the first 20 days of the month following the reporting month, on the basis of claims submitted by members of the Board of Directors, no later than 10 days from the end of the reporting month to PhosAgro's sole executive body (CEO), that substantiate the actual costs incurred during the reporting month.

3.4. Compensation and reimbursements are paid out in cash by PhosAgro's payroll 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 2017, the total remuneration paid to PhosAgro's Board of Directors was RUB 75,182.58 ths. 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.

SYSTEM AND PRINCIPLES OF CORPORATE GOVERNANCE

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Management Board remuneration

The remuneration paid by the Company to the Chief Executive Officer and the four other members of the Management Board (who represent the Senior Management Team) for their services to the Company during the year ended 31 December 2017 was RUB 234.5 mln, the same as in 2016.

The remuneration of the Company's senior managers consists of a base salary that is paid monthly, plus additional compensation that is paid quarterly and annually.

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

PhosAgro has instituted a well-defined policy on insider information that is one of the most important factors in ensuring that the rights and interests of its shareholders and investors are respected. The Company's principles are outlined in the Regulation on Insider Information, which is available on the website. An insider is a person who has the right to access insider information as part of his or her job description or in line with an internal Company document, a contract with the Company or a law or regulatory requirement. PhosAgro's Internal Audit Department, which reports to the Board of Directors, is responsible for ensuring compliance with current laws and regulations on insider information. In 2017, the Board of Directors amended the Insider Information Policy, taking into account amendments to Russian legislation aimed at combating market manipulation.

PhosAgro controls insider activity by placing restrictions on the use and circulation of insider information. For example, insiders may not pass on information available to them to other individuals except in cases expressly provided for in current legislation and the Company's documents. The Corporate Secretary's office maintains lists of insiders and notifies insiders of their inclusion on these lists. The office gathers data on possible or actual disclosures of insider information and brings them to the attention of the Company's Board of Directors. In the event that the Company suffers a loss due to a breach of the Insider Information Policy, the insider is required to compensate the Company for any damages.

Dividend Policy

PhosAgro's Dividend Policy is based on the following principles:

- shareholders' interests are to be balanced between the payment of dividends and reinvestment of profit into further development of the Company
- there is to be a transparent and predictable dividend policy that is attractive to investors
- the majority of profit is to be used for reinvestment to support the Company's growth

A decision on the payment of a dividend, its timing and the exact amount of such a payment is subject to approval by the General Shareholders' Meeting, based on recommendations provided by PhosAgro's Board of Directors. The Board of Directors' recommendations depend primarily on PhosAgro's net profit under IFRS, while other factors such as cash requirements and financial position are also considered. While formally the amount of dividend payments is based on the Company's net profits for the first quarter, six months, nine months and/or full year calculated under Russian Accounting Standards (RAS), and payments are made in relation to these specific periods, the Board of Directors bases its dividend decisions on the Company's IFRS results. A decision on the payment of an interim dividend is made at the General Shareholders' Meeting within three months of the end of the relevant period. If the dividends are approved by the

General Shareholders' Meeting, decisions regarding ex-dividend dates are made based on the recommendations of the Board of Directors. The ex-dividend date must be set between 10 and 20 days from the date of the decision to pay dividends. Dividends must be paid to registered shareholders who are nominee shareholders that are professional securities traders or fund managers within 10 working days from the ex-dividend date. Other registered shareholders must be paid within 25 working days after the ex-dividend date. Holders of PhosAgro GDRs are also entitled to receive dividends in respect of shares underlying the GDRs, subject to the terms of their depositary agreements.

In determining the size of dividends to be paid out, the Board of Directors will always try to recommend dividend payments of between 30% and 50% of the consolidated profit for the year, calculated in accordance with IFRS. Dividend payments in 2017 totalled nearly 50% of the Company's net profit for the period.

The Review Committee

The Review Committee may undertake internal 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 on Risk Management, Internal Control, and Economic Security, as well as with Company management.

In 2017, the Internal Audit Department audited the Company's business processes, assessed compliance and carried out consulting projects in the following areas: mining and chemical production, logistics, fertilizer sales and IT audits of the Company's business systems. Audits are performed both at the Group level and within subsidiaries.

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

In 2017, PricewaterhouseCoopers conducted an external assessment of the Company's internal audit system. Based on the results of the evaluation, an action plan was developed and is being implemented to improve the internal audit function.

In 2018, the work of the Internal Audit Department will be structured in accordance with the plan developed on the basis of the guarantee card and approved by the Company's Board of Directors.

Membership of the Board of Directors of PJSC "PhosAgro"

As of 01/01/2017 (elected by the annual general meeting of shareholders on May 31, 2016).

As of 05/30/2017 (elected by the annual general meeting of shareholders on May 30, 2017).

1. Antoshin Igor
2. Guryev Andrey A.
3. Guryev Andrey G.
4. Ombudstvedt Sven
5. Rogers James Beeland Jr.
6. Rodionov Ivan
7. Rhodes Marcus James
8. Rybnikov Mikhail

On 02.10.2017 (elected by the extraordinary general meeting of shareholders on October 2, 2017).

1. Guryev Andrey A.
2. Guryev Andrey G.
3. Ombudstvedt Sven
4. Pashkevich Natalia
5. Rogers James Beeland Jr.
6. Rodionov Ivan
7. Rhodes Marcus James
8. Rybnikov Mikhail
9. Sharabaiko Alexander
10. Sharonov Andrey

BOARD OF DIRECTORS OF PJSC PHOSAGRO

As of 31 December 2017

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**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 Skogindustrier ASA CEO
2017 – 2017	Norske Skogindustrier ASA Special Advisor
2011 – Present	PJSC PhosAgro Chairman of the Board of Directors
2017 – Present	Norske Skog AS Chairman of the Board of Directors

Key competencies

- Strategy
- Finances and audit
- Chemistry and mining engineering
- Environment, health and safety
- Human resources



**GURYEY
ANDREY G.**

Deputy of chairman	
Title	Non-executive Director
Year of election	2013
Equity interest / Stake of ordinary shares	•
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
2008 – 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
2017 – Present	JSC AgroGard-Finance Member of the Board of Directors

Key competencies

- Strategy
- Chemistry and mining engineering



GUR YEV
ANDREY A.

Title	Executive Director
Year of election	2013
Equity interest / Stake of ordinary shares	•
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

LLC PhosAgro-Region
Member of the Management
Board

2012
—
2014

**JSCB Investment
Trading Bank OJSC**
Member of the Board of
Directors

2012
—
Present

**Andrey Guryev
Charitable Foundation**
Chairman of the Manage-
ment Board

2013
—
Present

PJSC PhosAgro
Member of the Board
of Directors

2013
—
Present

PJSC PhosAgro
CEO

2013
—
Present

PJSC PhosAgro
Chairman of the Manage-
ment Board (member of the
Management Board since 24
January 2013)

2014
—
2016

JSC PhosAgro-Cherepovets
Member of the Management
Board

2014
—
Present

Russian Chess Federation
Member of the Board
of Trustees

2015
—
Present

**Russian Union of Industrial-
ists and Entrepreneurs**
Member of the Management
Board

2015
—
Present

**Russian Union of Industrial-
ists and Entrepreneurs**
Member of the Management
Board

2015
—
Present

**The Russian Olympians
Foundation**
Member of the Board of
Trustees of the Foundation,
Member of the Board of the
Foundation

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-com-
mercial partnership**
Deputy Chairman of the
Supreme Mining Council

Key competencies

- Strategy
- Environment, health and safety
- Human resources



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

**St. Petersburg Mining Uni-
versity**
First Vice-Rector

2017
—
Present

PJSC PhosAgro
Member of the Board
of Directors

Key competencies

- Chemistry and mining engineering

BOARD OF DIRECTORS OF PJSC PHOSAGRO

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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:

1990 — present	Beeland Interests, Inc. Director
2007 — present	Beeland Enterprises, Inc. Director
2007 — present	Beeland Holdings Pte Ltd Director
1986 — present	Virtus Total Return Fund Inc. Director, Audit Committee, Nominating Committee (Chairman)
1988 — present	Virtus Global Dividend & Income Fund Inc. Director, Audit Committee, Nominating Committee (Chairman)
2016 — present	Duff & Phelps Select Energy MLP Fund Inc. Director
2016 — present	Virtus Global Multi-Sector Income Fund Trustee
2012 — present	Spanish Mountain Gold Limited Director
2012 — present	Geo Energy Resources Limited Non-Executive Director

2014 — present	PJSC PhosAgro Independent Director, Member of BOD, Audit Committee, Re- muneration & HR Committee
2014 — present	Sinofortune Financial Hold- ings Limited Non-Executive Director
03.2016 — present	Crusader Resources Limited Non-Executive Director
08.2017 — present	JSC AgroGard-Finance Independent Director
01.2018 — present	Ocean Capital Advisors LLC Director
06.2013 — 06.2014	Fab Universal Corp Independent Director

Advisor

02.2014 — present	Genagro Limited Member of the Advisory Board
2006 — 2015	CQS Cayman Limited Part- nership Advisor
2011 — present	Forbes & Manhattan Advisor
2013 — 01.2018	Laguna Bay Pastoral Company Pty Ltd Advisor
07.2015 — 01.2017	Latitude Technologies Limited Senior Advisor
2012 — present	Santiago Gold Fund Advisor
04.2017 — present	AgriTrade Resources Ltd Advisor
08.2017 — present	ITF Corporation Advisor
10.2017 — present	Global Blockchain Technologies Corp Advisor

Key competencies

- Finances and audit
- Human resources


**RODIONOV
IVAN I.**

Title	Non-executive Director		
Year of election	2004		
Equity interest / Stake of ordinary shares	0.0064%		
Date of birth	30 November 1953		
Education	Lomonosov Moscow State University Grand PhD in Economics, Professor		

2001 – 2015	OJSC IBS Group Holding Member of the Board of Directors	2012 – 2014	OJSC Rostelecom Member of the Board of Directors
2003 – Present	National Research University Higher School of Economics Professor, Faculty of Economics	2012 – Present	OJSC Mezhdомstvennyi analiticheskii tsentr (Inter-departmental Analytical Centre) Member of the Board of Directors
2004 – Present	PJSC PhosAgro Member of the Board of Directors	2012 – 2015	JSC PhosAgro-Cherepovets Member of the Board of Directors
2006 – 2014	Russian State University for the Humanities Professor	2014 – Present	JSC AgroGard-Finance Member of the Board of Directors
2009 – 2013	OJSC Svyazinvest Member of the Board of Directors	2017 – Present	PJSC IBS IT Services Member of the Board of Directors
2009 – Present	PJSC IC RUSS-INVEST Member of the Board of Directors		

Key competencies

- Law and corporate governance
- Risk management


**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 degree 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
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)

Key competencies

- Finances and audit
- Human resources

BOARD OF DIRECTORS OF PJSC PHOSAGRO

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RYBNIKOV
MIKHAIL K.

