Integrated Report 2015



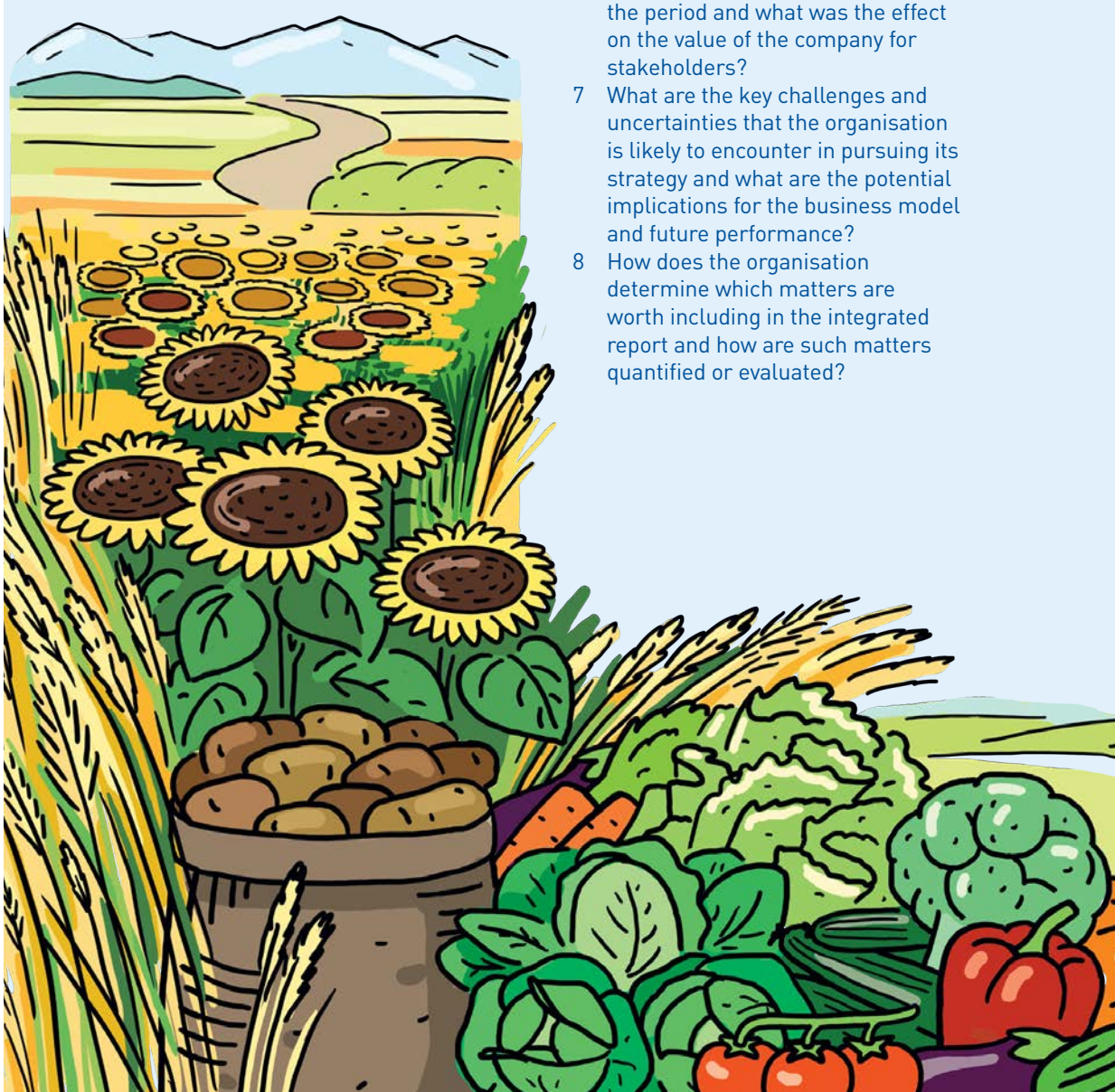
PhosAgro

# CREATING VALUE FOR FARMERS

## About this report

**The purpose of this integrated report is to inform the reader about all material issues that have the potential to impact our business, and to help the reader understand how this influences our strategy, our operations, our financial performance, the long-term sustainability of our business and the value we seek to create for our stakeholders. In this report, we seek to answer the eight questions that integrated reporting is meant to address:**

1. What does the organisation do and what are the circumstances under which it operates?
2. How does the organisation's governance structure support its ability to create value for stakeholders in the short, medium and long-term?
3. What is the organisation's business model?
4. What are the specific risks and opportunities which affect the organisation's ability to create value for stakeholders in the short, medium and long-term?
5. What are the company's key strategic goals and how does it intend to achieve them?
6. To what extent has the organisation achieved its strategic objectives for the period and what was the effect on the value of the company for stakeholders?
7. 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?
8. How does the organisation determine which matters are worth including in the integrated report and how are such matters quantified or evaluated?



Last year, we published our first integrated report, and this year we have tried hard to identify what could be improved and better reported. We have set a high bar for ourselves: we continue to work within the framework of the GRI G4 standard for sustainability reporting. This process involves not only evolving how we report externally, but also adapting the way in which we evaluate our business internally in order to ensure that we consider the full spectrum of issues as part of our decision-making process.

Our goal with this integrated report is to explain our business model and strategy, how we cooperate with our stakeholders, how we manage material issues and key risks and what our key achievements were in 2015.

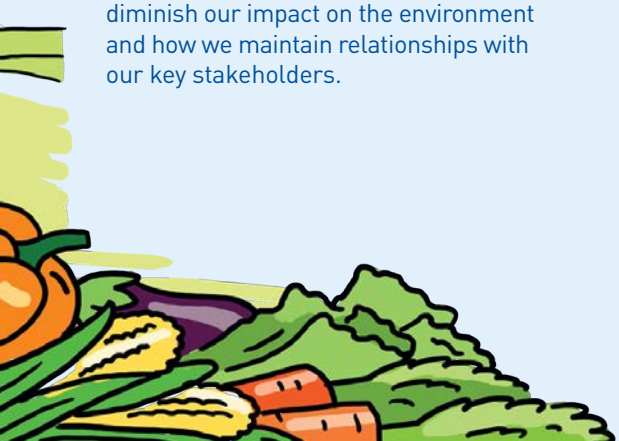
**Corporate responsibility**
Our best-quality resource base is one of the keys to our success. PhosAgro's long-term strategy is aimed at further increasing internal processing of our own phosphate rock, as well as maintaining our industry-leading low cash cost position.

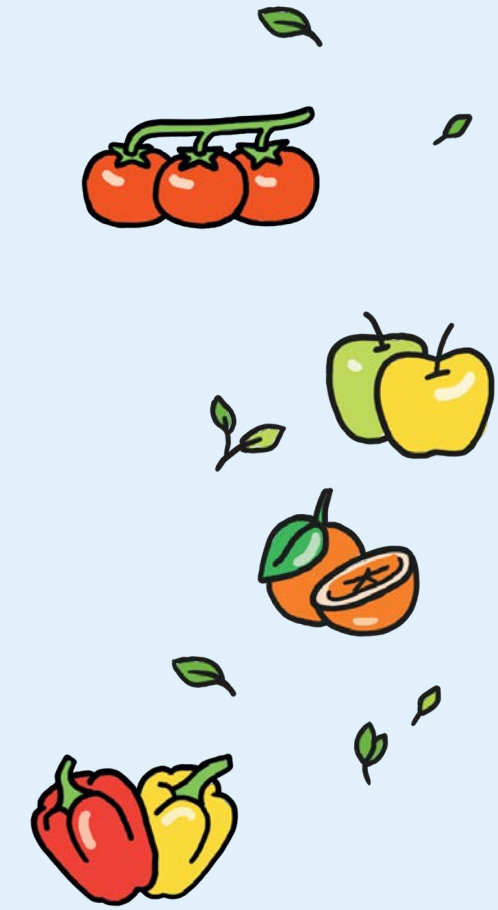
In addition, in order to secure the long-term sustainability of our business model and our operations in Russia, we take a broader view of our interaction with stakeholders and the material issues that could affect our business. With this report, we want to shed more light on the extent to which we invest in human capital, health and safety, and the local communities in the regions where we operate. We provide more details on how our governance systems have been adapted to address business conduct issues, what we are doing to diminish our impact on the environment and how we maintain relationships with our key stakeholders.

**Determining our material issues**
Information within this report has been compiled after conducting a process to determine and assess PhosAgro's material financial and non-financial issues. We did this by running both internal and external surveys supervised by senior management. Clearly matters for inclusion in the report are also determined by its scope and relate to the businesses over which the organisation has operational control.

**Survey process**
Internally, we surveyed the heads of our structural divisions and our key production facilities. Externally, we surveyed analysts and investors, representatives of federal and regional mass media, municipal and regional authorities, trade union leaders and employees at our production facilities. Regional media were also examined to determine matters that are important to the people living in the areas where the Company has an operational presence.

**Timing**
The last survey process was conducted in 2014, and we intend to conduct similar surveys regularly in the future to ensure that our understanding of the key material issues is kept up to date and that we meet our stakeholders' expectations concerning the management and operation of our businesses.









**PhosAgro is a Russia-based company and one of the world's leading phosphate-based fertilizer producers, with a sustainable cost advantage compared to other producers globally. Our unique, high-quality phosphate raw material from the Apatit mine and beneficiation plant on the Kola Peninsula in north-west Russia helps us to remain one of the lowest cash-cost producers globally. This raw material, called apatite-nepheline ore, contains almost no cadmium and other harmful elements, making it safer to use in the manufacture of mineral fertilizers that will be used around the world, at a time when the safety of the food supply chain is becoming increasingly important.**

As a vertically integrated business, we process our apatite-nepheline ore at our own production sites into over 33 grades of fertilizers and other end products; we sell fertilizers through our own distribution and sales network in Russia, as well as with the help of our own sales offices in priority markets like Latin America, Europe and Asia. Our own logistics operations, including a fleet of railcars and a port in Ust-Luga, also help us maintain our sustainable low cash-cost advantage.

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## Our vision

We want to bring ready crop nutrient solutions to the farmers from over 100 countries around the world who are our end customers, helping them to meet increasing global demand for food by growing superior-quality crops. Our strategy until 2020 calls for investments in upstream, downstream, logistics and sales operations, all with the goal of improving our ability to efficiently provide the best mineral fertilizers to farmers nearly anywhere in the world.

These investments build value for our shareholders by enabling us to increase our internal use of apatite-nepheline ore for value-added end products, to achieve sustainable cost savings with more efficient technologies or vertical integration of key parts of the value chain, which ultimately enables farmers to grow crops more efficiently and to provide better quality food to all of us.

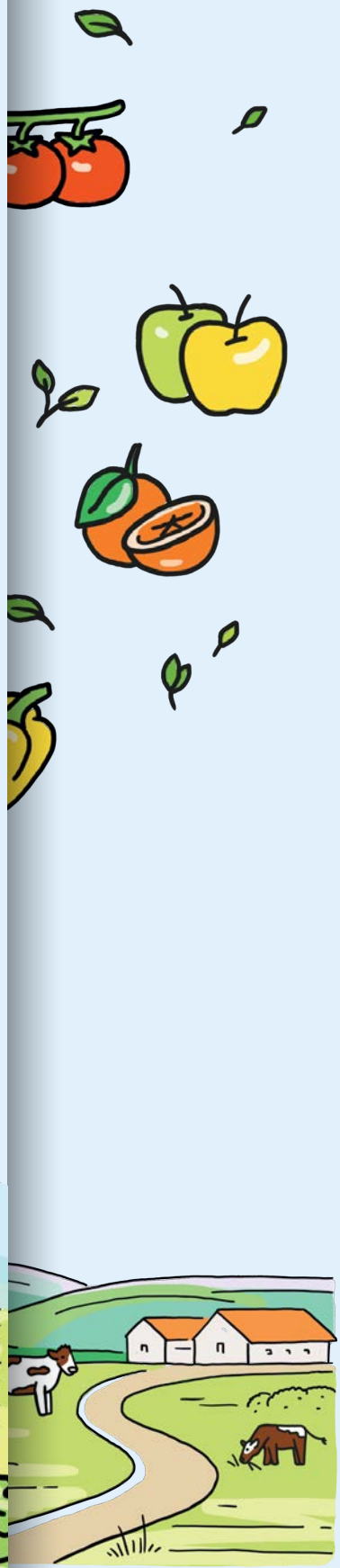
## Our purpose

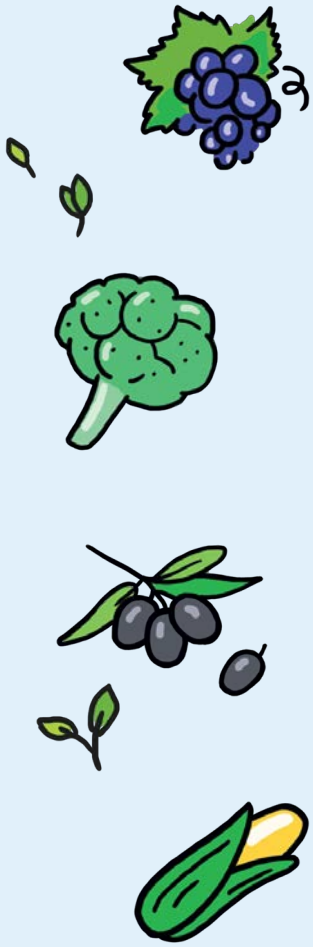
We help the world feed itself by producing mineral fertilizers that increase the output, quality and heartiness of crops.

By 2050, the global population is expected to expand to 9.6 billion people, which implies a 60% increase in demand for soft commodities just to feed the increased population. Other factors, such as changing diets and alternative uses for soft commodities like ethanol fuels, add to this already impressive growth in demand.

We believe that, by implementing our strategy aimed at strengthening our core sustainable advantages, we will build a business that best serves the local communities where we work and the farmers all over the world who use our products, as well as our investors and other stakeholders.







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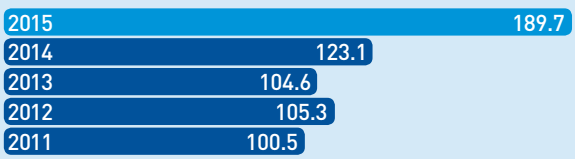
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# Year at a glance

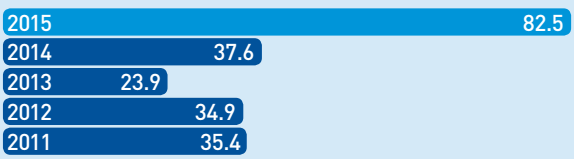
## Financial highlights

In 2015 the Company delivered record financial results: revenue was RUB 189.7 billion, while EBITDA more than doubled, reaching RUB 82.5 billion. Backed by solid cash flows, this strong performance helped PhosAgro maintain its investment-grade credit rating from Standard & Poors while making RUB 42.6 billion in capital expenditure and paying out RUB 18.1 billion in dividends to shareholders.

Revenue,
RUB bln



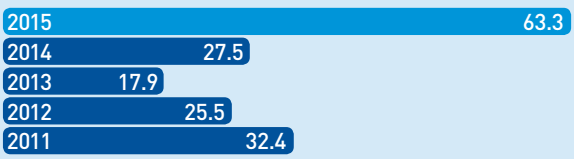

EBITDA,
RUB bln



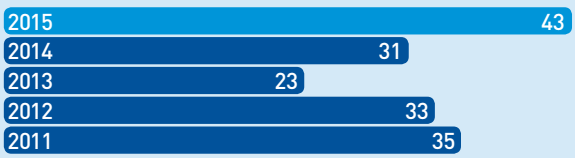

Dividend payout ratio*,
%




Cash flow from operating activities,
RUB bln




EBITDA margin,
%




Net debt/EBITDA




* dividends accrued for a given year

## Operating highlights

- Commissioned Main Shaft No 2 at the Kirov Mine at Apatit, enabling us to make significant efficiency improvements and to replace old capacities that are being wound down. This will increase the annual capacity of the Kirov mine from 13.0 million tonnes to 16.5 million tonnes
- In cooperation with UC Rusal, we commissioned an aluminium fluoride production plant in Cherepovets with an annual capacity of 43,000 tonnes. The aluminium fluoride will be used as feedstock at UC Rusal plants
- Launched the PKS-100 line at Metachem. This entirely new 100 kt/year production capacity will produce phosphate-potash fertilizers that contain sulphur, which is a unique nutrient combination designed for farmers in our priority markets like Brazil
- Launched Smart Bulk Terminal in the Ust-Luga port, which will give us sustainable cost savings on port and rail charges.

## Corporate responsibility highlights

We continue to invest in improving the efficiency of our operations, as well as in maintaining leading workplace health and safety solutions.



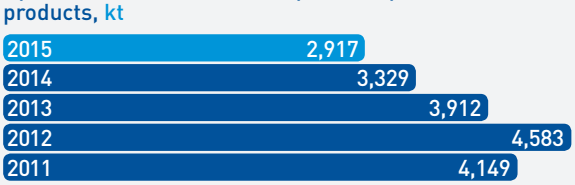
**Downstream sales volumes, kt**



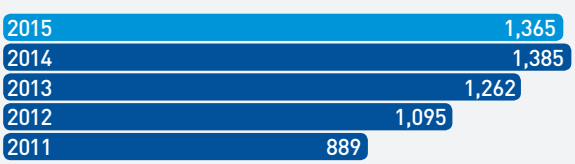

**Phosphate-based fertilizers, MCP and STPP sales volumes, kt**



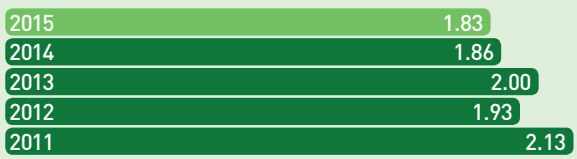

**Upstream sales volumes of apatite-nepheline ore products, kt**




**Nitrogen fertilizers sales volumes, kt**




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




**Lost time injury frequency rate (LTIFR), per 200,000 hours worked**



# We delivered flawless performance on our strategic goals in 2015

**Our stakeholders are already benefitting from the implementation of our long-term vision aimed at being the lowest-cost producer of high-quality crop nutrients that help farmers around the globe to feed the world.**



**Sven Ombudstvedt**
Chairman of the
Board of Directors

## Key milestones 2015

An impressive start to the implementation of our new strategy to 2020

Agro-Cherepovets, PhosAgro AG and Nordic Rus Holding merged into PhosAgro-Cherepovets

Sustainable cost savings from further integration of logistics into our business model

Launched PKS-100 (Metachem) in February and the Main Shaft No2 at the Kirov mine (Apatit) in August

**2015 strategic performance overview**
The PhosAgro team delivered on several strategic fronts in 2015:

To meet the goal of providing farmers with the ready crop solutions they need, PhosAgro launched PKS-100, a new 100 kt per year fertilizer production capacity, in February. In addition, the Company continued to expand its portfolio of NPK fertilizers to include new grades containing not only secondary nutrients like sulphur, but also micro-nutrients like zinc and boron.

Further streamlining of the corporate structure was launched and completed during the year, with Agro-Cherepovets, PhosAgro AG and Nordic Rus Holding all being merged into PhosAgro-Cherepovets

With the completion of the new Smart Bulk Terminal at the Ust-Luga port in June, through which PhosAgro shipped more than 20% of its export goods in 2015, the Company has secured sustainable cost savings by further integrating logistics into its business model.

## Shipped >20% of 2015 export volumes through Smart Bulk Terminal following launch in June

In August, PhosAgro officially commissioned Main Shaft No 2 at Apatit's Kirov mine. This will increase the Kirov mine's capacity with underground mining, which enjoys significantly lower cost per tonne than open pit mining.

The Board considers this to be an impressive start to implementing the sustainable, value-adding initiatives laid out in the new strategy that was presented in November 2014.

## Implementation of strategy to 2020 on track

**Corporate governance developments**
The Board of Directors continuously seeks ways to refine or improve PhosAgro's corporate governance systems. In 2015, we oversaw important initiatives like the expansion of the Company's new risk management function, new anti-corruption policies and practices, including a new conflict-of-interest policy implemented at the Company's subsidiaries, JSC PhosAgro-Cherepovets, JSC Apatit and CJSC Metachem. This has helped to further strengthen the Company's internal systems, which I am confident will contribute to building value for our stakeholders in the long term.

**The Board's key priorities remain:**
Being well-informed: we are able to make well-informed decisions by having access to up-to-date information on financial and operating performance across the Group. The Board also makes regular visits to production sites and our newest Director, Jim Rogers, visited Apatit in November 2015. Members of the Board also regularly interact with PhosAgro's management team, maintaining dialogue on all material issues facing the company.

Independence: maintaining representation from independent members of the Board helps to ensure that the interests of all stakeholders in the Company are represented and have a fair share of voice at Board meetings. In 2015, three of the Board's eight members were independent.

Experience: the makeup of the Board of Directors represents the right mix of experience to help us properly guide PhosAgro's strategic development in the interests of all stakeholders. Our backgrounds range from work in other global chemical and fertilizer companies to soft commodities trading to audit and internal controls. As a large Russian business, our Board also has individuals with significant experience and expertise that is specifically Russia-focused, which ensures that we maintain a proper commitment to our domestic operating environment.

Diversity: the Board of Directors has a diverse set of backgrounds, and we also hail from all over the world: Russia, Norway, the United Kingdom and the United States. This diversity of experience and world view helps us take a more comprehensive approach to the decision-making process, and to better understand our many international stakeholders, which include customers, shareholders, lenders, suppliers and other business partners.

Constant focus on improvement: throughout 2015, the Board oversaw implementation of several important initiatives for PhosAgro's corporate governance. Two of the most important are the anti-corruption policy introduced at the Company's subsidiaries, JSC PhosAgro-Cherepovets, JSC Apatit and CJSC Metachem adopted in April 2015 and the Board-level Risk Management Committee in September 2014. We go into both of these in greater detail later in this report.

## Introduced new anti-corruption and conflict of interest policies and practices

**Corporate responsibility**
We look at corporate responsibility from the standpoint of many different stakeholders. As a manufacturer of crop nutrients, we strive to provide farmers with the crop nutrients that are just right for them and that are free of any dangerous contaminants that could find their way into the food we put on our plates.

For our local communities and domestic market, PhosAgro is a large and stable business that invests in building a modern and globally competitive business. As we grow, we create jobs for highly qualified specialists, and we are constantly investing to ensure that schools, technical colleges and universities in Russia can help to give their students a competitive education that will help them be successful in our company.

We maintain stringent health and safety practices, and invest in new initiatives to ensure that we are providing the people who work at our production facilities the best available practices in this area.

We are also implementing and refining a variety of business conduct policies and practices to ensure that PhosAgro and its suppliers are doing business in an ethical and honest way.

Our responsibility for managing our environmental impact is also key: as we invest in new capacities and modernisations, we constantly aim to implement technologies that are more efficient and that reduce our environmental footprint relative to production volumes.

For our investors and shareholders, we are building a business that benefits from sustainable low cash-cost advantages thanks to our unique assets. Our investments and our strategy are aimed at enhancing this advantage by increasing the size of the business in a way that enables us to capture a greater share of our competitive advantages through increasing scale while enhancing our vertical integration.

When we produced our first integrated report last year, we conducted a number of surveys among key stakeholders in order to identify the material issues related to our activities that affect them. The contents of the 2014 integrated report were guided by this input, and this year's report aims to make further refinements based on our inaugural effort.

**Looking ahead**

In 2015, PhosAgro showed its ability to outperform global peers even in the face of challenging market, economic and political environments. The Company delivered excellent operational and financial results, while at the same time implementing a large-scale investment programme that will benefit our stakeholders for many years into the future.

Already in 2015, we began to see concrete, measurable results from implementation of a new strategy until 2020, with more tangible benefits to come this year and next, when major new capacity additions are due to launch. This has all been done while continuing to pay out healthy dividends and maintaining an investment-grade credit rating from Standard & Poor's.

PhosAgro is unquestionably delivering value to its stakeholders, and I am extremely optimistic about the outlook to 2020, which will see the Company move closer to its customers with higher volumes and a wider selection of crop nutrient solutions that will help farmers safely produce more food.



Sven Ombudstvedt
Chairman of the Board of Directors

"We will see the Company move closer to its customers with higher volumes and a wider selection of crop nutrient solutions that will help farmers safely produce more food."

# Meeting our customers' requirements

**Our strategic focus is on getting closer to our end customers and responding to farmers' needs in order to create value for all of our stakeholders. What does this mean in practice?**




**Upstream**
Investing in efficient mining operations that enable us to provide the world's purest phosphate rock, with virtually no heavy metals or other dangerous impurities, for processing into mineral fertilizers.

**Downstream**
Building new capacities and making upgrades to existing capacities to make our fertilizer production more efficient and more flexible, as well as expanding the range of fertilizer grades we offer to customers around the globe. This means that we can offer solutions for an ever-wider range of crops and soil types including macro-elements like sulphur and micro-nutrients such as boron or zinc.

**Logistics**
Investing in efficiency and flexibility so that we can ensure the reliable and timely delivery of our crop nutrients to customers in a wide range of volumes, ranging from big-bags to shipping containers to bulk freight.

**Sales**
Investing in local sales infrastructure in priority markets, bringing us closer to our customers so that we can better understand their needs and better communicate the solutions we offer them. Sponsoring research to help our customers identify opportunities to improve crop output and safety with the help of PhosAgro fertilizers.