Title	Executive Director	
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	2013 — 2013 OJSC Moscow Stock Exchange Member of the Board of Directors
2012 — 2015	CJSC PhosAgro AG CEO; Chairman of the Management Board	2016 — Present PJSC PhosAgro Member of the Board of Directors
2013 — 2013	OJSC Apatit Member of the Board of Directors	2016 — Present LLC PhosAgro-Region Member of the Management Board
2013 — 2016	JSC PhosAgro-Cherepovets Member of the Board of Directors	2017 — Present JSC Apatit CEO; Chairman of the Management Board
2012 — 2017	JSC PhosAgro-Cherepovets CEO; Chairman of the Management Board	Key competencies • Strategy • Finances and audit • Chemistry and mining engineering • Environment, health and safety
2013 — Present	PJSC PhosAgro Executive Director; Member of the Management Board	



SHARABAIKO
ALEXANDER F.

Title	Executive Director	
Year of election	2017	
Equity interest / Stake of ordinary shares	no	
Date of birth	25 February 1977	
Education	The Belorussian Economic University Bachelor of Economics with honours; Nottingham University Business School MBA in Finance	
2012 — 2014	CJSC PhosAgro AG Chief Financial Officer	
2012 — 2015	CJSC PhosAgro AG Member of the Management Board	
2013 — 2014	OJSC PhosAgro Chief Financial Officer	
2013 — 2017	PJSC PhosAgro Member of the Management Board	
2013 — 2015	OJSC JSCB Ecoprombank Member of the Supervisory 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 — Present	PJSC PhosAgro Member of the Board of Directors	
2017 — Present	JSC Apatit Member of the Management Board; Advisor to the CEO	

Key competencies

- Finances and audit
- Risk management



**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 specialty "Aviation instrument making"; Russian Academy of Public Administration under the President of the Russian Federation, specialty "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 – 2015	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 – Present	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

Key competencies

- Finances and audit
- Law and corporate governance



**ANTOSHIN
IGOR D.**

Title	Non-executive Director
Year of election	2006 until October 2017
Equity interest / Stake of ordinary shares	4.18%
Date of birth	6 December 1963
Education	G.V. Plekhanov St.Petersburg State Mining Institute

2006 – 2017	PJSC PhosAgro Member of the Board of Directors
2009 – 2013	LLC IC PhosAgro CEO
2013 – 2016	OJSC PhosAgro Advisor to the CEO
2017 – Present	St Petersburg Mining University Director of the Centre for Educational and Special Programmes

As of 01.01.2017, Igor Antoshin held control over 100% of the voting shares of DUBBERSON HOLDINGS LIMITED, CARRANITA HOLDINGS LIMITED and VINDEMIATRIX TRADING LIMITED, which in total held 12.66% of voting shares in PhosAgro.

On 17.01.2017, Igor Antoshin bought from Dubberson Holdings Limited, Carranita Holdings Limited, Vindematrix Trading Limited and took direct ownership of 16,395,038 PhosAgro shares, which represents 12.66% of the Company's share capital.

On 20.02.2017, Igor Antoshin sold 3,496,500 shares in PhosAgro (after which his stake in PhosAgro amounted to 9.96% of the Company's share capital).

On 12.04.2017, Igor Antoshin sold 6,228,950 shares in PhosAgro (after which his stake in PhosAgro amounted to 5.15% of the Company's share capital).

On 07.06.2017 Igor Antoshin sold 1,000,000 shares in PhosAgro (after which his stake in PhosAgro amounted to 4.378% of the Company's share capital).

On 18.07.2017, Igor Antoshin entered into a REPO transaction with 255,260 shares in PhosAgro (after which his stake in PhosAgro amounted to 4.18% of the Company's share capital).

¹ Igor Antoshin's stake does not include a total of 2,744,800 ordinary shares of the Company (2.12% of the total share capital) that have been entered into REPO transactions.

COMMITTEES OF THE BOARD OF DIRECTORS

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AUDIT COMMITTEE



Marcus Rhodes
Committee Chairman

Committee members

As of 31 December 2017, the Audit Committee comprised:

Marcus Rhodes,

Committee Chairman,
Independent Non-ex-
ecutive Director of the
Board of Directors

Sven Ombudstvedt,

Committee Member,
Independent Non-ex-
ecutive Director of the
Board of Directors

James Rogers,

Committee Member,
Independent Non-ex-
ecutive Director of the
Board of Directors

Andrey Sharonov,

Committee Member,
Independent Non-ex-
ecutive 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 Statute of PhosAgro's Audit Committee, the Audit Committee must consist of no fewer than three current members of the Board of Directors, and must be chaired by an independent director.

The Committee's remit includes:

- reviewing the IFRS financials for integrity and transparency
- analysing financial reporting processes, including carrying out regular reviews and making recommendations
- recommending the Company's external auditor to the Board of Directors and maintaining an ongoing relationship with the external auditor
- analysing and supporting the internal audit system and risk management procedures, including drafting of recommendations for their improvement
- working with the Company's external auditors to ensure the accuracy of PhosAgro's financial reporting, and to ensure that they focus on the significant risks affecting financial reporting

The Audit Committee and the Company continue to focus on optimising the internal business processes involved in preparation of PhosAgro's financial reporting. We aim to ensure accuracy and completeness, while also speeding up the process of collecting and verifying data. Looking ahead to 2018, our aim is to continue moving PhosAgro's reporting dates closer to those of global leaders in transparency and disclosure.

ACTIVITIES IN 2017

During the reporting period, the Audit Committee held five meetings, at which matters concerning priority areas of the Company's activity were considered. Considerable focus was placed on improving the internal control environment and its related processes and procedures.

In 2017, the Audit Committee focused on:

- making recommendations for, and monitoring the implementation of, OeBS Oracle v. 12.0
- monitoring the implementation of the Hyperion consolidated financial reporting automation system
- establishing targets for the 2018 budget and monitoring the budget planning process
- analysing implementation of the 2017 budget

- and the reasons for any deviations
- analysing the results of the Company's financial and business operations on the basis of its consolidated IFRS financial statements and the reasons for any deviations from previous periods
- reviewing quarterly press releases for investors on the results of the Company's activities;
- analysing the Company's compliance with the requirements of Russian and European laws on insider information;
- assessing the Company's internal oversight and internal audit system;
- further improving the accounting system and reporting process.

STRATEGY COMMITTEE

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Andrey A. Guryev
Committee Chairman

Committee members

As of 31 December 2017, the Strategy Committee comprised:

Andrey A. Guryev,

Committee Chairman,
Executive Director of
the Board of Directors

Andrey G. Guryev,

Committee Member,
Non-executive Director
of the Board of
Directors

Mikhail Rybnikov,

Committee Member,
Executive Director of
the Board of Directors

Key areas

The Strategy Committee assists the Board of Directors in the development of the Company's strategy and in related processes, including management of the Company's assets and the review of major innovation and investment programmes and projects. The Board of Directors decides on the establishment of the Committee, its composition and the election of its chair, which ensures a comprehensive discussion and analysis of the issues considered by the Committee and consideration of various opinions.

The Committee's remit includes:

- Monitoring and updating the Company's medium-term and long-term strategy, and drafting strategic policy as required
- Evaluating the development of the Company's subsidiaries, including reviewing their strategies
- Making recommendations regarding the Company's M&A projects
- Analysing and making recommendations regarding potential strategic partnerships

The Committee was pleased to note the successful implementation of all of PhosAgro's strategic goals for 2017, and that the Company is on track to complete key investment projects on schedule. We are currently in the process of formulating PhosAgro's development strategy through 2025, which is aimed at further strengthening the Company's leading position in the global phosphate-based fertilizer industry.

ACTIVITIES IN 2017

In 2017, the Strategy Committee held two meetings, where it focused on:

- long-term forecasts regarding global markets for compound fertilizers
- the prospects for the development of the production capacities of PhosAgro Group companies
- a strategy for the development of fertilizer production, assessment of economic efficiency;
- prospects for the sodium tripolyphosphate market;
- monitoring the implementation of the previously approved Strategy to 2020;
- the process of formulating a strategy for the development of the Company's production capacities for the period up to 2025.

COMMITTEES OF THE BOARD OF DIRECTORS

continued

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REMUNERATION AND HUMAN RESOURCES COMMITTEE



James Rogers
Committee Chairman

Committee members

As of 31 December 2017, the Remuneration and Human Resources Committee comprised:

James Rogers,

Committee Chairman,
Independent Non-
executive Director of
the Board of Directors

Sven Ombudstvedt,

Committee Member,
Independent Non-
executive Director of
the Board of Directors

Marcus Rhodes,

Committee Member,
Independent Non-
executive Director of
the Board of Directors

Key areas

The Remuneration and Human Resources Committee's Statute requires that the members of the Committee be elected by the Board of Directors from among Independent Board members.

The Committee's remit includes:

- developing the Company's policy in relation to organising the activities of the Board of Directors and incentivising Board members
- developing the Human Resources Policy in relation to the Company's senior management, and supervising its implementation

In 2017, the Committee reviewed a number of internal regulatory documents on human resources management.

ACTIVITIES IN 2017

During the reporting period, the Remuneration and Human Resources Committee held four meetings.

The main issues considered by the Committee in 2017 were:

- assessment of the professional qualifications and independence of candidates for the Board of Directors
- preparation of recommendations for the Board of Directors on approval of the Company's Human Resources Policy
- assessment of the work of the Company's executive bodies and of individual executives based on the results of 2016-2017 in the context of the criteria set out in the Remuneration Policy, as well as a preliminary assessment of the achievement of goals by those individuals as part of the Company's incentive programmes
- preparation of recommendations for the Company's Board of Directors on the expediency of increasing the number of Board members to 10
- conducting an analysis, in accordance with the recommendations of the Corporate Governance Code, of the involvement of members of the Company's Board of Directors in the Board's work
- approval of the orientation programme for newly elected members of the Board of Directors
- determination of the main areas for training and improving the qualifications of the members of the Board of Directors
- approval and preparation of a recommendation for the Board of Directors on adopting a methodology and timetable for self-assessment of the effectiveness of the Board of Directors for 2017.

RISK MANAGEMENT COMMITTEE

145



Ivan Rodionov
Committee Chairman

Committee members

As of 31 December 2017, the Risk Management Committee comprised:

Ivan Rodionov,

Committee Chairman,
Non-executive Director
of the Board of
Directors

Andrey A. Guryev,

Committee Member,
Executive Director of
the Board of Directors

Alexander Sharabaika

(from October 2017),
Committee Member,
Executive Director of the
Board of Directors

Mikhail Rybnikov

(until October 2017),
Committee Member,
Executive Director of
the Board of Directors

Key areas

The Risk Management Committee was established with the goal of preparing recommendations and proposals for the Board of Directors and other management bodies with regard to identification and management of material risks for the Company, as well as improvements to, and further development of, the Company's risk management systems. The members and chair of the committee are appointed by the Board of Directors.

The Committee's remit includes:

- evaluating the effectiveness of the Company's risk management system and making recommendations regarding improvements
- preparing recommendations for the Company's Board of Directors regarding:
 - risk management methodology, determining the Company's most material (key) risks that require constant monitoring and management, and recommendations regarding improvements to the unified risk management system
 - determining the Company's risk appetite and its risk tolerance
 - changes and additions to PhosAgro's risk management policy

In 2017, the Committee continued to develop and further improve its Risk Management Policy, and to review its risk analysis and risk tolerance in line with the current market situation (for more, see the "Managing Our Risks" section). Throughout the year, the Board of Directors received regular risk management updates.