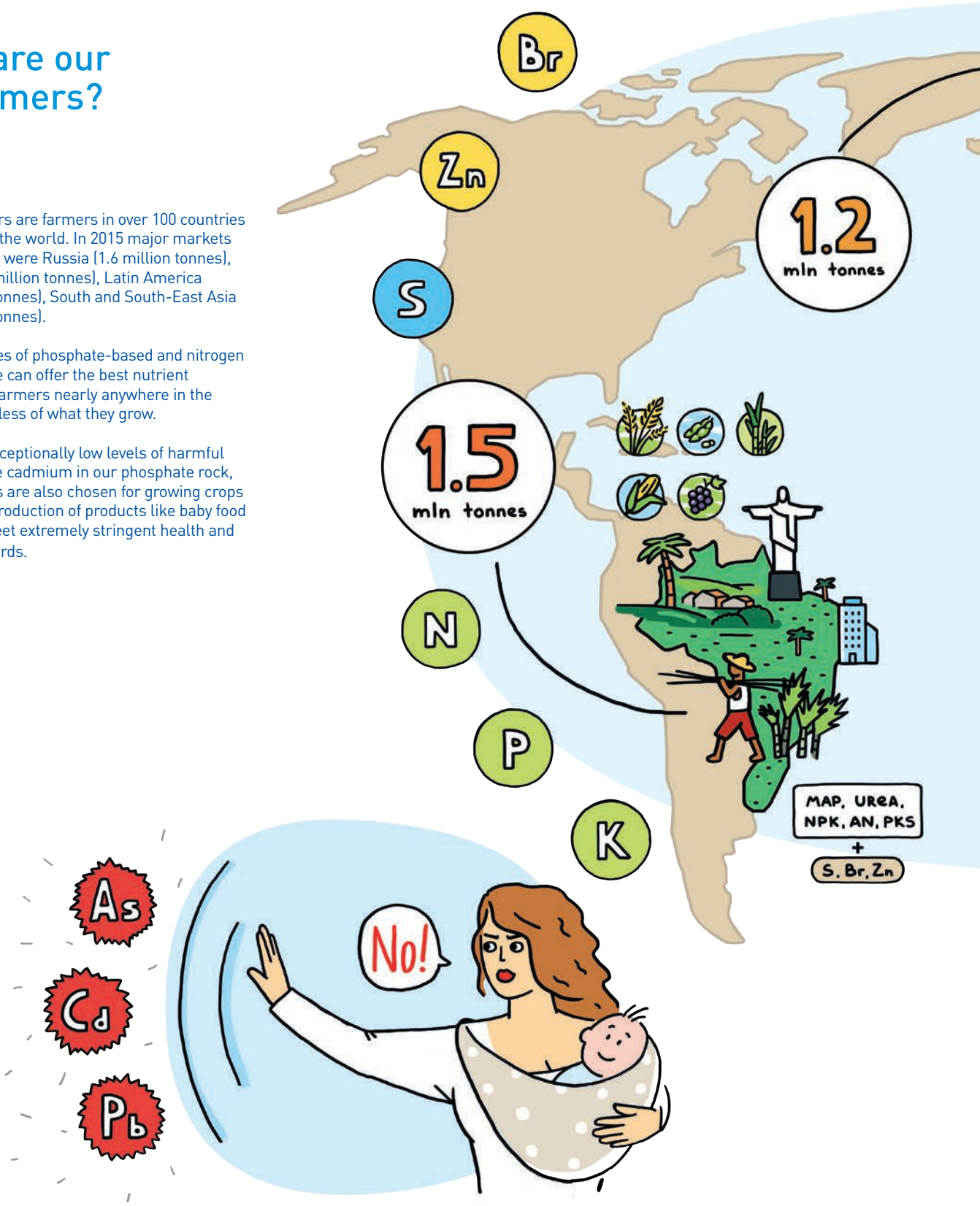
PHOSAGRO®

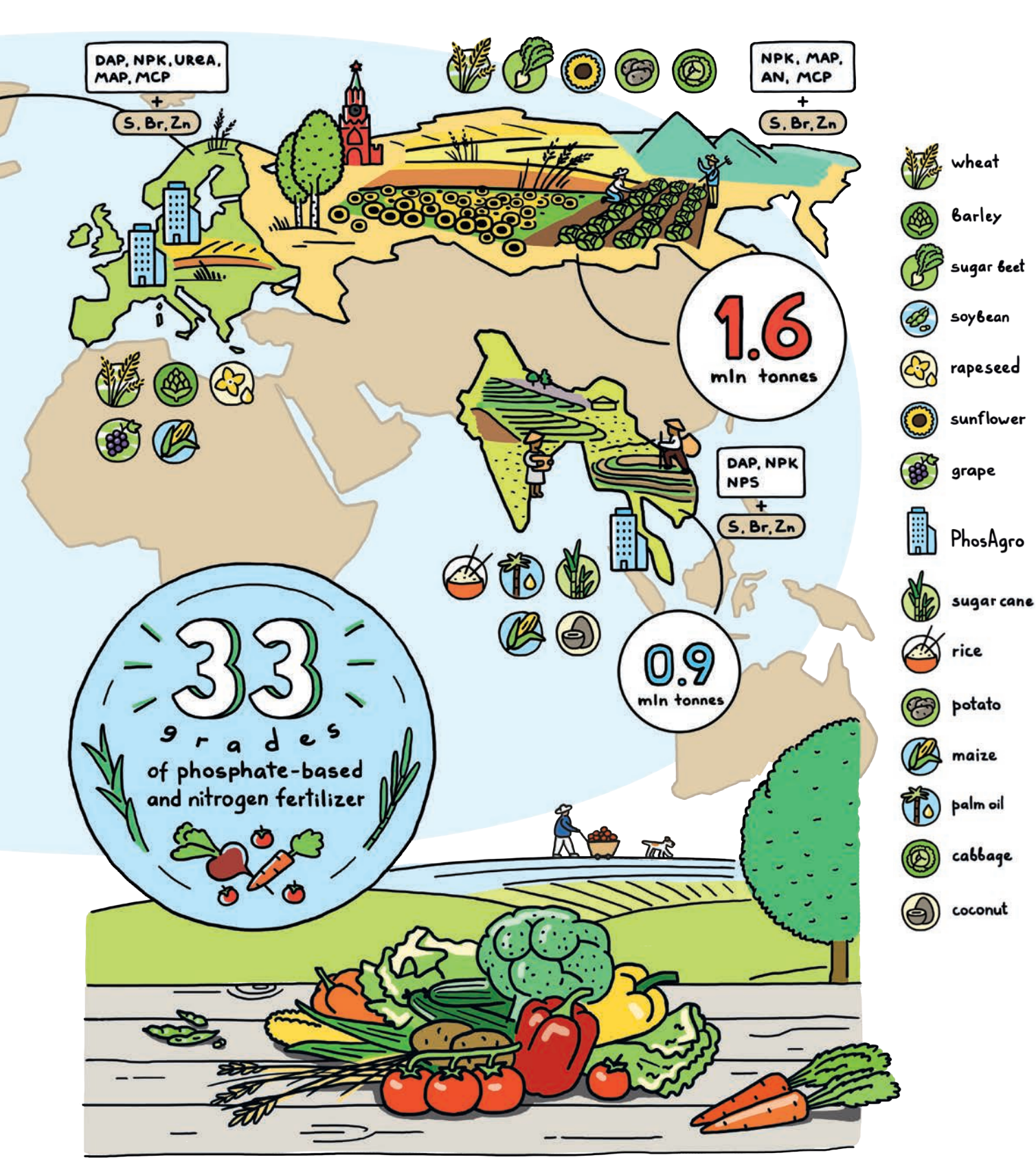
# Who are our customers?

Our customers are farmers in over 100 countries from around the world. In 2015 major markets for PhosAgro were Russia (1.6 million tonnes), Europe (1.2 million tonnes), Latin America (1.5 million tonnes), South and South-East Asia (0.9 million tonnes).

With 33 grades of phosphate-based and nitrogen fertilizers, we can offer the best nutrient solutions to farmers nearly anywhere in the world regardless of what they grow.

Due to the exceptionally low levels of harmful elements like cadmium in our phosphate rock, our fertilizers are also chosen for growing crops used in the production of products like baby food that must meet extremely stringent health and safety standards.




DAP, NPK, UREA, MAP, MCP
+
S, Br, Zn
NPK, MAP, AN, MCP
+
S, Br, Zn
1.6
mln tonnes
DAP, NPK NPS
+
S, Br, Zn
0.9
mln tonnes
33
grades
of phosphate-based and nitrogen fertilizer
wheat
Barley
sugar beet
soybean
rapeseed
sunflower
grape
PhosAgro
sugar cane
rice
potato
maize
palm oil
cabbage
coconut

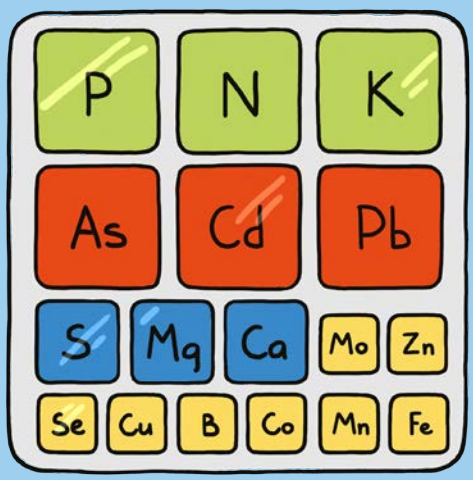
# Why are fertilizers important to the world?

There are several fundamental factors driving demand for mineral fertilizers, but it all boils down to one simple statement: **we help feed the world**. Mineral fertilizers are used by crop-growers all around the world, and are a critical element to ensuring global food security due to:

1. Rising populations: as more people inhabit the Earth, food production must rise to meet growing demand
2. Shrinking arable land: arable land per capita is shrinking, meaning every hectare of land must be used more efficiently and must produce more food
3. Changing diets: as economies develop, people's diets change and more meat is consumed; meat production requires higher levels of grain input, creating even further stress on global food supplies
4. Emerging technologies: technologies like bio-ethanol are also changing the demand landscape for agricultural products, often using food resources that previously had been available for human consumption

As intensive farming increases to meet this demand, high-quality and pure fertilizers like those produced by PhosAgro, which are free from harmful contaminants and heavy metals, are vital to feeding the world.





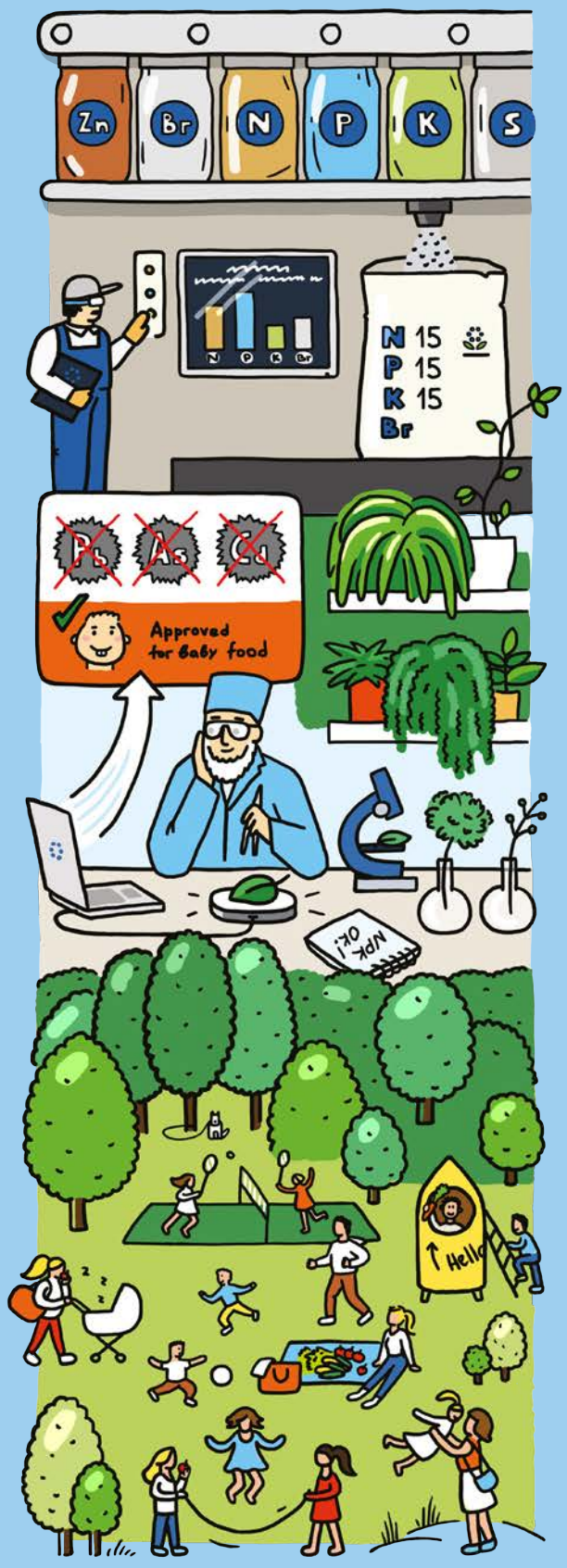

- primary nutrients — 100's kg/ha
- micronutrients — 1's kg/ha
- secondary (macronutrients) — 10's kg/ha
- harmful

# How do we create value for our customers?

We believe that one of the keys to creating value for our customers is understanding their needs, and understanding what their crops need in order to grow better.

By adapting our assortment of fertilizer grades and introducing new nutrient mixes, we are responding to demand from around the world and ensuring that we are able to provide the right solutions to improve crop quality and output for customers. We are also engaging specialist research institutes like the International Plant Nutrition Institute (IPNI) and leading European research institutes to test the effects of various nutrient mixes on specific crops and soil types. In 2015, we looked at how our PKS fertilizers affect soybean crops in Russia.

We also believe that the low levels of cadmium, arsenic, lead and other dangerous impurities in the basic raw material we mine at the beginning of the process creates value every step of the way. Some producers of baby food, which must meet the most stringent safety requirements, have already chosen PhosAgro fertilizers.



# Building a fertilizer leader and constantly seeking value

We already have a unique resource base that gives us a natural competitive advantage due to the superior quality of the phosphate raw materials we use to make fertilizers. We believe that we can also create value by moving closer to farmers, and we have set this as one of our key strategic priorities for the coming years.

We identified priority markets by looking for geographies with large agricultural markets and a structural deficit of phosphate nutrients (Asia, Europe and Latin America), and we have opened new sales offices in these regions.

With local representatives working for PhosAgro, we have improved our ability to speak directly with our customers, and we better understand their needs. It also helps us to better identify ways that our products can help them.