ACTIVITIES IN 2017

During the reporting period, the Risk Management Committee held four meetings, at which the following issues were covered:

- monitoring how PhosAgro's key risks are managed
- considering PhosAgro's risk appetite
- review of PhosAgro's key risks and updates to its risk map
- providing recommendations to management on risk management policies and procedures.

COMMITTEES OF THE BOARD OF DIRECTORS

continued

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ENVIRONMENT, HEALTH AND SAFETY COMMITTEE



Mikhail Rybnikov
Committee Chairman

Committee members

As of 31 December 2017, the Environmental, Health and Safety Committee comprised:

Mikhail Rybnikov,
(from October 2017),
Chairman of the
Committee, Executive
Director of the Board of
Directors

Andrey A. Guryev,
Committee Member,
Executive Director of
the Board of Directors

Sven Ombudstvedt,
Committee Member,
Independent Non-
executive Director of
the Board of Directors

Igor Antoshin
(until October 2017),
Committee Chairman,
Non-executive Director
of the Board of
Directors

Key areas

The Environmental, Health and Safety Committee was formed to oversee the Company's activities in the areas of environmental protection, 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 Board of Directors decides on the establishment of the Committee, its composition and the election of its chair.

The Committee's remit includes:

- ensuring the Company's compliance with legal and regulatory requirements relating to environmental and health and safety issues
- ensuring 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
- evaluating 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 improvement of these activities
- preventing industrial accidents, including plans, programmes and processes established by the Company to evaluate, manage and decrease risks of industrial accidents
- ensuring the health and safety of Company employees, as well as monitoring the implementation of policies in the field of workplace safety in order to reduce and prevent occupational injuries.

In 2017, the Committee reviewed the Company's HSE reports every quarter. In doing so, special attention was paid to targeted programmes and work schedules, as well as to monitoring the implementation thereof. We analysed and evaluated investments and targeted projects aimed at reducing the Company's negative environmental impact. We also monitored changes to Russian environmental legislation in order to determine potential impacts on the Company's operations. The Committee conducted surveys in order to evaluate management's performance with regard to environmental permits and measures undertaken to address issues identified during inspections.

In 2017, Committee members received reports containing up-to-date information about: industrial injuries, accidents and incidents; ongoing audits by government agencies, the results of such audits, and corrective actions recommended during the audits; implementation of such measures as internal audits, incident investigations, special evaluations of working conditions, and the investigation and reporting of occupational diseases; and the performance of industrial analyses.

The Committee's input helped improve the quality and the scope of reporting. This ensures a deeper and more efficient review of HSE issues by both the Committee and the Board of Directors.

ACTIVITIES IN 2017

During the reporting period, the Environmental, Health and Safety Committee held three meetings, at which the following issues were covered:

- the main results concerning compliance with regulatory requirements on workplace health and safety during the operation of production facilities at the Company's enterprises for 2016, as well as the first half and third quarter of 2017
- the main results concerning compliance with environmental requirements and ensuring environmental safety at the Company's enterprises for 2016, as well as the first half and third quarter of 2017
- analysis of fines paid for environmental pollution (the 2016 situation compared to the 2015 situation), with an analysis of the factors that had an impact on changes: amendments to legislation, changes in the actual scale of environmental impact; planned (expected) fines to be paid for 2017
- the results of monitoring changes in environmental protection legislation and an assessment of their impact on the operations of the Company's enterprises;
- changes in the cost of workplace health and safety for the period 2014-2017;
- changes in the cost of environmental activities for the period 2014-2017;
- the results of the assessment of specific impacts (emissions/discharge, waste) with relevant indicators of the best available technologies for mineral fertilizer production enterprises
- analysis of the causes of and conditions underlying workplace accidents, and an assessment of corrective and preventive measures based on the results of the analysis
- the results of a comparison of the Company's enterprises with competitors in terms of workplace injuries
- a detailed review of the Company's most important tasks in the area of environmental and natural resources management: discharge of waste water and issues related to the processing of industrial waste.

MANAGEMENT BOARD

As of 31 December 2017

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**GURYEV
ANDREY A.**

Date of birth **7 Mar 1982**

Equity interest /
Stake of ordinary •
shares

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



**RYBNIKOV
MIKHAIL K.**

Date of birth **30 Nov 1975**

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

Education **Moscow State University**
Master's degree in economics.

2011 — 2012	CJSC PhosAgro AG Executive Director
2011 — 2013	LLC PhosAgro-Region Member of the Management Board
2012 — 2015	CJSC PhosAgro AG CEO; Chairman of the Management Board
2013 — Present	PJSC PhosAgro Executive Director; Member of the Management Board
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
2015 — 2017	JSC PhosAgro-Cherepovets CEO; Chairman of the Management Board
2016 — Present	PJSC PhosAgro Member of the Board of Directors
2016 — Present	LLC PhosAgro-Region Member of the Management Board
2017 — Present	JSC Apatit CEO; Chairman of the Management Board


**LOIKOV
SIROJ A.**

Date of birth	9 Sept 1972
Equity interest / Stake of ordinary shares	no
Education	Tashkent State Economics University International economic relations, Nottingham Trent University (UK) Business management bachelor's degree
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
2014 – 2015	CJSC PhosAgro AG Member of the Management Board
2015 – 2018	PJSC PhosAgro Human Resources and Social Policy Director (along with other duties)
2018 – Present	PJSC PhosAgro Deputy CEO for International Projects
2015 – Present	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
2013 – 2017	LLC Izumrud Member of the Board of Directors
2017 – Present	LLC Tirvas Member of the Board of Directors
2017 – 2018	JSC Apatit Human Resources and Social Policy Director
2017 – Present	JSC Apatit Member of the Management Board


**OSIPOV
ROMAN V.**

Date of birth	4 Nov 1971
Equity interest / Stake of ordinary shares	no
Education	Baltic State Technical University named after Ustinov, 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
Oct 2017 – Present	PJSC PhosAgro Member of the Management Board
2013 – Present	JSC AgroGard-Finance Member of the Board of Directors
2014 – Present	JSC Giproruda Member of the Board of Directors


**SIROTENKO
ALEXEI A.**

Date of birth	3 Jan 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

INTERNAL CONTROL AND AUDIT

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Internal control body

REVIEW COMMITTEE

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

BOARD OF DIRECTORS

Appointed by

General Shareholders' Meeting

Board of Directors

General Shareholders' Meeting

Reports to

General Shareholders' Meeting

Board of Directors

Shareholders

Functions

Prepares a report on the results of the Company's operations for the prior year ahead of the Annual General Shareholders' Meeting and gives its opinion on whether the Company's financial statements are true and accurate.

Conducts internal audit procedures and ensures compliance with Russian Accounting Standards (RAS). Monitors compliance with current legislation, the Company Charter and internal regulations.

Improves the efficiency and quality of the work of the Board of Directors in the area of internal control.

Considers issues and provides recommendations to the Board of Directors in areas like:

- internal and external audits
- the accuracy and efficiency of internal control procedures
- management accounting and financial reporting
- risk management procedures and systems
- how risks are reflected in the Company's reporting

Supervises the Internal Audit Department

Determines how the internal control system operates and approves various actions and policies relating to it.

Reports annually to the General Shareholders' Meeting on the reliability and efficiency of PhosAgro's internal control system.

Approves the appointment and dismissal of the Director of Internal Audit.

Internal control body

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**CHIEF EXECUTIVE
OFFICER****INTERNAL AUDIT
DEPARTMENT****EXTERNAL
AUDITOR**

Appointed by

Board
of DirectorsBoard
of DirectorsGeneral Shareholders'
Meeting

Reports to

Board of Directors
and General Shareholders'
MeetingFunctional:
Audit CommitteeAudit
Committee

Functions

Functioning of PhosAgro's internal control system.

Implements internal control procedures and ensures that they are put into practice.

Promptly informs the Board of Directors of any significant risks faced by the Company or any major weaknesses in the Company's internal control system.

Tells the Board what measures have been or will be taken to address issues and the results of these actions.

Provides an independent and objective assessment of the Company's internal control and risk management systems.

Assists top management in developing and monitoring the implementation of procedures and measures to improve the risk management, internal control and corporate governance systems.

Coordinates with the Company's external auditors and other third parties.

Conducts internal audits of subsidiaries in line with established procedures.

Prepares and presents information about the internal audit function's operations to the Board of Directors, Audit Committee and General Shareholders' Meeting.

Verifies compliance of management and employees with legislation and internal regulations on insider information.

Verifies the compliance, in terms of accuracy and completeness, of the Company's annual financial statements with RAS.

Inspects the Company's financial and commercial operations and its internal control systems.

Prepares a report that is submitted to the Audit Committee at least once a year.

In case of a disagreement between the Company's management and the independent auditor, the Audit Committee oversees the resolution of the disagreement.

LLC Financial and Accounting Consultants is currently PhosAgro's external auditor.

SHARES AND DIVIDENDS

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Share capital

PhosAgro's authorised capital as of 31 December 2017 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: RU000A0JRK78). 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:

323.8

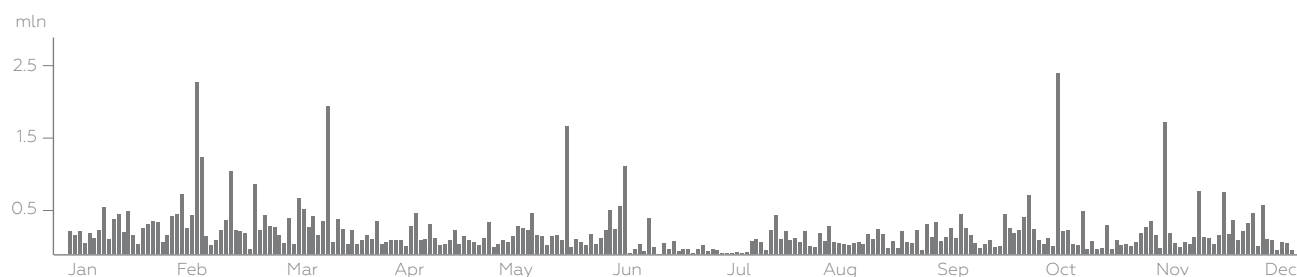
 MLN RUB

**PHOSAGRO'S
AUTHORISED CAPITAL
AS OF 31 DECEMBER 2017**

SHARE/GDR PERFORMANCE

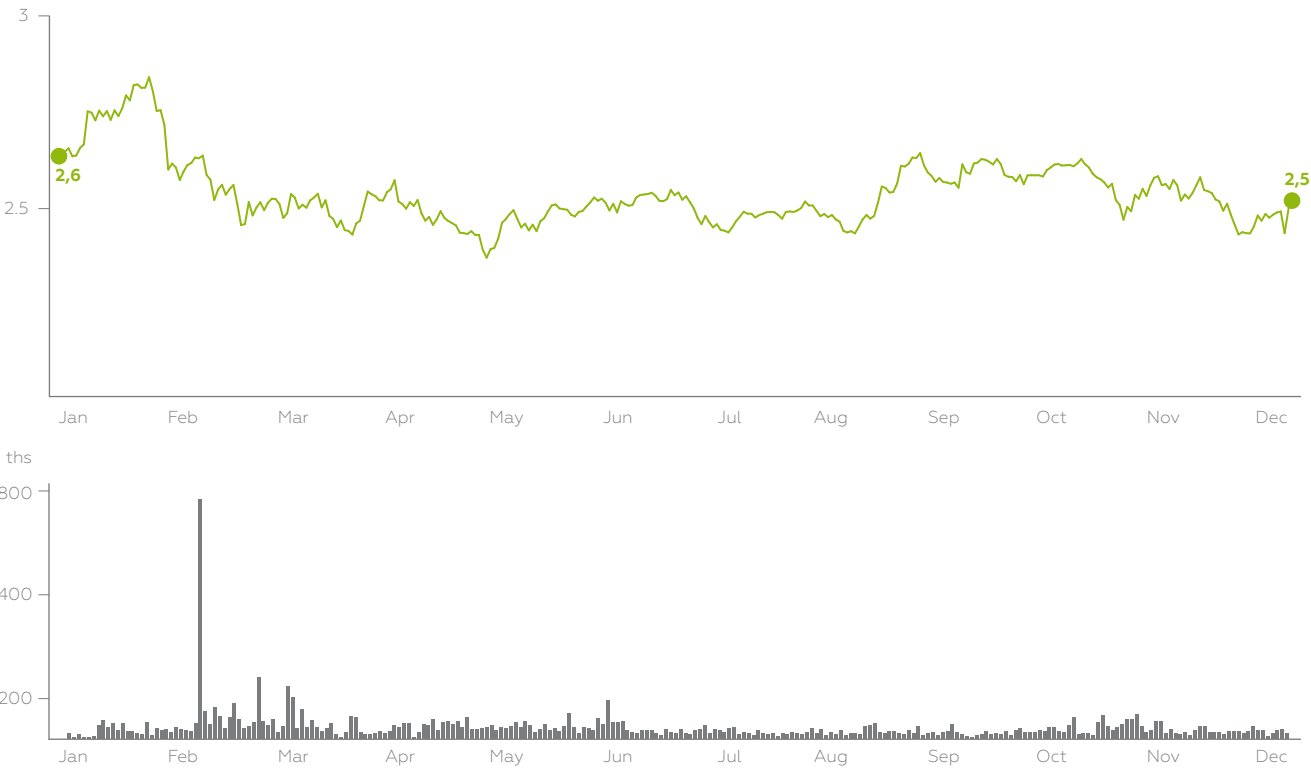
LONDON STOCK EXCHANGE,

USD



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 Taitis	+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 08 88
BAML	Stephanie Bothwell	+44 (20) 799 50371
Alfa Bank	Boris Krasnojenov	+7 (495) 795 36 12

MOSCOW EXCHANGE,
ths RUB



SHARES AND DIVIDENDS

continued

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	Number of shares	Share, %
Adorabella Limited	27,385,162	21.15%
Chlodwig Enterprises Limited	29,151,400	22.51%
Igor Antoshin ¹	8,159,128	6.30%
Vladimir Litvinenko	25,052,800	19.35%
Evgenia Guryeva	6,235,960	4.82%
Free float	33,515,550	25.87%
Total:	129,500,000	100%

¹ Igor Antoshin's stake in PhosAgro includes 2,744,800 ordinary shares in the Company (2.12% of the share capital) that were transferred by him under a repo deals.

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 Guriev and members of his family.



Up to date information about PhosAgro's ownership structure is available on the Company's website:
www.phosagro.com/investors/capital

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 2017 were paid in full. On 20 March 2018, PhosAgro's Board of Directors recommended a final 2017 dividend of RUB 15 per share (RUB 5 per depository receipt), or RUB 1.943 billion in total. If approved by the Annual General Meeting of Shareholders (the "AGM") on 30 May 2017, this will bring PhosAgro's payout ratio to 50% 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 2017, 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 regulations 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.

INFORMATION ON DECLARED DIVIDENDS ACCRUED ON THE BASIS OF THE COMPANY'S PERFORMANCE IN 2017

Period	Total amount, RUB mln	Per share, RUB	Per GDR, RUB
4Q 2017	1,943	15	5
3Q 2017	2,719.5	21	7
2Q 2017	3,108	24	8
1Q 2017	2,719.5	21	7

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, via <http://www.phosagro.ru/ori/item4157.php> and <http://www.e-disclosure.ru/portal/company.aspx?id=573> (the Interfax portal – PhosAgro's official disclosure page).

AMOUNT OF DIVIDENDS DECLARED, ACCRUED AND PAID BY THE COMPANY IN 2017

The amount of dividends per one ordinary share, RUB	Amount of accrued and paid dividends, RUB	Date of the General meeting of shareholders
39	5,050,500,000	16.01.2017
30	3,885,000,000	30.05.2017
21	2,719,500,000	05.07.2017
24	3,108,000,000	02.10.2017

MANAGEMENT RESPONSIBILITY STATEMENT

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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 integrated report.

Approved by the Board of Directors
March 20, 2018.

Pre-approved by the Annual General Meeting of Shareholders May 30, 2018.

**THE CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2017 WERE
APPROVED BY THE BOARD
OF DIRECTORS ON 20 MARCH
2018**



Andrey A. Guryev

Chairman of the Management Board and
Chief Executive Officer of PJSC PhosAgro

6.

FINANCIAL

STATEMENTS



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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 2017, 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 2017, 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.

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

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.



Please refer to the Note 17 in the financial statements.

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.

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.

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

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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

20 March 2018

**THOSE CHARGED WITH
GOVERNANCE ARE
RESPONSIBLE FOR
OVERSEEING THE GROUP'S
FINANCIAL REPORTING
PROCESS.**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME FOR 2017,****RUB mln**

	Note	2017	2016
Revenues	7	181,351	187,742
Cost of sales	9	(101,429)	(88,044)
Gross profit		79,922	99,698
Administrative expenses	10	(14,662)	(13,598)
Selling expenses	11	(24,466)	(19,769)
Taxes, other than income tax		(2,679)	(2,261)
Other expenses, net	12	(2,136)	(2,472)
Operating profit		35,979	61,598
Finance income	13	615	909
Finance costs	13	(6,980)	(4,682)
Foreign exchange gain, net	29(b)	4,141	16,962
Share of profit of associates	16	287	140
Profit before tax		34,042	74,927
Income tax expense	14	(8,711)	(15,041)
Profit for the year		25,331	59,886
Attributable to:			
Non-controlling interests ^		(2)	2
Shareholders of the Parent		25,333	59,884
Other comprehensive income Items that will never be reclassified to profit or loss			
Actuarial gains and losses	26	(342)	(68)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation difference		(377)	(3,105)
Other comprehensive loss for the year		(719)	(3,173)
Total comprehensive income for the year		24,612	56,713
Attributable to:			
Non-controlling interests ^		(2)	2
Shareholders of the Parent		24,614	56,711
Basic and diluted earnings per share (in RUB)	24	196	462

^ non-controlling interests are the minority shareholders of the subsidiaries of PJSC "PhosAgro"

The consolidated financial statements were approved
on 20 March 2018:

A.A. Guryev
Chief executive officer

A.F. Sharabaiko
Chief financial officer

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017, RUB mln

	Note	31 DECEMBER 2017	31 DECEMBER 2016
Assets			
Property, plant and equipment	15	175,113	154,713
Advances issued for property, plant and equipment		2,334	4,684
Intangible assets		1,773	1,165
Investments in associates	16	969	816
Deferred tax assets	17	5,371	5,110
Other non-current assets	18	1,955	2,226
Non-current assets		187,515	168,714
Other current investments	19	352	3,282
Inventories	20	27,345	19,934
Trade and other receivables	21	33,727	30,013
Cash and cash equivalents	22	2,691	7,261
Current assets		64,115	60,490
Total assets		251,630	229,204
Equity			
	23		
Share capital		372	372
Share premium		7,494	7,494
Retained earnings		85,480	74,932
Other reserves		4,767	5,486
Equity attributable to shareholders of the Parent		98,113	88,284
Equity attributable to non-controlling interests		129	137
Total equity		98,242	88,421
Liabilities			
Loans and borrowings	25	76,530	96,409
Finance lease liabilities	27(a)	1,004	1,830
Defined benefit obligations	26	950	767
Deferred tax liabilities	17	7,914	4,600
Non-current liabilities		86,398	103,606
Loans and borrowings	25	44,025	12,457
Finance lease liabilities	27(a)	1,117	1,680
Trade and other payables	28	21,848	23,040
Current liabilities		66,990	37,177
Total equity and liabilities		251,630	229,204

**CONSOLIDATED STATEMENT
OF CASH FLOWS FOR 2017,**
RUB mln

	Note	2017	2016
Cash flows from operating activities			
Profit before tax		34,042	74,927
Adjustments for:			
Depreciation and amortisation	9, 10, 11	15,284	10,767
Loss on disposal of property, plant and equipment and intangible assets	12	614	614
Finance income	13	(615)	(909)
Finance costs	13	6,980	4,682
Share of profit of associates	16	(287)	(140)
Foreign exchange gain, net		(4,371)	(18,040)
Operating profit before changes in working capital and provisions		51,647	71,901
Increase in inventories		(7,409)	(2,120)
Increase in trade and other receivables		(1,240)	(4,023)
(Decrease)/increase in trade and other payables		(119)	3,019
Cash flows from operations before income taxes and interest paid		42,879	68,777
Income tax paid		(8,326)	(13,451)
Finance costs paid		(4,558)	(4,965)
Cash flows from operating activities		29,995	50,361
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(35,918)	(40,246)
Repayment of loans issued, net		475	253
Proceeds from disposal of property, plant and equipment		365	270
Finance income received		371	432
Disposal of investments, net		359	1,277
Cash flows used in investing activities		(34,348)	(38,014)
Cash flows from financing activities			
Proceeds from borrowings		90,094	34,149
Repayment of borrowings		(74,245)	(33,727)
Dividends paid to shareholders of the Parent	23	(14,763)	(27,974)
Dividends paid to non-controlling interests		(5)	(9)
Finance leases paid		(1,365)	(1,951)
Acquisition of non-controlling interests		-	(218)
Proceeds from settlement of derivatives		-	127
Other payments		(22)	(243)
Cash flows used in financing activities		(306)	(29,846)
Net decrease in cash and cash equivalents		(4,659)	(17,499)
Cash and cash equivalents at 1 January		7,261	29,347
Effect of exchange rates fluctuations		89	(4,587)
Cash and cash equivalents at 31 December	22	2,691	7,261