Strategic initiatives like this help to enhance our natural competitive advantage by enabling us to capture value further into the supply chain, and to explain the unique quality of our products to our end customers.



# Case study: PKS fertilizers for soybean crops in Russia

PhosAgro launched a new 100 kt/year line in February 2015 that produces complex PKS (phosphate-potash-sulphur) fertilizers. Sulphur-containing fertilizers are especially important for soybeans, and we wanted to show Russian farmers how our crop nutrient solutions could help them.

We worked with IPNI to conduct research in the Belgorod region in Russia: their aim was to find the optimal crop nutrient mix for soybean production in Russia's Black Earth belt.



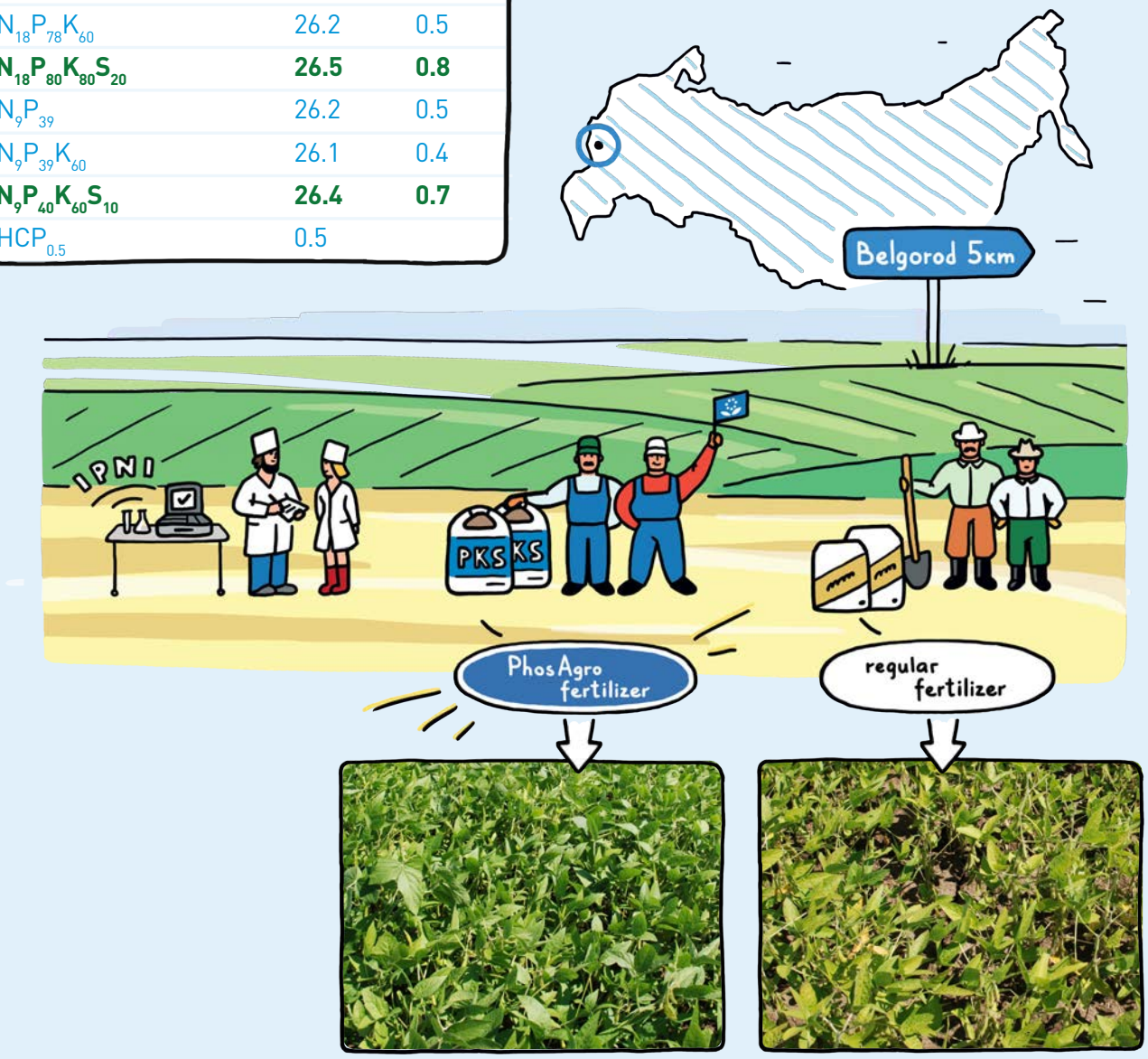
# What is the outcome?
# The results speak for themselves!

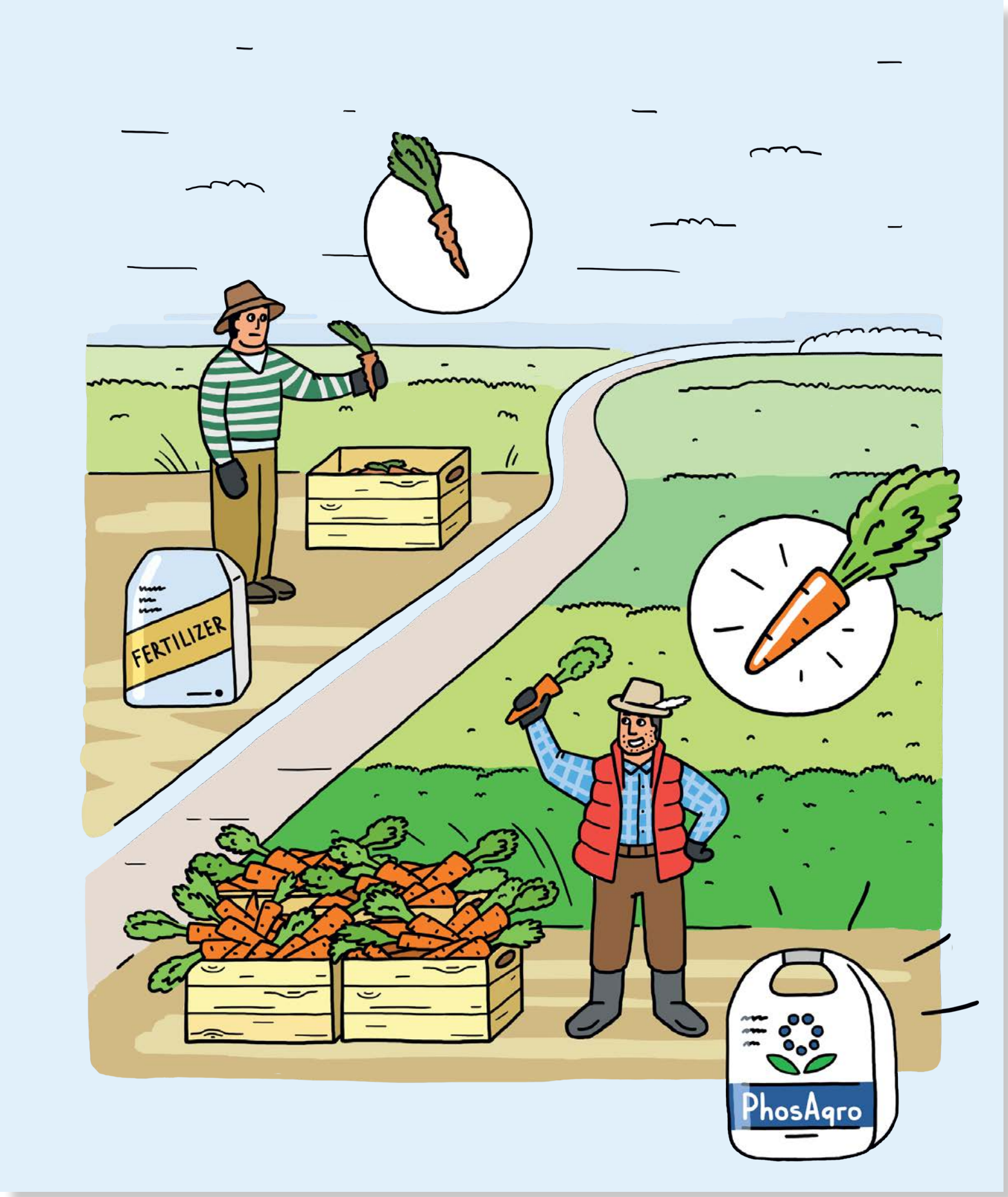
**Yield from Lantsetnaya soy, cwt/h (Belgorod region, Krasnoyaruzhskiy district, Krasnoyaruzhskaya grain company)**

| Nutrient mix | Average | Additional result |
|---|---|---|
| Control (no fertilizer) | 25.7 | – |
| $N_{18}$ | 25.7 | 0 |
| $N_{18}P_{78}$ | 26.2 | 0.5 |
| $N_{18}P_{78}K_{60}$ | 26.2 | 0.5 |
| **$N_{18}P_{80}K_{80}S_{20}$** | **26.5** | **0.8** |
| $N_9P_{39}$ | 26.2 | 0.5 |
| $N_9P_{39}K_{60}$ | 26.1 | 0.4 |
| **$N_9P_{40}K_{60}S_{10}$** | **26.4** | **0.7** |
| $HCP_{0.5}$ | 0.5 | |

In 2015, we conducted tests on soybean crops in Russia to measure the effects of our new sulphur-containing PKS fertilizers produced by the PKS-100 line launched at Metachem. The results, presented in brief here, showed that our fertilizers helped produce significantly improved crop output.

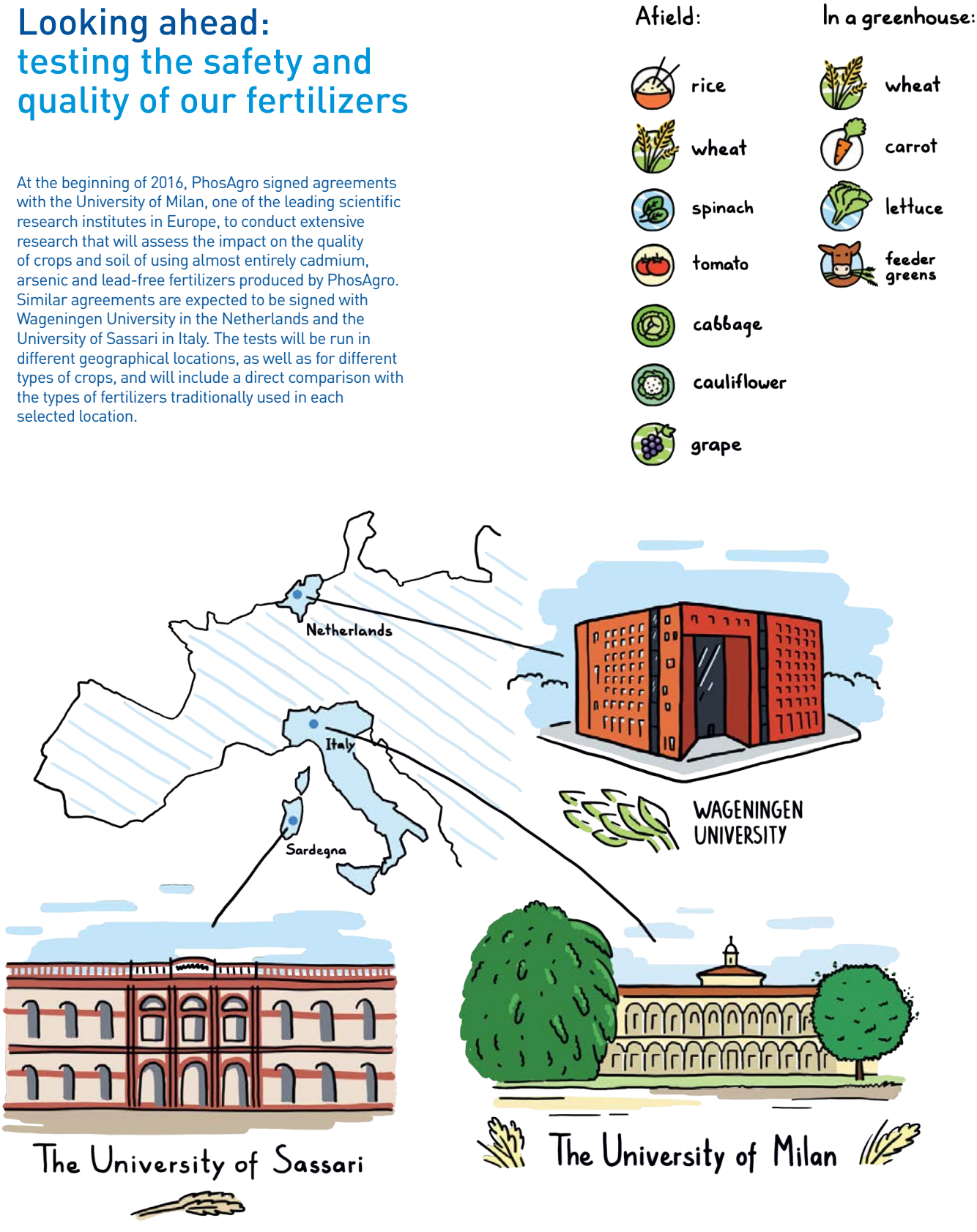
We are sharing these findings with our customers, helping them to understand how selecting the best crop nutrient solutions can improve the productivity of their crops.

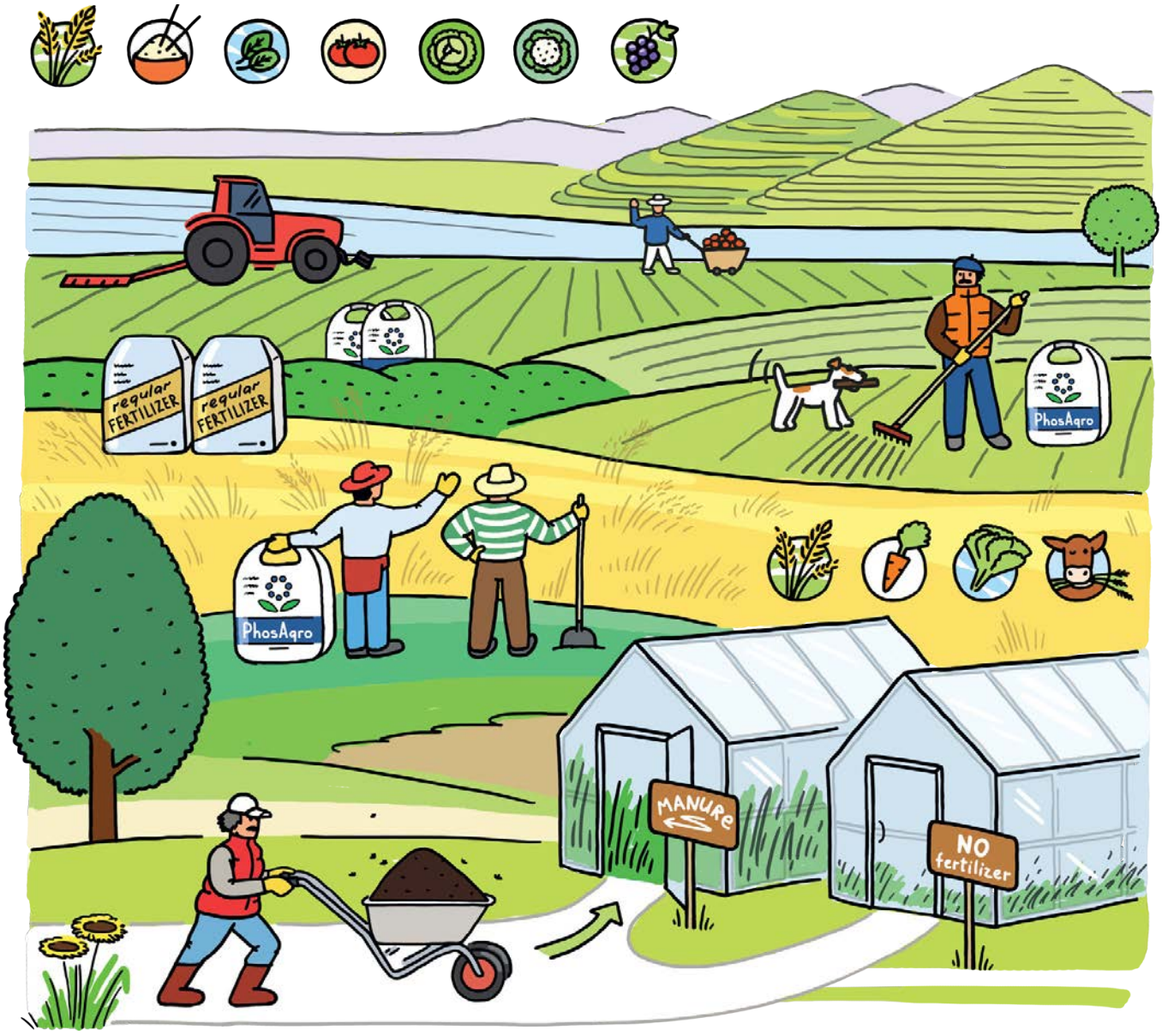


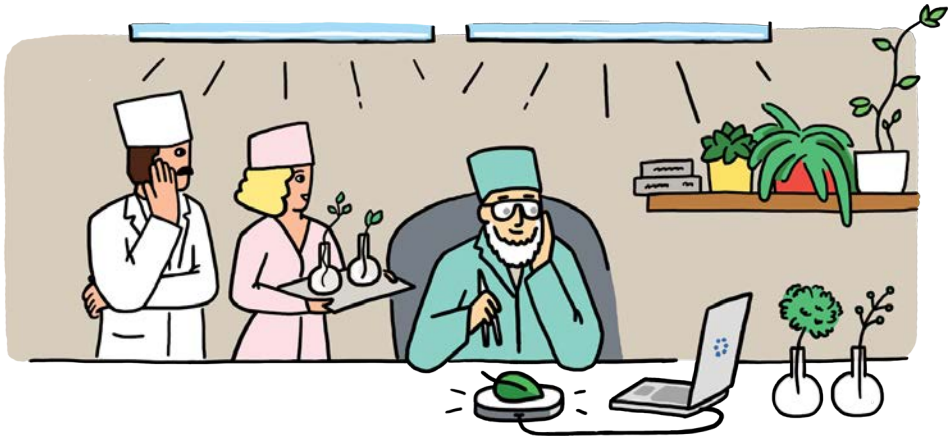

FERTILIZER
PhosAgro

# Looking ahead:
## testing the safety and quality of our fertilizers

At the beginning of 2016, PhosAgro signed agreements with the University of Milan, one of the leading scientific research institutes in Europe, to conduct extensive research that will assess the impact on the quality of crops and soil of using almost entirely cadmium, arsenic and lead-free fertilizers produced by PhosAgro. Similar agreements are expected to be signed with Wageningen University in the Netherlands and the University of Sassari in Italy. The tests will be run in different geographical locations, as well as for different types of crops, and will include a direct comparison with the types of fertilizers traditionally used in each selected location.




regular FERTILIZER
regular FERTILIZER
PhosAgro
PhosAgro
MANURE
NO fertilizer

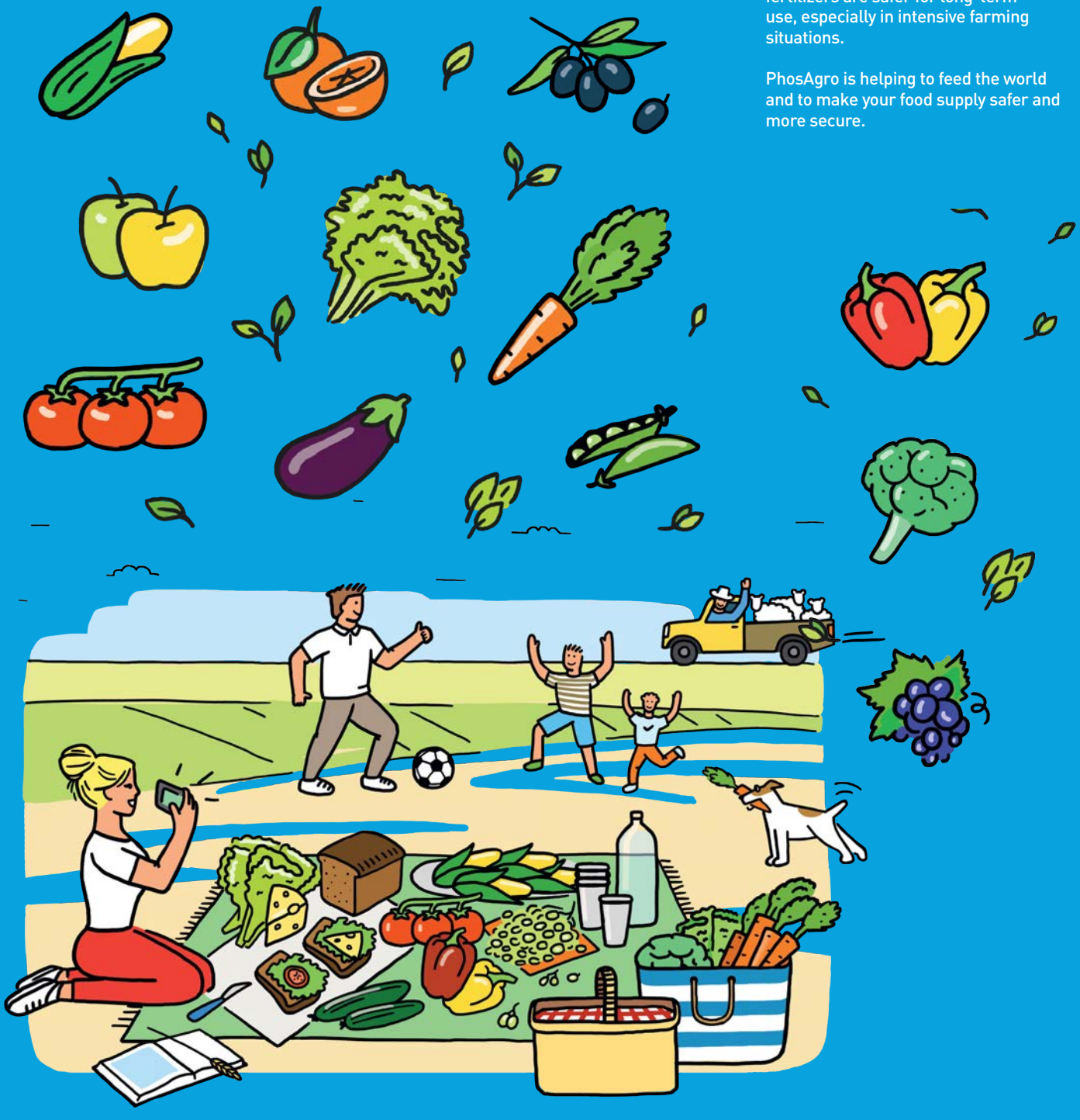


# Delivering more for farmers across the world

Apatit currently produces more of the impurity-free phosphate rock than we can process into phosphate-based fertilizers through our existing downstream capacities. We aim to increase our ability to deliver PhosAgro's high-quality crop nutrient solutions to farmers around the world by expanding production capacity, flexibility and efficiency.

At the same time, we want to make sure that farmers around the world understand, to the greatest extent possible, the benefits of using our fertilizers, and not just because we offer the right nutrient mix to make each hectare produce more food. We also want to demonstrate to farmers, regulators and even food consumers that PhosAgro's phosphate-based fertilizers are safer for long-term use, especially in intensive farming situations.

PhosAgro is helping to feed the world and to make your food supply safer and more secure.



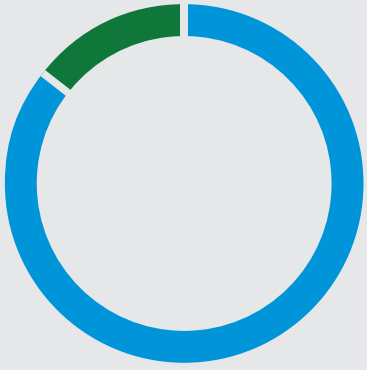
# A global reach

**Priority export markets**
Under our strategy to 2020, we have identified our priority export markets as Europe, Latin America and Asia. We chose these geographies because of the significant demand from agricultural producers for crop nutrients, combined with a structural shortage of domestic phosphate resources. With our flexible production and sales models, PhosAgro is able to provide high-quality, ready solutions for farmers growing a wide range of crops in each of these regions.

We aim to increase sales volumes in our priority export markets by opening our own trading offices: in Zug (Switzerland), Sao Paulo (Brazil), Warsaw (Poland) and Singapore. These offices bring us closer to our end customers and enable us to better understand the needs and characteristics of local markets. We believe this approach enables us to create greater value for the farmers who use our products, and for other stakeholders who benefit from PhosAgro increasing its sales volumes.

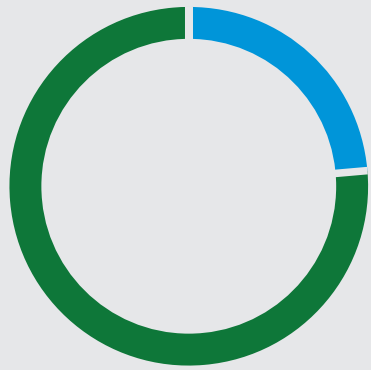
**Domestic market**
Russia is our home market, and historically has been the source of around 30% of our revenue. While the country enjoys a large surplus of phosphate resources, we have created value by investing in a domestic sales network that includes storage and packaging facilities, as well as delivery services directly to end customers. By investing significant resources into building a modern domestic fertilizer sales network we have become Russia's largest supplier of crop nutrients, with a market share of 17% in 2015.

Phosphate fertilizer production/ consumption balance in Russia – DAP/ MAP/TSP, mln t $P_2O_5$



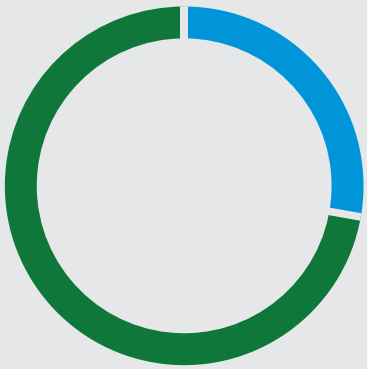
| | |
|---|---|
| Production | 1.8 |
| Consumption | 0.3 |

Phosphate fertilizer production/ consumption balance in Asia – DAP/MAP/ TSP, mln t $P_2O_5$



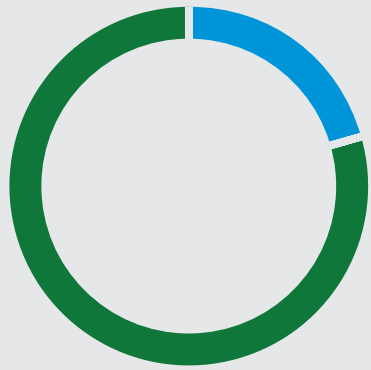
| | |
|---|---|
| Production | 2.3 |
| Consumption | 7.4 |

Phosphate fertilizer production/ consumption balance in Europe – DAP/ MAP/TSP, mln t $P_2O_5$



| | |
|---|---|
| Production | 0.7 |
| Consumption | 1.8 |

Phosphate fertilizer production/ consumption balance in Latin America – DAP/MAP/TSP, mln t $P_2O_5$



| | |
|---|---|
| Production | 1.1 |
| Consumption | 4.2 |

# A global reach

## We are one of the lowest-cost producers of phosphate-based fertilizers in the world, with flexible production and sales models.