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 2017,

RUB mln

ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT							
	Share capital	Share premium	Retained earnings	Actuarial gains and losses	Foreign currency translation reserve	Attributable to non-controlling interests	Total
Balance at 1 January 2016	372	7,494	43,460	(316)	8,975	213	60,198
Total comprehensive income for the year							
Profit for the year	-	-	59,884	-	-	2	59,886
Actuarial gains and losses	-	-	-	(68)	-	-	(68)
Foreign currency translation difference	-	-	-	-	(3,105)	-	(3,105)
	-	-	59,884	(68)	(3,105)	2	56,713
Transactions with owners recognised directly in equity							
Dividends to shareholders of the Parent	-	-	(27,974)	-	-	(9)	(27,983)
Acquisition of non-controlling interests without a change in control	-	-	(149)	-	-	(69)	(218)
Other	-	-	(289)	-	-	-	(289)
	-	-	(28,412)	-	-	(78)	(28,490)
Balance at 31 December 2016	372	7,494	74,932	(384)	5,870	137	88,421
Balance at 1 January 2017	372	7,494	74,932	(384)	5,870	137	88,421
Total comprehensive income for the year							
Profit/ (loss) 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, note 23	-	-	(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

**NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS FOR 2017****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. 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 2017 were translated at the closing exchange rate of RUB 57.6002 for USD 1 (31 December 2016: RUB 60.6569 for USD 1);
- Profit and loss items were translated at the average exchange rate for 2017 of RUB 58.3529 for USD 1 (for 2016: RUB 67.0349 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.
- The translation from EUR into RUB, where applicable, was performed as follows:
- Assets and liabilities as at 31 December 2017 were translated at the closing exchange rate of RUB 68.8668 for EUR 1 (31 December 2016: RUB 63.8111 for EUR 1);
- Profit and loss items were translated at the average exchange rate for 2017 of RUB 65.9014 for EUR 1 (for 2016: RUB 74.2310 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;

- note 19 – recognition of bad debt provision on debt securities: uncertainties associated with the mutual court claims filed by the Group and the bank.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(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 year
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

(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) Investments**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. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Held-to-maturity investments: If the Group has the positive intent and ability to hold debt instruments to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets: The Group's investments in equity securities and certain debt securities are classified

as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i)), and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the profit or loss.

Other: Other non-derivative financial

instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(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) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(i) Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has 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 (including equity securities) are impaired can 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 will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers all individually significant receivables and held-to-maturity investment securities for specific impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other

comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

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.

(j) 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.

(k) Loans and borrowings

Loans and borrowings are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between initial value and redemption value being recognised in the profit or loss over the period of the borrowings on an effective interest basis.

(l) 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.

(m) 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.

(n) Trade and other payables

Trade and other payables are stated at amortised cost.

(o) 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.

(p) Revenues

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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) Adoption of new and revised standards and interpretations

In preparing these consolidated financial statements the Group has applied the following standards and interpretations which are effective in respect of the financial year beginning 1 January 2017:

- Amendments to IAS 7 Statement of Cash Flows require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has added the required disclosure to these consolidated financial statements (see note 25).
- Amendments to IAS 12 Income Taxes clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. This amendment does not have a significant impact on the Group's consolidated financial statements.
- Annual Improvements to IFRSs (Amendments to IFRS 12 Disclosure of Interests in Other Entities).

(w) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2017, and have not been applied in preparing these consolidated financial statements:

- IFRS 9 Financial Instruments (effective for annual periods beginning after 1 January 2018 with earlier application permitted) supersedes IAS 39 Financial Instruments: Recognition and Measurement and introduces new classification and measurement requirements, a single, forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. As a result of preliminary analysis performed this standard does not have a significant impact on the Group's consolidated financial statements.
- IFRS 15 Revenue from contracts with customers (effective for annual periods

beginning after 1 January 2018 with earlier application permitted) outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. To assess the effect of IFRS 15 on the consolidated financial statements the Group analysed all major classes of transactions. As a result of preliminary analysis performed no significant effect of the adoption of new standard on the Group's consolidated financial statements is expected.

- IFRS 16 Leases (effective for annual periods beginning after 1 January 2019 with earlier application permitted, if IFRS 15 is also adopted) supersedes IAS 17 Leases and provides a new approach to lease accounting that eliminates the classification of leases as either operating leases or finance leases for a lessee and requires a lessee to recognise assets and liabilities for the rights and obligations created by leases. The Group is currently assessing the impact of the new standard on the consolidated financial statements.

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) Investments in equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure

purposes only and is categorised as Level 3 of the fair value hierarchy.

For non-quoted investments the fair value, if reliably measurable, is determined using valuation models.

(b) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes and is categorised as Level 3 of the fair value hierarchy.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes and categorised as Level 3 of the fair value hierarchy, is 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 year the Group made a decision to make certain reclassifications of expenses for the year ended 31 December 2016 on materials and services, salaries and social contributions, depreciation, Russian Railways infrastructure tariff and operators' fees, and other expenses between cost of sales, administrative expenses and selling expenses, net in order to align them with the current year's presentation:

2016

	As previously presented RUB mln	Reclassifica- tions RUB mln	As adjusted RUB mln
Cost of sales	(86,391)	(1,653)	(88,044)
Administrative expenses	(13,891)	293	(13,598)
Selling expenses	(21,129)	1,360	(19,769)

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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 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:	158,021	22,495	835	181,351
Export	103,910	16,983	-	120,893
Domestic	54,111	5,512	835	60,458
Cost of goods sold	(87,040)	(13,641)	(748)	(101,429)
Gross segment profit	70,981	8,854	87	79,922
Certain items of profit or loss				
Amortisation and depreciation	(10,704)	(4,192)	(388)	(15,284)
Total non-current segment assets	106,811	66,081	3,994	176,886
Additions to property, plant and equipment	26,928	8,955	613	36,496

Segment information of the Group as at 31 December 2016 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:	168,136	18,829	777	187,742
Export	110,458	14,264	-	124,722
Domestic	57,678	4,565	777	63,020
Cost of goods sold	(76,320),	(11,025)	(699)	(88,044)
Gross segment profit	91,816	7,804	78	99,698
Certain items of profit or loss				
Amortisation and depreciation	(8,095)	(2,328)	(344)	(10,767)
Total non-current segment assets	91,880	60,240	3,758	155,878
Additions to property, plant and equipment	23,791	20,967	533	45,291

The analysis of export revenue by regions is as follows:

	2017 RUB mln	2016 RUB mln
Europe	44,511	46,738
North and South America	40,619	32,992
CIS	17,287	15,883
India	7,087	10,280
Africa	7,058	6,367
Asia	4,331	12,462
	120,893	124,722

7. REVENUES

	2017 RUB mln	2016 RUB mln
Sales of chemical fertilisers	144,993	146,369
Sales of apatite concentrate	21,158	26,037
Sales of sodium tripolyphosphate	2,980	4,839
Sales of ammonium	729	75
Sales of nepheline concentrate	681	825
Other sales	10,810	9,597
	181,351	187,742

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8. PERSONNEL COSTS

	2017 RUB mln	2016 RUB mln
Cost of sales	(11,234)	(10,937)
Administrative expenses	(8,422)	(7,882)
Selling expenses	(477)	(368)
	(20,133)	(19,187)

9. COST OF SALES

	2017 RUB mln	2016 RUB mln
Materials and services	(31,597)	(27,199)
Depreciation	(13,719)	(9,424),
Salaries and social contributions	(11,234)	(10,937)
Natural gas	(9,715)	(8,084)
Potash	(8,772)	(7,104)
Ammonia	(6,650)	(5,801),
Sulphur and sulphuric acid	(6,471)	(6,065)
Electricity	(5,539)	(4,462)
Chemical fertilisers and other products for resale	(4,753)	(4,254)
Fuel	(3,034),	(2,299)
Ammonium sulphate	(2,424),	(2,547)
Heating energy	(671)	(676)
Other items	(9)	(42)
Change in stock of WIP and finished goods	3,159	850
	(101,429)	(88,044)

10. ADMINISTRATIVE EXPENSES

	2017 RUB mln	2016 RUB mln
Salaries and social contributions	(8,422)	(7,882)
Professional services	(1,958)	(1,555)
Depreciation and amortisation	(943)	(798)
Other	(3,339)	(3,363)
	(14,662)	(13,598)

11. SELLING EXPENSES

	2017 RUB mln	2016 RUB mln
Freight, port and stevedoring expenses	(11,482)	(9,997)
Russian Railways infrastructure tariff and operators' fees	(9,185)	(7,402)
Materials and services	(2,700)	(1,457)
Depreciation	(622)	(545)
Salaries and social contributions	(477)	(368)
	(24,466)	(19,769)

12. OTHER EXPENSES, NET

	2017 RUB mln	2016 RUB mln
Social expenditures	(2,139)	(2,081)
Loss on disposal of property, plant and equipment and intangible assets	(614)	(614)
Increase in provision for bad debt	(164)	(85)
Decrease/ (increase) in provision for inventory obsolescence	85	(151)
Other income, net	696	459
	(2,136)	(2,472)

13. FINANCE INCOME AND FINANCE COSTS

	2017 RUB mln	2016 RUB mln
Interest income	254	479
Unwind of discount of financial assets	89	95
Dividend income	4	-
Gain from operations with derivative financial instruments	-	210
Other finance income	268	125
Finance income	615	909
Interest expense	(4,347)	(4,365)
Provision for bad debt on financial investments (note 19)	(2,243)	-
Bank fees	(355)	(315)
Other finance costs	(35),	(2)
Finance costs	(6,980)	(4,682)
Net finance costs	(6,365)	(3,773)

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14. INCOME TAX EXPENSE

The Company's applicable corporate income tax rate is 20% (2016: 20%).

	2017 RUB mln	2016 RUB mln
Current tax expense	(5,803)	(13,311)
Origination and reversal of temporary differences, including change in unrecognised assets	(2,908)	(1,730)
	(8,711)	(15,041)

Reconciliation of effective tax rate:

	2017 RUB mln	%	2016 RUB mln	%
Profit before tax	34,042	100	74,927	100
Income tax at applicable tax rate	(6,808)	(20)	(14,985)	(20)
Under provided in respect of prior years	29	-	76	-
Unrecognised tax liability on profit from associates	57	-	28	-
Non-deductible items	(1,361)	(4)	(697)	(1)
Change in unrecognised deferred tax assets	13	-	(15)	-
Effect of tax rates in foreign jurisdictions	38	-	28	-
Reduction in tax rate	144	-	524	1
Recognition of previously unrecognised deferred tax liabilities	(823)	(2)	-	-
	(8,711)	(26)	(15 041)	(20)

15. PROPERTY, PLANT AND EQUIPMENT

RUB mln	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2016	30,821	74,712	6,749	58,500	170,782
Additions	-	248	1,696	43,347	45,291
Transfers	14,674	10,441	-	(25,115)	-
Disposals	(616)	(1,232)	(148)	(409)	(2,405)
At 1 January 2017	44,879	84,169	8,297	76,323	213,668
Additions	752	392	2,874	32,478	36,496
Transfers	22,018	44,630	-	(66,648)	-
Disposals	(474)	(2,168)	(93)	(295)	(3,030)
At 31 December 2017	67,175	127,023	11,078	41,858	247,134

RUB mln	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Accumulated depreciation					
At 1 January 2016	(7,923)	(37,660)	(4,247)	-	(49,830)
Depreciation charge	(1,983)	(7,669)	(1,027)	-	(10,679)
Disposals	269	1,157	128	-	1,554
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 31 December 2017	(12,435)	(53,276)	(6,310)	-	(72,021)
Net book value at 1 January 2016	22,898	37,052	2,502	58,500	120,952
Net book value at 1 January 2017	35,242	39,997	3,151	76,323	154,713
Net book value at 31 December 2017	54,740	73,747	4,768	41,858	175,113

As at 31 December 2017, the balance of the construction in progress account includes the accumulated costs related to

- The construction of service infrastructure of urea plant in the amount of RUB 288 million,

in Cherepovets:

- The construction of ammonium sulphate plant in the amount of RUB 1,823 million;
- Replacement of reaction tubes and catalyzers in the amount of RUB 1,558 million;
- Development programme of production facilities for sulphuric acid in the amount of RUB 1,129 million;
- The construction of service infrastructure of ammonia plant in the amount of RUB 979 million;
- Development programme of production facilities for extraction of phosphoric acid and fertilizers in the amount of RUB 662 million;

in Kirovsk:

- Underground mine extension in the amount RUB of 9,848 million;
- The construction of apatit-nepheline beneficiation plant in the amount of RUB 5,686 million;
- The development of Rasvumchorrskiy mine in the amount of RUB 3,789 million.