**Domestic sales**
Sales volumes in our domestic market were stable at 1.6 million tonnes in 2015, the same level as 2014.

**Export sales**
Sales to our first-priority export market, Europe, increased by 400 kt year-on-year to 1.2 milion tonnes in 2015. Latin American demand was lower in 2015, primarily due to weak economic performance in Brazil, with total volumes declining from 2.1 million tonnes in 2014 to 1.5 million tonnes in 2015. Our sales to Asia increased by 600 kt year-on-year in 2015, reaching 900 kt on the back of India's return to the phosphate fertilizer import market.




**International sales offices**
Zug
Warsaw
Sao Paulo
Singapore

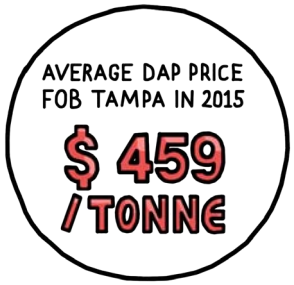
**Distribution Centres in Russia**
PhosAgro-Orel
PhosAgro-Kursk
PhosAgro-Lipetsk
PhosAgro-Belgorod
PhosAgro-Belgorod (branch in Voronezh)
PhosAgro-Tambov
PhosAgro-Kuban (Krasnodar)
PhosAgro-Don (Rostov-on-Don)
PhosAgro-Stavropol
PhosAgro-Volga (Nizhny Novgorod)
PhosAgro-Volga (branch in Saransk)
PhosAgro-Volga (branch in Kazan)
PhosAgro-SeveroZapad


Cherepovets
Nizhniy Novgorod
Saransk
Kazan
Kursk
Lipetsk
Rostov-on-Don
Belgorod
Krasnodar
33
grades
of phosphate-based and nitrogen fertilizer
RAPESEED
SUNFLOWER
GRAPE
COCONUT
PALM OIL
CABBAGE
POTATOES
MAIZE
SUGAR CANE
RICE
SUGAR BEET
SOY BEANS
WHEAT
BARLEY
PhosAgro

# Overview of the fertilizer market in 2015

**According to the International Fertilizer Industry Association (IFA), global demand for mineral fertilizers in 2015 was virtually unchanged from 2014 levels, totalling 182.6 million tonnes of nutrients (182.8 million tonnes in 2014).**

**The decrease in consumption in Latin America was compensated by stronger demand in the counties of South Asia.**







The slowdown in global economic growth and uncertainty about near-term development, exchange-rate volatility in relation to the US dollar in both developed (Europe, Canada) and developing (Russia, Latin America, Asia) countries alike, and the weakening of global market conditions for soft commodities contributed to stagnation in global demand for fertilizers in 2015.

Global trade in fertilizers amounted to approximately 52 million tonnes of nutrients in 2015, which was 5% lower than in 2014. When broken down by nutrient groups, DAP exports increased by 15% year-on-year, while trade volumes in potash and nitrogen fertilizers decreased by 6% and 4% year-on-year, respectively.

World fertilizer production capacity increased by 5.3 million tonnes of nutrients, or 2% year-on-year, predominantly due to the launch of new nitrogen capacities (ammonia, urea). On average, production capacity utilisation for fertilizers in 2015 was 78%.

**Phosphate-based fertilizers**

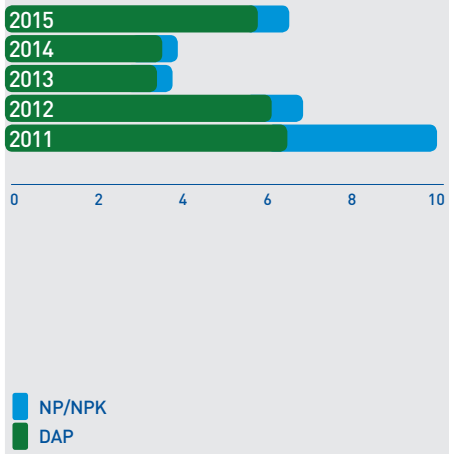
According to the IFA's preliminary assessment, the global consumption of phosphate-based fertilizers (including NPK) in 2015 was 40.6 million tonnes of $P_2O_5$, down by 0.2 million tonnes year-on-year. A decline in consumption of phosphate-based fertilizers in Latin America was compensated by stronger demand in the countries of South Asia (India, Paristan, Bagladesh). In other regions, consumption volumes remained stable at 2014 levels.

According to the IFA estimates, worldwide production of the main types of phosphate-based fertilizers (DAP/MAP/TSP, which account for three-quarters of global consumption of phosphate-based fertilizers) was 67 million tonnes in 2015, up 3% year-on-year. The production of DAP increased by 7% year-on-year, reaching 35.2 million tonnes, primarily due to increased production in China, Saudi Arabia and Russia. The production of MAP and its derivatives increased by 2% year-on-year to 26.4 million tonnes because of the expansion of production in China, Morocco and the USA. The production of TSP fertilizers decreased by 15% year-on-year to 5.2 million tonnes.

According to assessments by the consulting firm CRU, global trade in DAP/MAP/TSP fertilizers increased by 4% year-on-year in 2015 to 27.7 million tonnes. This was due to a 15% year-on-year increase in the trade of DAP to 16.5 million tonnes. Trade volumes in MAP and TSP, on the contrary, decreased in 2015 to 7.9 million tonnes (-9% year-on-year) and 1.5 million tonnes (-7% year-on-year), respectively.

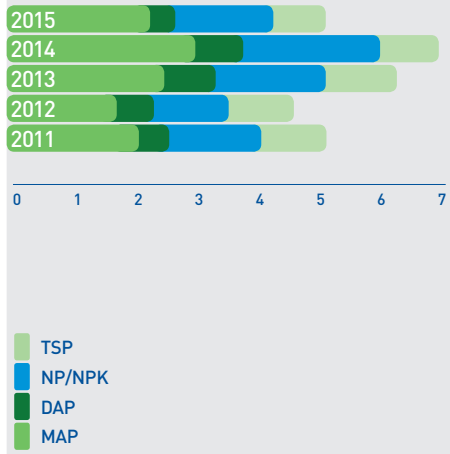
The increase in DAP trade volumes was due primarily to the resumption of active demand from India. Extremely low carry-over stocks from the previous season and an improvement in the country's economic situation contributed to the early resumption of demand and active import purchases during the main season in May-August. As a result, according to the Fertilizer Association of India (FAI), the volume of phosphate fertilizer imports (DAP/NP/NPK) in 2015 increased by 65% year-on-year and amounted to 6.4 million tonnes. The considerable increase in activity in the Indian market absorbed a major part of growing Chinese exports and helped maintain global prices at a stable level during the first half of 2015.

**Imports of phosphate fertilizers in India, mln t**



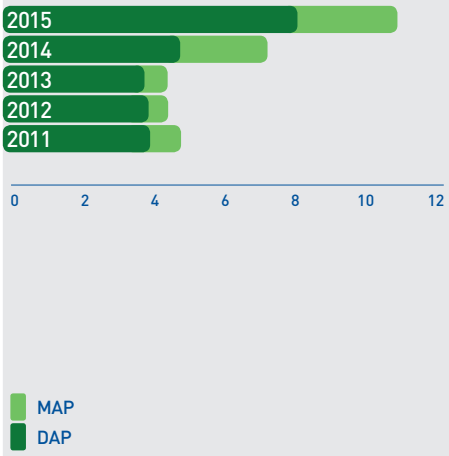

The decrease in global trade volumes for MAP in 2015 was the result of a significant reduction in import demand on the part of Brazil, a key market for this product. The main reasons for the decrease were the dramatic increase in borrowing costs for farmers, weak prices in global soft commodities markets and the worsening of the macroeconomic situation. According to the Customs Service of Brazil, the volume of phosphate-based fertilizer (DAP/MAP/NP/NPK/TSP) imports decreased in 2015 by 26% year-on-year to 5.1 million tonnes. Imports of MAP decreased by 24% year-on-year, totalling 2.3 million tonnes, compared to a record level of 3.0 million tonnes in 2014.

**Imports of phosphate fertilizers in Brazil, mln t**

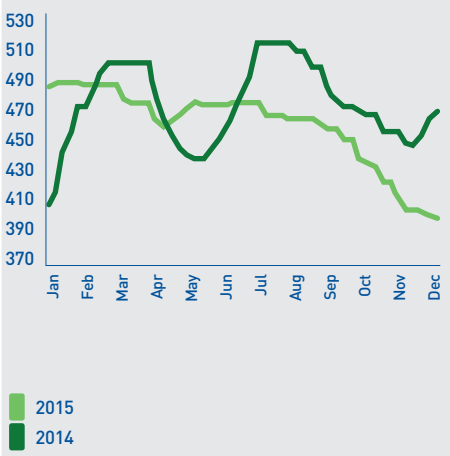



Further liberalisation of fertilizer exports in China, such as the introduction of low export duties on DAP/MAP (RMB100/t) instead of the previously applicable seasonal high-duty window (up to 15%), contributed to a significant increase in exports. Based on information from China Fertilizer Market Weekly, China's exports of DAP/MAP in 2015 increased by 49% year-on-year, reaching 10.8 million tonnes (although the overall $P_2O_5$ content in products exported by China, especially MAP, remains lower than international standards and below that of PhosAgro products). The bulk of this export growth (primarily DAP) was absorbed by the Indian market, but an increase in Chinese exports to other geographies, especially the North and South American markets, contributed to tougher competition between major players in world markets and put pressure on prices.

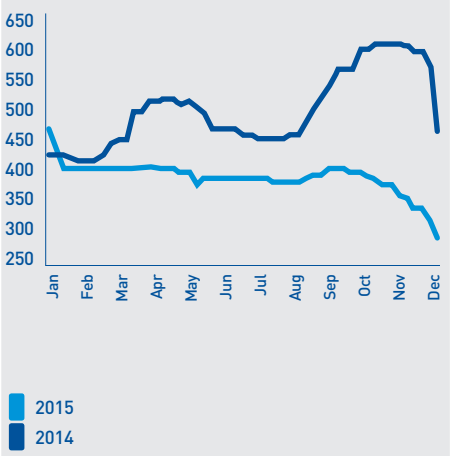
**Exports of DAP/MAP from China, mln t**




**DAP price developments, USD/t, FOB Tampa**




**Ammonia price developments, USD/t, FOB Yuzhniy**




The average price of DAP in 2015 was USD 459/t, FOB Tampa, while for MAP it was USD 458/t, FOB Baltics, in comparison with USD 472/t and USD 469/t in 2014, respectively. Prices were stable in 1Q 2015 through 3Q 2015, staying between USD 460/t and USD 490/t, FOB Tampa, due to active demand from European and American markets in combination with the resumption of imports in India. In Q4 2015, the market came under downward pressure as a results of the end of seasonal demand in India and Brazil combined with the off-season for markets in the USA and Western Europe.

### Phosphate rock

The volume of global production of phosphate rock was 198.2 million tonnes in 2015, which was slightly more (+1%) than in 2014. Lower output in North Africa (including Morocco and Tunisia) and Syria was compensated by growth in other countries of the Middle East (Jordan, Saudi Arabia), as well as by a production increase in Russia. The average nutrient content in the rock remains at around 30.5% $P_2O_5$, which is below the standard 39% content for PhosAgro concentrate. Global trade in phosphate rock decreased in 2015 by 2.4% year-on-year to 28.4 million tonnes due to, among other things, a decrease in exports from Morocco, Egypt and Syria. The average export price for phosphate rock in 2015 was USD 125/t, FOB Morocco (with $P_2O_5$ content of 32%), against USD 116/t in 2014.

### Ammonia

According to IFA estimates, the volume of global ammonia production increased by 2% year-on-year to 173.4 million tonnes in 2014. Higher production in China, as well as in other Asian countries and the USA, was offset by a decrease in Ukraine, Egypt and a number of Latin American countries.

About 55% of ammonia produced is used in the manufacture of urea, and approximately 6% is used in the production of DAP/MAP.

Global trade volumes of ammonia in 2015 decreased by 4% year-on-year, reaching 17.7 million tonnes, as a result of a decrease in import demand on the part of the USA, as well as a number of Asian markets. The most significant export declines were in Egypt, Venezuela, Saudi Arabia and Russia. The decrease in world trade in ammonia was accompanied by a downward trend in world prices for commercial ammonia, which intensified especially in Q4 2015 due to the worsening of conditions in related markets (phosphate fertilizers, manufactured chemical products). The average price in 2015 was USD 389/t, FOB Yuzhniy, compared to USD 495/t, FOB Yuzhniy in 2014.