(a) Leasing

Plant and equipment with the carrying value of RUB 5,422 million (31 December 2016: RUB 5,778 million) is leased under various finance lease agreements, see note 27(a).

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16. INVESTMENTS IN ASSOCIATES

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

	2017 RUB mln	2016 RUB mln
Balance at 1 January	816	810
Share in profit for the year	287	140
Dividends accrued	-	(47)
Foreign currency translation difference	(134)	(87)
Balance at 31 December	969	816

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

	31 December 2017 RUB mln	31 December 2016 RUB mln
JSC Khibinskaya Teplovaya Kompaniya	398	386
LLC PHOSAGRO-UKRAINE	488	312
JSC Giproruda	25	69
OJSC Soligalichskiy izvestkovyi kombinat	58	49
	969	816

Summary financial information for associates is as follows:

2017	Total assets RUB mln	Total liabilities RUB mln	Net assets RUB mln	Net assets RUB mln	(Loss)/profit for the year RUB mln
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)
OJSC Soligalichskiy izvestkovyi kombinat	425	(196)	229	500	5
	5,296	(2,773)	2,523	15,346	789
2016	Total assets RUB mln	Total liabilities RUB mln	Net assets RUB mln	Net assets RUB mln	(Loss)/profit for the year RUB mln
JSC Khibinskaya Teplovaya Kompaniya	2,376	(1,655)	721	699	(29)
LLC PHOSAGRO-UKRAINE	2,247	(1,465)	782	9,496	386
JSC Giproruda	326	(201)	125	102	(16)
OJSC Soligalichskiy izvestkovyi kombinat	299	(81)	218	483	43
	5,248	(3,402)	1,846	10,780	384

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	Assets 2017	Liabilities 2017	Net 2017	Assets 2016	Liabilities 2016	Net 2016
Property, plant and equipment	78	(8,893)	(8,815)	27	(5,688)	(5,661)
Other long-term assets	6	(28)	(22)	17	(31)	(14)
Current assets	469	(549)	(80)	822	(488)	334
Liabilities	947	(36)	911	1,238	(33)	1,205
Tax loss carry-forwards	5,486	-	5,486	4,682	-	4,682
Unrecognised deferred tax assets	(23)	-	(23)	(36)	-	(36)
Tax assets/(liabilities)	6,963	(9,506)	(2,543)	6,750	(6,240)	510
Set off of tax	(1,592)	1,592	-	(1,640)	1,640	-
Net tax assets/(liabilities)	5,371	(7,914)	(2,543)	5,110	(4,600)	510

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 2017 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 2017, no deferred tax liability for taxable temporary differences of RUB 48,502 million has been recognised (31 December 2016: RUB 29,869 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%.

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(b) Movement in temporary differences during the year

RUB mln	31 December 2017	Recognised in profit or loss	Recognised in other comprehensive income	1 January 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 (liabilities)/assets	(2,543)	(2,908)	(145)	510

RUB mln	31 December 2016	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2016
Property, plant and equipment	(5,661)	(433)	-	(5,228)
Other long-term assets	(14)	(80)	-	66
Current assets	334	(219)	-	553
Liabilities	1,205	(367)	16	1,556
Tax loss carry-forwards	4,682	(616)	-	5,298
Unrecognised deferred tax assets	(36)	(15)	-	(21)
Net tax assets	510	(1,730)	16	2,224

18. OTHER NON-CURRENT ASSETS

	31 December 2017 RUB mln	31 December 2016 RUB mln
Financial assets available-for-sale, at cost	595	595
Loans issued to third parties, at amortised cost	232	266
Financial assets available-for-sale, at fair value	181	138
Loans issued to related parties, at amortised cost	97	330
Loans issued to employees, at amortised cost	77	103
Loans issued to associates, at amortised cost	20	40
Other long-term assets	753	754
	1 955	2 226

19. OTHER CURRENT INVESTMENTS

	31 December 2017 RUB mln	31 December 2016 RUB mln
Investments in debt securities, at amortised cost	4,421	4,656
Loans issued to related parties, at amortised cost	213	218
Loans issued to third parties, at amortised cost	43	162
Interest receivable	42	35
Loans issued to employees, at amortised cost	35	115
Loans issued to associates, at amortised cost	23	-
Financial assets available-for-sale, at fair value	-	424
Provision for doubtful accounts	(4,425)	(2,328)
	352	3,282

As at 31 December 2017 and 31 December 2016 the Group held debt securities issued by entities affiliated to a Russian bank with the total amount of RUB 4,421 million (31 December 2016: 4,656 million). Taking into account the uncertainties associated

with the mutual court claims filed by the Group and the bank, the Group recognised a provision of 100% of the nominal value of the debt securities in the amount of RUB 4,421 million (31 December 2016: RUB 2,328 million) (note 13).

20. INVENTORIES

	31 December 2017 RUB mln	31 December 2016 RUB mln
Raw materials and spare parts	11,712	7,586
Finished goods:		
Chemical fertilisers	10,623	8,274
Apatite concentrate	200	219
Work-in-progress:		
Apatite-nepheline ore	1,820	1,329
Chemical fertilisers and other products	1,723	1,296
Other goods for resale	84	173
Chemical fertilisers for resale, purchased from the third parties	1,279	1,238
Provision for obsolescence	(96)	(181)
	27,345	19,934

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21. TRADE AND OTHER RECEIVABLES

	31 December 2017 RUB mln	31 December 2016 RUB mln
Trade accounts receivable	15,507	12,770
VAT and other taxes receivable	10,306	11,932
Advances issued	4,662	4,693
Income tax receivable	2,734	339
Deferred expenses	210	229
Receivables from employees	26	36
Other receivables	818	513
Provision for doubtful accounts	(536)	(499)
	33,727	30,013

The movements in provision for doubtful accounts are as follows:

	2017 RUB mln	2016 RUB mln
Balance at 1 January	(499)	(527)
Foreign currency translation difference	17	67
Disposal of trade receivables through provision	110	46
Increase in provision for bad debt	(164)	(85)
Balance at 31 December	(536)	(499)

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

22. CASH AND CASH EQUIVALENTS

	31 December 2017 RUB mln	31 December 2016 RUB mln
Cash in bank	2 459	4 860
Call deposits	227	2 395
Petty cash	5	6
	2 691	7 261

23. EQUITY

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares
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
Shares on issue at 31 December 2016, RUB 2.5 par value	129,500,000
Shares authorised for additional issue at 31 December 2016, 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 2017, the Company had cumulative retained earnings of RUB 32,102 million (31 December 2016: RUB 37,046 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 2016	January 2017	39	5,051
March 2017	May 2017	30	3,885
May 2017	July 2017	21	2,719
August 2017	October 2017	24	3,108
			14,763
Total dividends approved subsequent to the reporting date			
November 2017	February 2018	21	2,719
March 2018	To be approved in May 2018	15	1,943
			4,662

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.

	2017 RUB mln	2016 RUB mln
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 mln	25,333	59,884
Basic and diluted earnings per share, RUB	196	462

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.

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	31 December 2017 RUB mln	31 December 2016 RUB mln
Current loans and borrowings:		
Loan participation notes	28,800	-
Unsecured bank loans	14,266	10,418
Unsecured letters of credit issued by banks	-	1,278
Unsecured loans from other companies	13	9
Interest payable	946	752
	44,025	12,457
Non-current loans and borrowings:		
Unsecured bank loans	46,561	65,002
Loan participation notes ¹ ,	28,714	30,308
Unsecured letters of credit issued by banks	1,255	485
Unsecured loans from other companies	-	614
	76,530	96,409
	120,555	108,866

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 29,342 million (31 December 2016: RUB 31,337 million).

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 29,258 million.

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

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

	31 December 2017 RUB mln	31 December 2016 RUB mln
USD-denominated	100,874	95,193
RUB-denominated	13,325	7,018
EUR-denominated	6,356	6,655
	120,555	108,866

The maturity of the loans and borrowings is as follows:

	31 December 2017 RUB mln	31 December 2016 RUB mln
Less than 1 year	44,025	12,457
1-2 years	9,430	47,336
2-3 years	16,265	20,339
3-4 years	31,822	12,654
4-5 years	5,064	2,305
More than 5 years	13,949	13,775
	120,555	108,866

Reconciliation of liabilities arising from
financing activities:

	31 December 2016 RUB mln	Cash inflows RUB mln	Cash outflows RUB mln	Foreign exchange (gain)/loss RUB mln	Foreign currency translation RUB mln	31 December 2017 RUB mln
Loans and borrowings (excluding interest payable)	108,114	90,094	(74,245)	(4,163)	(191)	119,609
Finance lease liabilities	3,510	-	(1,365)	(24)	-	2,121
	111,624	90,094	(75,610)	(4,187)	(191)	121,730

26. DEFINED BENEFIT OBLIGATIONS

	31 December 2017 RUB mln	31 December 2016 RUB mln
Долгосрочные обязательства по выплате пенсий	701	535
Обязательства по выплате единовременных вознаграждений в связи с окончанием трудовой деятельности	249	232
	950	767

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 2016	424
Benefits paid	(73)
Current service costs and interest	57
Past service costs	275
Actuarial loss in other comprehensive income	84
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 31 December 2017	950

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

	31 December 2017	31 December 2016
Discount rate	7.7%	8.5%
Future pension increases	4.2%	4.5%

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27. LEASES

(a) Finance leases

LLC "PhosAgro-Trans", a Group subsidiary, has entered into several agreements to lease 2,750 railway wagons. Other Group subsidiaries also have entered into lease agreements in 2014 and 2015. At the end of the lease term, the ownership for the leased assets will be transferred to the lessee.