### Nitrogen fertilizers

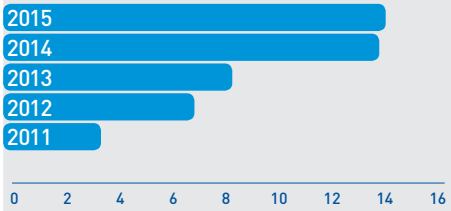
According to the IFA estimates, global consumption of nitrogen fertilizers in 2015 remained at 2014 levels, amounting to 110.1 million tonnes of nutrient (nitrogen), and no significant changes were noted at the regional level. Urea has traditionally been the main type of nitrogen fertilizer, accounting for about 60% of the total volume of nitrogen fertilizer consumption.

Global urea production was estimated at about 170 million tonnes in 2015, up by 2% year-on-year. Average production capacity utilisation was 76%.

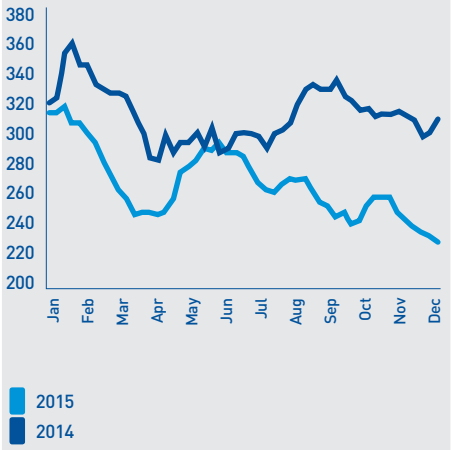
Production volumes increased in West and South Asia, China and Algeria. Political instability affected urea production in Ukraine. In Egypt, it was impacted by disruptions in natural gas supplies. In both of these countries, urea production volumes fell by 25% year-on-year in 2015.

The volume of world trade in urea, according to IFA estimates, remained virtually unchanged in 2015, amounting to 47.3 million tonnes (47.5 million tonnes in 2014). Noteworthy were the steady domination of Chinese exports, a reduction of imports from Ukraine to Russia, and the appearance of Algerian production in markets.

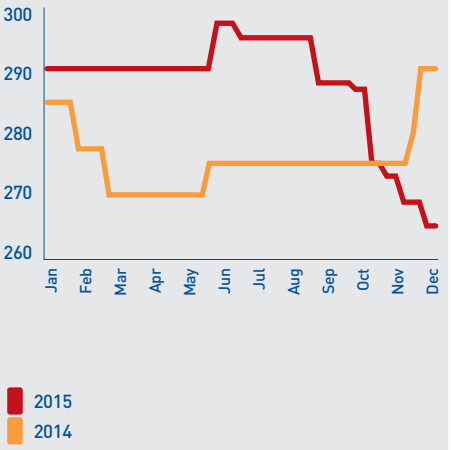
**Exports of urea from China, mln t**




**Urea price developments, USD/t, FOB Baltics**




**Potash price developments, USD/t, FOB Baltics**




Exports from China made up 30% of total urea exports in 2015. Although export volumes demonstrated strong growth over the first nine months, by the end of 2015 Chinese exports remained at over 13 million tonnes, the same as in 2014.

The total volume of exports from other regions of the world remained at approximately the same level. The increase in supply from the Middle East (Qatar, Saudi Arabia and Oman) was offset by a decrease in exports from Russia and Ukraine. There was a marked increase in supplies from Algeria, Libya and Turkey. The demand for urea imports remained weak despite declining prices. However, the devaluation of the national currencies in key import markets in relation to the dollar and consistently low prices for soft commodities had a perceptible impact. Import volumes increased in several key markets like India and the USA, while they remained unchanged in Western Europe and Australia. A substantial decrease in urea imports was noted in Brazil and Bangladesh.

With stagnating world trade and unchanged export volumes from China, prices for urea mainly declined in 2015. The slight increase in prices in Q2 2015 was the result of a decrease in export availability for Chinese production due to seasonal demand in China's domestic market. The average price of urea in 2015 was USD 267/t, FOB Baltics, compared to USD 311, FOB Baltics in 2014.

### Potash fertilizers

According to IFA estimates, the volume of global consumption of potash fertilizers in 2015 remained at 2014 levels, totalling 31.9 million tonnes of $K_2O$. The increase in consumption in South Asia and China was offset by a decrease in North and South America.

IFA estimates the world production volume of potash fertilizers at 61.2 million tonnes of potassium chloride in 2015, down 4% year-on-year. The average production utilisation capacity in 2015 was 74%.

Production volumes increased in Canada, China and Jordan, while decreases were seen in Israel, Latin America, Russia and the USA.

The top five largest producing countries of potash fertilizers were Canada, Russia, Belarus, China and Germany, which accounted for 84% of worldwide production volumes.

Global sales in the first half of 2015 decreased by only 2% year-on-year. However, subsequent market volatility and the devaluation of a number of currencies led to a slowdown in world trade. As a result, by the end of 2015, global export volumes had decreased by 6% year-on-year to 47.2 million tonnes of potassium chloride in comparison with 50.4 million tonnes the year before, which was 76% of the total sales volume. The most noticeable decrease in imports was seen in Brazil, the USA and several South-east Asian markets, while an increase in imports was noted in China. Weak conditions in world markets during the second half of the year contributed to a decline in prices. Average prices for potassium chloride, FOB Baltics, decreased from a high of USD 290-298 in May-June to USD 265/t and even lower by the end of the year.

# We made significant progress in 2015 across key aspects of our business

**PhosAgro delivered strong operating and financial performance in 2015, with capacity utilization at near 100% and EBITDA margin reaching an impressive 43%.**



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

## Key milestones 2015

**+10%**

Total fertilizer production volume growth, year-on-year

Direct access to the priority markets: new sales offices in Sao Paulo (Brazil), Zug (Switzerland) and Warsaw (Poland)

Sustainable low cash-cost position among global peers

**+9%**

Increase in fertilizer sales volumes, year-on-year

### Strategic performance

Since the presentation of our new strategy in November 2014, we have already delivered tangible results that are creating value for our investors and other stakeholders. Some of the highest-impact projects are due to be commissioned in 2017 and I am pleased to report that these remain on track.

Our updated strategy focussed on several key areas, all of which saw significant progress in 2015:

Updated sales strategy: We believe that one of the best ways to create value for our stakeholders over the long term is to move closer to our end customers and to focus on increasing sales in priority markets. Outside of our home markets of Russia and the CIS, we identified priority markets based on geographies with large agricultural sectors where there is a structural deficit of $P_2O_5$: Latin America, Europe and Asia.

In 2015, we opened new sales offices in Sao Paulo, Brazil, in Latin America, as well as in Zug, Switzerland, and Warsaw, Poland, in Europe. These new offices will build on the successful experience we had in Asia, where we opened a sales office in 2013. With our own representatives on the ground in these key markets, we are better able to maintain dialogue directly with our end customers, while having local legal entities makes it more convenient to do business with clients in these regions.

**Our new offices will build on the successful experience we had in Asia, where we opened a sales office in 2013**

Increasing production capacity and self-sufficiency: One of the key ways for PhosAgro to create value over the long term is to increase internal processing of the phosphate rock we produce at Apatit. In 2015, we successfully implemented several measures to achieve this: our subsidiary Metachem launched the PKS-100 production line in February 2015, enabling us to expand our portfolio of fertilizer grades with sulphur-containing products that are vital for certain crops and soil types.

We have also invested in removing bottlenecks and modernising existing production capacities, which enabled us to increase our total production of fertilizers and feed phosphates in 2015 by 10% to 6.8 million tonnes.

Longer-term, we are building a base from which to significantly ramp up our production volumes of value-added crop nutrients, starting with construction of a new 760 kt/year ammonia plant. This will make us fully self-sufficient in ammonia, even after we launch a new 500 kt/year granulated urea line. All of these projects are on track to launch on schedule. In addition to new capacities, we also plan to continue debottlenecking activities at existing assets, with the goal of achieving further increases in overall fertilizer production in 2016 by 5%.

**At the Kirov Mine, we will achieve significant cost savings on every tonne of apatite-nepheline ore that we extract**

Increasing operating efficiency: We achieved both of our strategic targets for 2015 in this area, with the launch of the Ust-Luga port terminal in June and the commissioning of Main Shaft No 2 at the Kirov Mine in August. We shipped more than 20% of our exports through the Smart Bulk Terminal in Ust-Luga in 2015, helping us to save on port charges and rail freight costs compared to other Baltic ports. At the Kirov Mine, we will achieve significant cost savings on every tonne of apatite-nepheline ore that we extract from underground mines as opposed to open pit mining.

The sustainable cost reductions from these two projects, coupled with ongoing investments in new technologies and modernisations, have helped PhosAgro to secure its position as the world's lowest cash-cost producer of phosphate-based fertilizers.

Consolidation: While we achieved the main goals of consolidating 100% ownership in all of our production facilities in 2014, PhosAgro has continued its efforts to streamline its corporate structure to increase transparency and weed out inefficiencies. To this end, we merged Nordic Rus Holding, Agro-Cherepovets and PhosAgro AG into PhosAgro-Cherepovets in 2015. Further consolidation of subsidiaries is also under consideration by management and the Board of Directors.

### Bringing the best crop nutrient solutions to our customers

Our strategic focus on moving closer to our customers is already yielding results. We are constantly developing and launching new fertilizer grades in response to demand from our customers. In total, we now offer 33 fertilizer grades, up from 28 in early 2015, to customers from over 100 countries worldwide.

Later in the year, we opened sales offices in Sao Paulo, Zug and Warsaw, each of which gives us direct access to priority markets and helps us respond faster to changes in demand. We now have our own sales offices in all three priority export markets of Europe, Latin America and Asia, which together accounted for 59% of our export sales in 2015.

Another top-priority area that we are focused on is quality. The apatite-nepheline ore that PhosAgro mines and uses to produce its phosphate-based fertilizers is some of the purest in the world. It has extremely low levels of lead, cadmium and other harmful elements compared to nearly any other phosphate material in the world, which enables us to produce fertilizers that are some of the safest for farmers to use on crops intended for human consumption. This is particularly important in areas where intensive farming means that large amounts of crop nutrients are regularly being applied to the soil. Impurity-free fertilizers will help famers prevent dangerous elements making their way into the food supply.

**Our strategic focus on moving closer to our customers is already yielding results**

### Operating performance

We achieved an impressive 10% year-on-year increase in fertilizer production volumes in 2015, and total fertilizer sales increased by 9% year-on-year. Production of phosphate-based fertilizers and feed phosphates increased by 12% year-on-year to 5.4 million tonnes, while production of nitrogen-based fertilizers increased by 4% year-on-year to 1.4 million tonnes.

By investing in the modernisation of production facilities and other cost-cutting initiatives, we managed to increase our annual fertilizer production capacity to a record 7 million tonnes. This was all achieved against the backdrop of a tough global operating environment, in which some higher-cost producers were forced to curtail production, especially in the fourth quarter.

### Financial performance

We delivered strong financial results in 2015, with revenue increasing by 54% year-on-year to RUB 189.7 billion on the back of the 9% increase in fertilizer sales volumes and higher rouble-denominated prices for the phosphate-based fertilizers we sell. Export sales, which are foreign currency-denominated, accounted for 73% of our consolidated revenue in 2015.

At the same time, PhosAgro's continued focus on improving efficiency and cutting costs, including through headcount optimisation, helped keep costs growth well behind the rate of revenue expansion and CPI levels. In 2015, cost of sales rose by 23% year-on-year to RUB 83.1 billion.

The significant depreciation of the Russian rouble had an impact on PhosAgro in 2015, as we saw costs decrease compared to primarily US dollar-based income from fertilizer export sales.

We delivered very impressive profitability in 2015: the gross profit margin was 56% (vs. 45% in 2014), operating profit margin hit 39% (vs. 24% in 2014), and our EBITDA margin was 43% (vs. 31% in 2014). While continued rouble depreciation once again caused a large foreign exchange loss (RUB 22.2 billion), we earned a profit of RUB 36.4 billion for 2015, delivering a 19% profit margin.

Looking briefly at our balance sheet, we continued to have predominantly USD-denominated debt, as a natural hedge against our USD-denominated export sales. Net debt at the end of the year was RUB 105.2 billion, and our net debt/EBITDA ratio was a very comfortable 1.28.

### Corporate Responsibility

We aim to be a responsible partner for all of our stakeholders, from customers to suppliers to employees and the local communities where we operate. In 2015, we made important progress in several areas of our corporate responsibility practices, and this remains a priority for us going forward.

We have paid significant attention to business conduct in recent years, introducing new policies that govern areas like how we deal with conflicts of interest, insider information and corruption. In 2015, we introduced anti-corruption training for employees, and we introduced anti-corruption language to all contracts, including existing ones.

We continue to work on minimising our impact on the environment, investing in new and efficient technologies that use less resources and emit less greenhouse gas. We monitor our environmental performance very closely, and we recently launched a new programme together with UNESCO and IUPAC aimed at supporting scientific research to find new applications for phosphogypsum, a by-product of phosphate-based fertilizer production.

**In 2015, we introduced anti-corruption training for employees, and we introduced anti-corruption language to all contracts, including existing ones**

Our investments in new and efficient production capacities are also important to the local communities where we operate, and we always engage in dialogue with local residents and authorities when new projects are planned. These investments will ultimately create jobs and bring new tax revenues to local budgets, but we aim to invest much more into our local communities, starting from the early stages. PhosAgro supports sports and healthy lifestyles for school-age children, as well as school programmes to encourage the study of chemistry and other sciences. At the college and university level, we provide scholarships and professional career tracks, as well as direct investments in vocational colleges in the regions where we work.