2017

RUB mln	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

2016

RUB mln	Minimum lease payments	Interest	Principal
Less than one year	1,900	220	1,680
Between one and five years	1,994	164	1,830
	3,894	384	3,510

(b) Operating leases

During 2016-2017, LLC "PhosAgro-Trans", a group subsidiary, entered into several operating lease agreements to rent railway wagons. The rent payments for 2017, which are recorded in the cost of sales, amounted to RUB 215 million (2016: RUB 240 million).

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

	31 December 2017 RUB mln	31 December 2016 RUB mln
Less than one year	314	208
Between one and five years	2,270	244
	2,584	452

28. TRADE AND OTHER PAYABLES

	31 December 2017 RUB mln	31 December 2016 RUB mln
Trade accounts payable	6,291	5,574
Payable for property, plant and equipment	5,838	7,141
Advances received	4,414	5,203
Taxes payable	2,014	2,328
Payables to employees	1,675	1,167
Accruals	1,309	1,231
Income tax payable	109	237
Other payables	198	159
	21,848	23,040

29. FINANCIAL RISK MANAGEMENT**(a) Overview**

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 holdings of 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 2017		31 December 2016	
	USD denominated	EUR denominated	USD denominated	EUR denominated
Non-current assets	97	-	330	-
Current assets	1,802	51	3,768	6
Non-current liabilities				
Loans and borrowings	(68,705)	(5,807)	(88,278)	(3,516)
Finance lease liability	(1,004)	-	(1,830)	-
Current liabilities				
Payables	(74)	(321)	(1,227)	(719)
Loans and borrowings	(32,169)	(549)	(6,264)	(3,139)
Finance lease liability	(1,117)	-	(1,680)	-
	(101,170)	(6,626)	(95,181)	(7,368)

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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 10,780 million, before any tax effect (2016: would have increased/(decreased) the Group's profit for the year by RUB 10,255 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

The foreign exchange gain recognised in profit or loss of RUB 4,141 million (RUB 16,962 million for the comparative period) resulted from the appreciation of the Russian Rouble against major currencies during the reporting and the comparative periods. In addition, the net assets of the Group's foreign subsidiaries denominated in USD amount to RUB 18,429 million as at the reporting date (31 December 2016: RUB 12,454 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:

	31 December 2017 RUB mln	31 December 2016 RUB mln
Fixed rate instruments		
Other non-current assets	406	699
Other current investments	541	5,642
Long-term borrowings	(64,378)	(48,263)
Short-term borrowings	(40,035)	(4,870)
Finance lease liabilities	(2,121)	(3,510)
	(105,587)	(50,302)
Variable rate instruments		
Long-term borrowings	(12,152)	(48,146)
Short-term borrowings	(3,044)	(6,835)
	(15,196)	(54,981)

At 31 December 2017, a 1% increase/(decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group's profit or loss and equity by RUB 152 million (31 December 2016: RUB 550 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.

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 incurred losses in respect of trade and other receivables and investments. The main component of this allowance is a specific loss component that relates to individually significant exposures.

The analysis of overdue trade accounts receivable is as follows:

	31 December 2017 RUB mln	31 December 2016 RUB mln
Not past due	14,358	10,695
Past due 0-90 days	589	795
Past due 91-180 days	32	452
Past due 181-365 days	58	302
More than one year	470	526
	15,507	12,770

Current and non-current financial assets

The Group lends money to related parties and to the 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.

As at 31 December 2017 and 31 December 2016 the Group held debt securities issued by entities affiliated to a Russian bank with the total amount of RUB 4,421 million (31 December 2016: RUB 4,656 million). Taking into account the uncertainties associated with the mutual court claims filed by the Group and the bank, the Group recognised a provision of 100% of the nominal value of the debt securities in the amount of RUB 4,421 million (31 December 2016: RUB 2,328 million).

Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, 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:

31 DECEMBER 2017

RUB mln	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Unsecured bank loans	60,827	68,260	16,236	9,647	17,478	3,929	5,767	15,203
Unsecured loans from other companies	13	14	14	-	-	-	-	-
Unsecured letters of credit	1,255	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	57,514	62,166	30,133	1,094	1,119	29,820	-	-
Trade and other payables	12,327	12,327	12,327	-	-	-	-	-
Financial guarantees issued for associates and related parties	1,374	1,697	301	455	461	480	-	-
	136,377	148,992	61,218	13,192	19,275	34,337	5,767	15,203

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31 DECEMBER 2016

RUB mln	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Unsecured bank loans	75,420	84,790	12,975	18,682	21,433	13,690	2,915	15,095
Unsecured loans from other companies	623	668	43	625	-	-	-	-
Unsecured letters of credit	1,763	1,782	1,288	5	489	-	-	-
Interest payable	752	752	752	-	-	-	-	-
Secured finance leases	3,510	3,894	1,900	1,032	624	226	112	-
Loan participation notes	30,308	31,787	1,263	30,524	-	-	-	-
Trade and other payables	12,874	12,874	12,874	-	-	-	-	-
Financial guarantees issued for associates and related parties	1,667	2,291	344	380	485	458	528	96
	126,917	138,838	31,439	51,248	23,031	14,374	3,555	15,191

(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.

(f) Fair values

Unless stated otherwise, management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

30. COMMITMENTS

The Group has entered into contracts to purchase plant and equipment for RUB 26,637 million (31 December 2016: RUB 16,609 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.

(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**

	2017 RUB mln	2016 RUB mln
Sales of goods and services	9,262	7,849
Interest income	15	11
Dividends income	-	47
Purchases of goods and services	(393)	(467)

(ii) Balances with associates

	31 December 2017 RUB mln	31 December 2016 RUB mln
Trade and other receivables	573	968
Long-term loans issued, at amortised cost	20	40
Short-term loans issued, at amortised cost	23	-
Trade and other payables	(13)	(30)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of associates amounting to RUB 1,318 million (31 December 2016: RUB 1,580 million).

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

	2017 RUB mln	2016 RUB mln
Sales of goods and services	1,135	1,268
Interest income	28	48
Purchases of goods and services	(1 340)	(1,316)
Interest expenses (finance lease)	(54)	(71)

(ii) Balances with other related parties

	31 December 2017 RUB mln	31 December 2016 RUB mln
Long-term loans issued, at amortised cost	97	330
Short-term loans issued, at amortised cost	213	218
Trade and other receivables	1	2
Trade and other payables	(65)	(115)
Short-term loans received	(5)	-
Finance lease liabilities	(285)	(587)

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(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of related parties amounting to RUB 56 million (31 December 2016: RUB 87 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 members of key management personnel amounted to RUB 1,422 million (2016: RUB 892 million).

33. SIGNIFICANT SUBSIDIARIES

Subsidiary	Country of incorporation	31 December 2017 Effective ownership (rounded)	31 December 2016 Effective ownership (rounded)
Apatit, JSC (including Balakovo and Kirovsk branches)	Russia	100%	100%
PhosAgro-Cherepovets, JSC *	Russia	-	100%
Metachem, JSC	Russia	100%	100%
NIUIF, JSC	Russia	94%	94%
PhosAgro-Trans, LLC	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%	97,6%
Phosint Limited	Cyprus	100%	95%
PhosAgro Logistics SA	Switzerland	100%	95%
Phosagro Baltic Sp.z o.o.	Poland	100%	95%
Phosagro Deutschland GmbH	Germany	100%	95%
Phosagro France SAS	France	100%	95%
PhosAgro Balkans	Belgrad	100%	-

* JSC "PhosAgro-Cherepovets" merged with JSC "Apatit" on 1 November, 2017.

**34. EVENTS SUBSEQUENT TO
THE REPORTING DATE**

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.

In February 2018 the Company redeemed the USD 500 million 5-year Eurobond issued through SPV in February 2013 with a 4.204% coupon rate (see note 25). The redemption was financed by the Eurobond placed in January 2018.

In March 2018, the Board of Directors proposed paying a dividend of RUB 15 per ordinary share. The total amount of proposed dividends was RUB 1,943 million (see note 23).

ABBREVIATIONS

GDR or depositary receipt

Global Depositary Receipt

bln

Billion

km

Kilometres

kt

Thousand metric tonnes

mln

Million

mln t

Million tonnes

MW

Megawatt

RUB

Russian rouble

t

Metric tonne = 1,000 kg

ths

Thousand

CFR

Cost and Freight — an Incoterms rule. CFR means that the seller must pay the costs and freight to bring goods to the port of destination, including customs costs for exporting the goods. The buyer pays to insure the goods. Risk is transferred to the buyer once the goods are loaded on the vessel. Maritime transport only.

FOB

Free on Board — an Incoterms rule. The seller must load goods on board the vessel nominated by the buyer; costs for delivery of the goods on board of the vessel are the responsibility of the seller.

USD

United States dollars

INDUSTRY TERMS

Ammonia

A colourless combustible gas with the chemical formula NH_3 . Ammonia is a compound of nitrogen and hydrogen, and is primarily used in the production of mineral fertilizers and a wide variety of nitrogen-containing organic and inorganic chemicals.

Ammonium nitrate or AN

A nitrogen fertilizer with a nitrogen content of approximately 34%, produced by reacting nitric acid (an intermediate chemical feedstock produced from ammonia) with ammonia (NH_3).

NP

(Ammonium nitrate-based fertilizers) Complex ammonium nitrate-based fertilizer with phosphorus content. Liquid complex fertilizers or APP liquid phosphate- and nitrogen-based fertilizer.

Apatite

A group of phosphate minerals (phosphate ore), usually referring to hydroxylapatite, fluorapatite and chlorapatite with the chemical formula $\text{Ca}_5(\text{PO}_4)_3(\text{OH}, \text{F}, \text{Cl})$. Apatite is the world's major source of phosphorus, found as variously coloured, glassy crystals, masses or nodules. The phosphorus content of apatite is traditionally expressed as phosphorus pentoxide (P_2O_5).

Apatite-nepheline ore

Ore containing minerals of apatite and nepheline.

By-product

Material, other than the principal product, that is generated as a consequence of an industrial process.

Concentrate

Material that is the result of beneficiation of an ore and which has a higher concentration of mineral values than the mineral values originally contained in the ore. Concentrates are produced in beneficiation plants.

Crushing

A mechanical method of reducing the size of rock.

Deposit

An area of reserves identified by surface mapping, drilling or development.

Diammonium phosphate or DAP

A type of multi-nutrient fertilizer containing nitrogen and phosphorous. Production of DAP is based on the neutralisation of phosphoric acid by ammonia with subsequent drying and granulating.

Downstream

The processing of apatite concentrate, natural gas, sulphur and potash into usable products such as mineral fertilizer, industrial and feed phosphates.

Drillhole

A circular hole made in rock, often in conjunction with a core barrel, in order to obtain a core sample.

EBITDA

Calculated as operating profit adjusted for depreciation and amortisation.

Emission

Pollution discharged into the atmosphere from smokestacks, other vents at commercial or industrial facilities and from transportation exhaust systems.

End product

Commercial product other than those used internally to produce other types of commercial products. For PhosAgro, end products are phosphate-based fertilizers, nitrogen fertilizers, feed and industrial phosphates, and sulphate of potash.

Exploration

The search for minerals. Prospecting, sampling, mapping, diamond drilling and other work involved in the search for mineralisation.

Feed phosphates

Inorganic feed phosphates are a high-quality phosphorus source for animal feed. Most inorganic feed phosphates are derived from phosphate rock, which is chemically treated to make phosphorus available for animals in the form of quality feed phosphates.

The main inorganic feed phosphates are calcium, magnesium, calcium-magnesium, ammonium and sodium phosphates. These phosphates are constant in composition, low in impurities and considered to be the best available sources of phosphorus for animals. An adequate supply of inorganic feed phosphates in animal feed is essential for animals' well-being.

Grade of mineral fertilizer

The relative quality or percentage content of useful components.

Key performance indicator (KPI)

Performance indicators of a division that help the Company evaluate the implementation of plans and make decisions regarding management remuneration.

K₂O

Universal means of storage of potassium (potash) in potassium-containing products.

MER or 'minor element ratio'

The sum of the iron, aluminium and magnesium content divided by the P₂O₅ content.

Monoammonium phosphate or MAP

A type of multi-nutrient fertilizer containing nitrogen and phosphorous. Production of MAP is based on the neutralisation of phosphoric acid by ammonia with subsequent drying and granulating. Monoammonium phosphate is often used in the blending of dry agricultural fertilizers.

Monocalcium phosphate or MCP

A type of feed phosphate with the highest phosphorus digestibility and content.

Nepheline

A mineral containing aluminium oxide (Al₂O₃).

Netback price

Revenue net of costs associated with shipping goods from the production site to the buyer.

Nitrogen or N

One of the primary plant nutrients essential for plant growth and a universal way of

storing nitrogen in nitrogen-containing products.

NPK

A multi-nutrient fertilizer containing nitrogen, phosphorus and potassium.

NPS

A multi-nutrient fertilizer containing nitrogen, phosphorous and sulphur.

Open-pit mine

A mine working or excavation that is open to the surface and where material is not put back into the mined-out areas.

Phosphate rock

Phosphate rock (apatite concentrate or phosphorus concentrate) is an imprecise term that includes both unprocessed phosphorus-containing ore and beneficiated concentrates. Practically all production of phosphate fertilizers is based on phosphate rocks containing some form of the mineral apatite.

Phosphates

A salt or ester of phosphoric acid or a fertilizer containing phosphorus compounds.

Phosphoric acid

Mineral (inorganic) acid having the chemical formula H₃PO₄.

P₂O₅ (phosphoric pentoxide)

A term used to express the content of phosphorus in a substance.

Phosphorous or P

One of the primary plant nutrients essential for plant growth.

PKS

A multi-nutrient fertilizer containing phosphorous, potassium and sulphur.

Potash or K

One of the primary plant nutrients essential for plant growth.

Rare earth elements/resources

A group of 15 elements with atomic numbers ranging from 57 to 71: lanthanum, cerium,

praseodymium, neodymium, promethium, samarium, europium, gadolinium, terbium, dysprosium, holmium, erbium, thulium, ytterbium and lutetium.

Sedimentary

Formed by the deposition of solid fragmental material that originates from the weathering of rocks and is transported from a source to a site of deposition.

Shaft

A mine working (usually vertical) used to transport miners, supplies, ore or capping.

Sulphate of potash or SOP

A non-chloride potash fertilizer.

Sulphuric acid

A strong sulphur-based inorganic mineral acid with the chemical formula H₂SO₄.

Tailing

The fluid slurry that is left after treatment and extraction of an economically extracted mineral.

Trenches

Lines excavated to a predetermined depth to establish the geological structure of a deposit.

Urea

An organic compound of carbon, nitrogen, oxygen and hydrogen. It is the most widely used and highest-concentration nitrogen-based fertilizer formed by reacting ammonia with carbon dioxide at a high pressure.

Waste

Rock lacking sufficient grade and/or other characteristics of ore to be economical.

Upstream

Extraction of solid, liquid and gaseous resources from the earth using specialised equipment.

Waste water

Spent or used water from individual homes, communities, farms or industries that contains dissolved or suspended matter.

OTHER TERMS

Basel Convention

The Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal was adopted on 22 March 1989 by the Conference of Plenipotentiaries in Basel, Switzerland. The overarching objective of the Basel Convention is to protect human health and the environment against the adverse effects of hazardous wastes. Its scope of application covers a wide range of wastes defined as "hazardous wastes" based on their origin and/or composition and their characteristics, as well as two types of wastes defined as "other wastes" — household waste and incinerator ash.

The Department for Environment, Food and Rural Affairs (Defra)

Defra is the government department responsible for environmental protection, food production and standards, agriculture, fisheries and rural communities in the United Kingdom.

The International Plant Nutrition Institute (IPNI)

The IPNI is a global organisation with initiatives addressing the world's growing need for food, fuel, fibre and feed.

Environmental assessment (EA)

A process where the breadth, depth and type of analysis depend on the proposed project. An EA evaluates a project's potential environmental risks and impacts in its area of influence and identifies ways to improve project design and implementation by preventing, minimising, mitigating or compensating for adverse environmental impacts and by enhancing positive impacts.

FAO

Food and Agriculture Organization of the United Nations.

Feasibility study

A comprehensive engineering estimate of all costs, revenues, equipment requirements and production levels likely to be achieved if a mine is developed. The study is used to determine the technical and economic viability of a project and to support the search for project financing.

Fertecon/Argus—FMB/CRU

Fertilizer Economic Market Analysis and Consultancy, UK.

Group/Company/PhosAgro

Refers collectively to PJSC PhosAgro and its subsidiaries.

Helsinki Convention

The Helsinki Convention was signed in 1974 by the then-seven Baltic coastal states, and made all the sources of pollution around the entire Baltic Sea subject to a single convention. The 1974 Convention entered into force on 3 May 1980. A new convention was signed in 1992 by all the states bordering on the Baltic Sea and the European Community in light of political changes and developments in international environmental and maritime law. After ratification, the Convention entered into force on 17 January 2000. The Convention covers the whole of the Baltic Sea area, including inland waters as well as the water of the sea itself and the seabed. Measures are also taken in the whole catchment area of the Baltic Sea to reduce land-based pollution.

IFA

International Fertilizer Association, France.

ISO

International Organization for Standardization, the world's largest standards development organisation. Between 1947 and the present day, the ISO has published more than 19,000 international standards, ranging from standards for activities such as agriculture and construction through mechanical engineering and medical devices to the newest information technology developments.

LSE

London Stock Exchange.

Moscow Exchange

Russia's MICEX and RTS stock exchanges were merged into one entity, MICEX—RTS, in December 2011 and rebranded as the Moscow Exchange in May 2012.

Risk assessment

Qualitative and quantitative evaluation carried out in an effort to determine the risk posed to human health or the environment by the presence or potential presence and use of specific pollutants.

NAMES OF LEGAL ENTITIES USED IN THIS REPORT

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PJSC PhosAgro

PhosAgro

JSC Apatit

Apatit

Kirovsk branch of JSC Apatit

Kirovsk branch of Apatit

Balakovo branch of JSC Apatit

Balakovo branch of Apatit

JSC Metachem

Metachem

OJSC NIUIF

NIUIF

JSC PhosAgro-Trans

PhosAgro-Trans

PhosAgro-Region LLC

PhosAgro-Region

Mining and Chemical Engineering LLC

Mining and Chemical Engineering or MCE

Smart Bulk LLC

Smart Bulk

Phosagro Asia Pte Ltd

Phosagro Asia

Phosint Trading Limited

Phosint Trading

Data on ore reserves presented in this report are prepared on the basis of:

- Data from the approved state register as of 1 January 2017;

- Data from Form 70-TP "Information on Mineral Extraction During Production", which contains data on mined volumes (extracted from the subsoil) and losses during mining (regulatory, actual, excess);
- Information on changes in reserves for the 2017 reporting period: mining, losses during mining, reserves remaining at year end (as of 1 January 2018), reflected in the statistical reporting form 5-GR "Information on the state of and changes to solid mineral reserves";
- Approved Rosnedra protocols for deposits.

Calculations and recalculations for approved reserves are compliant with normative documents:

- Order No 40 of the Ministry of Natural Resources of the Russian Federation dated 7 March 1997 on Approval of Classifications of Mineral Reserves (together with "Classification of Reserves of Deposits and Potential Resources of Solid Minerals", "Classification of Currently Mined Reserves and Forecast Groundwater Resources");
- Order of the Ministry of Natural Resources of the Russian Federation of 5 June 2007 No 37-R on Approval of Methodological Recommendations for Application of Classification of Reserves of Deposits and Potential Resources of Solid Minerals.

Ensuring the completeness of geological exploration, rational use and preservation of subsoil is carried out in accordance with the Law of the Russian Federation 2395-1 on Subsoils dated 21 February 1992.

The information in this Report related to mineral resources as of 1 January 2018 is based on information compiled by the Geology Service Department of the Kirovsk branch of Apatit and authorised by Mr Sergey Glubokiy, Chief Geologist of the Kirovsk branch of Apatit.

CONTACTS

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INVESTOR RELATIONS

Alexander Seleznev

Head of Investor Relations

Tel.: +7 495 231-3115

Email: ir@phosagro.ru

CORPORATE SECRETARY

Sergey Samosyuk

Tel.: +7 495 232-9689, ext. 2712

Email: ks@phosagro.ru

PHOSAGRO LEGAL ADDRESS

55/1 Leninsky Prospekt, bldg. 1, Moscow
119333, Russia

Tel.: +7 495 232-9689

Fax: +7 495 956-1902

DEPOSITARY

Citigroup Global Markets Deutschland AG

Frankfurter Welle Reuterweg 16
60323 Frankfurt, Germany

AUDITOR

JSC KPMG

Naberezhnaya Tower Complex,
10 Presnenskaya Naberezhnaya
Moscow 123112, Russia

Tel.: +7 495 937 4477

Fax: +7 495 937 4400/99

Web: www.kpmg.ru

REGISTRAR

OJSC Reestr

3, bldg. 2, Zubovskaya Ploshchad,
Moscow 119021, Russia

Tel.: +7 495 617 0101

Fax: +7 495 680 8001

Email: reestr@aoreestr.ru

Web: www.aoreestr.ru

CONTACTS FOR EMPLOYEES AND POTENTIAL EMPLOYEES

Diana Sidelnikova

Head of Personnel Evaluation
and Development

Tel.: +7 820 259-3113

Email: dsidelnikova@phosagro.ru

CONTACTS FOR MEDIA

Andrey Podkopalov

Director of Information Policy

Tel.: +7 495 232-9689, ext. 26-51

Timur Belov

Head of Information Policy Division
Press Secretary

Tel.: +7 495 232-9689, ext. 26-52

Email: pr@phosagro.ru

Sam VanDerlip

International PR Advisor

Mobile (UK): +44-75-54-993-032

Tel. (Russia): +7 499 918-3134

Email: vanderlip@em-comms.com

SUSTAINABILITY CONTACTS

Anatoly Kuttyrev

Chief Ecologist

Tel.: +7 495 231-2747

Email: akutyrev@phosagro.ru