Programmes like these support our long-term sustainability by helping to ensure we are able to hire qualified workers at our production sites. For our employees, we strive to apply leading-edge workplace health and safety techniques, and following a workplace safety pilot project we launched in 2014 with DuPont Sustainable Solutions, we applied these practices across all of our production sites in 2015. We also aim to give our employees fulfilling career opportunities through professional training and career track programmes–many of our factory heads and mid-level managers have spent most, if not all, of their careers at PhosAgro subsidiaries.

**Market environment**

The global fertilizer market was stable throughout most of 2015, with overall demand for crop nutrients nearly unchanged vs. 2014.

Average export prices for DAP and MAP in 2015 were somewhat weaker in 2015, at USD 459/t FOB Tampa and USD 458/t FOB Baltics vs. USD472/t and USD 469/t in 2014, respectively. Seasonal demand in US and European markets at the beginning of the year, combined with stable demand for DAP/NPK from India, helped maintain stable prices for DAP/MAP in the range of USD 460-480/t FOB Tampa, until the end of Q3 2015. Moving into low season, by the end of the year DAP prices went below USD 400/t FOB Tampa.

## We expect to see further strong demand from our domestic Russian market, gradually recovering demand from Brazil and stable consumption in India

Overall demand for PhosAgro fertilizers in our priority domestic market remained stable in 2015, partially thanks to our investments in developing our domestic logistics and sales networks. We took significant market share from other producers during the year, which we believe puts us in a strong position to capitalise on the significant potential that Russia's agricultural products market holds in the coming years.

**Outlook**

Looking ahead, demand for phosphate-based fertilizers is due to rise, according to IFA forecasts. Prices declined at the end of 2015 and in early 2016, which has caused a number of higher cash-cost producers to curtail capacities. This has particularly affected Chinese producers, which exported record volumes in 2015, but are no longer able to operate profitably in the current environment.

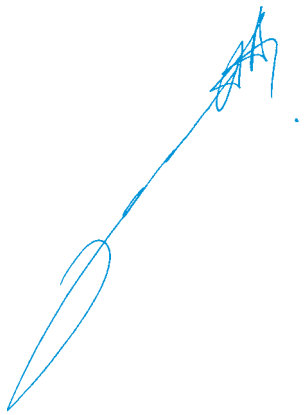
On the demand side, India returned to the market last year, as we expected, after several years of under-application of phosphate nutrients. If weather conditions are favourable, we expect to see stable demand from India in the year ahead, which will support global price levels.

We expect demand in Latin America, which is another priority market for us, to gradually recover as loan recources in Brazil become more accessible, soy acreage continues to expand and phosphate-based fertilizers carry-over stocks decreased due to lower imports in 2015.

In addition to Brazil, Argentina is another area for potential growth, with the recent changes in the country's economic policy stimulating farmers to significantly expand production.

In the current environment, PhosAgro is among the best-placed to continue to deliver value for its stakeholders. We are among the lowest cash-cost producers globally, with a wide range of high-quality fertilizers and a flexible sales model that enables us to supply farmers around the world with the crop nutrient solutions they need to maximise output. This also means we can continue to deliver solid financial performance and fulfil our promises to shareholders while continuing to invest in PhosAgro's long-term growth.

I would like to thank all of our stakeholders for their continued interest in, and support for, our company, and I would especially like to thank all of our employees, who once again helped PhosAgro deliver impressive strategic, operating and financial results in 2015.



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

# Vertical integration throughout the phosphate-based fertilizer value chain

PhosAgro benefits from its vertically integrated business model. Upstream, we control a large, high-quality resource base that contains almost no impurities. Our downstream fertilizer production assets enjoy domestic access to other key inputs like gas and sulphur.

Combined, these make PhosAgro the lowest cash-cost producer of phosphate-based fertilizers with significant potential to create extra value for stakeholders by investing in new and efficient downstream facilities. Further integration into logistics, distribution and sales, including opening trade offices in priority markets, has helped us to achieve sustainable cost savings through the entire value chain, securing our position as the world's lowest cash-cost producer of phosphate-based fertilizers.




1

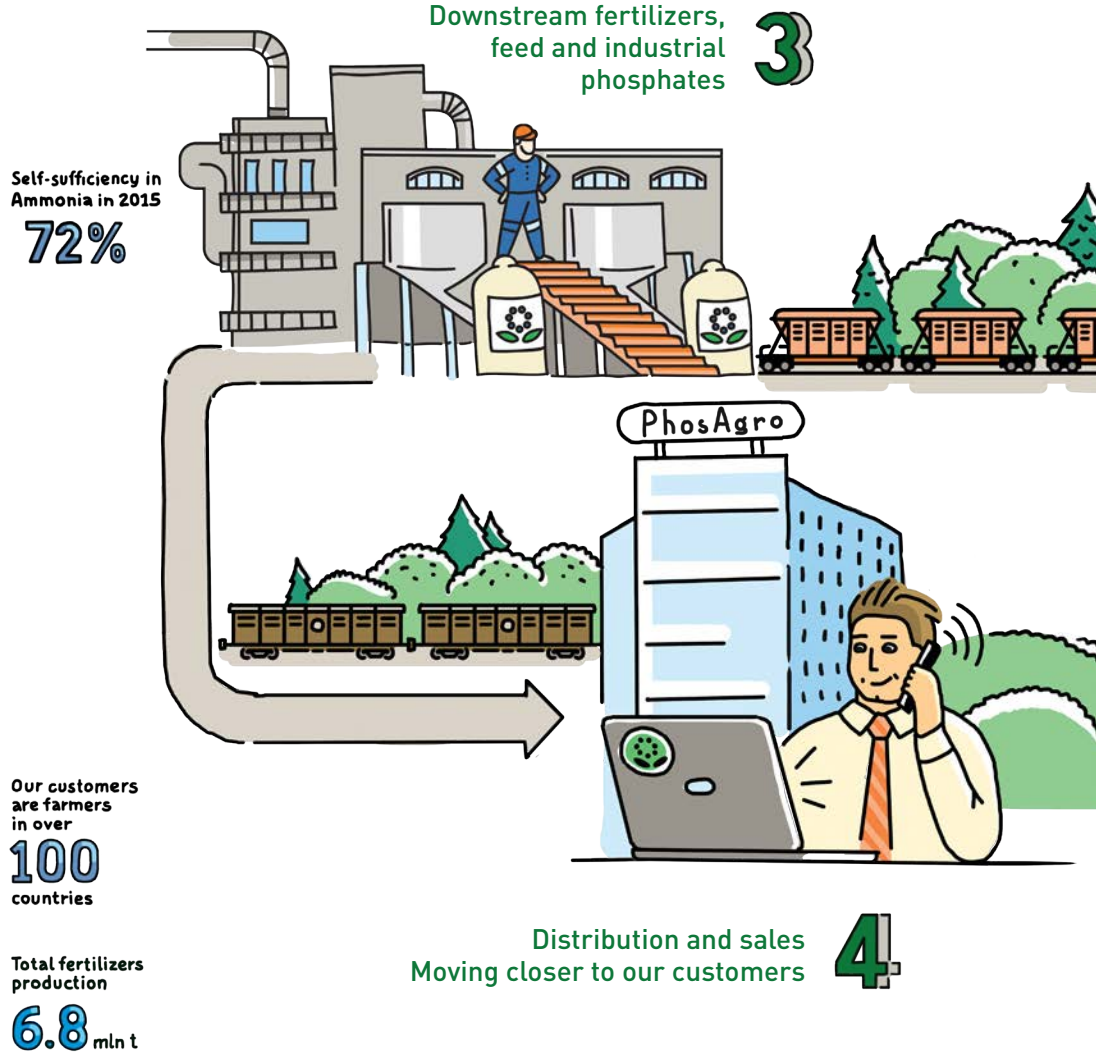
**Natural resources and capital**
We own a unique and exceptionally high-quality phosphate resource: the ore we mine and process at Apatit contains both phosphorus and nepheline as well as some of the lowest levels of heavy metals and other harmful elements associated with sedimentary rock.

2

**Upstream mining and processing**
We have significantly expanded our underground mining operations, and are investing in a number of other projects to enhance workplace health and safety as well as efficiency at Apatit. Our constant focus on modernising our beneficiation equipment helps us to achieve a more-than 94% recovery ratio for phosphate rock.

3

**Downstream fertilizers, feed & industrial phosphates**
We produce 33 grades of fertilizers, including grades containing secondary (sulphur) and micro nutrients like zinc and boron at our three downstream production sites in Russia. Thanks to the quality of our phosphate rock and ongoing investments in efficiency, PhosAgro is among the lowest cash-cost producers of phosphate-based fertilizers in the world.



Taxes paid into local and regional budgets

**RUB 9.1 bln**

People employed

**17,520**

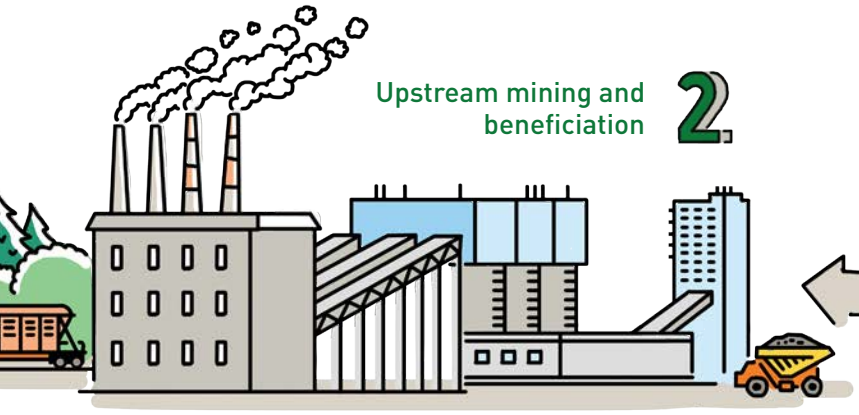
Dividends paid in 2015

**RUB 18.1 bln**

## 1 Natural resources and capital



## 2 Upstream mining and beneficiation



Self-sufficiency in Phosphate rock in 2015

**100%**

Internal use of Phosphate rock in 2015

**75%**

## 5 Logistics




## 6 Value created

**4 Distribution & sales**

In our domestic market we have fully integrated distribution and sales operations, which has helped us to become the leading supplier of crop nutrients in Russia and maintain sales volumes even in the current challenging environment. For export sales we have moved closer to customers in our priority markets by opening sales offices in Brazil, Europe and Asia.

**5 Logistics**

In-house logistics infrastructure helps us achieve sustainable cost savings and secure more reliable operations. We manage our own fleet of 6,500 railcars in Russia, and in 2015 we shipped 20% of our export volumes through our Smart Bulk Terminal at the Ust-Luga port after commissioning it in June 2015.

**6 Value created**

We seek to create value for all of our stakeholders, including the consumers of food grown with the help of PhosAgro crop nutrients, which benefit from the lowest levels of cadmium and other harmful elements thanks to the exceptionally pure raw materials we use from the very start.

# Developing our assets to build long-term value and market leadership

**Investing**
One of the main focuses of our strategy until 2020 is the development of our assets through investments into new capacities that use the newest, most efficient production technologies. In addition to cost savings, these new facilities are more environmentally friendly, with lower carbon dioxide emissions, which will diminish the negative impact on the climate per unit of production.

In August 2015, we secured significant savings in our upstream operations with the launch of underground mining at Main Shaft No 2. At PhosAgro-Cherepovets, we are building Russia's largest and most energy-efficient ammonia line, due online in 2017.

Several other projects, large and small, are also under way to secure our position as the world's lowest cash-cost producer of high-quality phosphate-based fertilizers.

**Consolidating**
With the main phase of consolidation completed in 2014, we sought out further optimisations to our corporate structure in 2015 and undertook the merger of PhosAgro AG, Agro-Cherepovets and Nordic Rus Holdings into PhosAgro-Cherepovets.

**Expanding vertical integration**
By stretching our vertical integration further through the value chain towards our end customers, we are able to secure sustainable, value-adding cost savings for our shareholders. In 2015, we officially launched our Smart Bulk Terminal at the Ust-Luga Port, which handled more than 20%, or 1 million tonnes, of our export volumes in 2015 helping us to save on port charges and rail freight costs compared to other ports on the Baltic Sea.

Further afield, we set up a sales office in Sao Paulo, Brazil, to cover PhosAgro's priority Latin American markets. In Europe, where we see significant opportunity for our exceptionally pure phosphate-based fertilizers, we opened offices in Zug, Switzerland and Warsaw, Poland. With the help of these offices, we will be able to maintain more regular and timely dialogue with our customers. This will ultimately build value for our customers, as we will be able to respond more quickly to their needs, and for shareholders by increasing sales volumes in key markets.

## Upstream capacities



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

| Phosphate rock | Nepheline concentrate |
|---|---|
| 7.9 mln t | 1.7 mln t |

## Downstream capacities



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

| MAP/DAP/NPK | |
|---|---|
| 3.5 mln t | |
| Urea | APP |
| 980 kt | 140 kt |
| Ammonia | AN |
| 1,190 kt | 450 kt |



**Balakovo branch of Apatit**
Production of phosphate-based fertilizers, feed phosphate, sulphuric and phosphoric acid.

| MAP/DAP/NPK | MCP |
|---|---|
| 1.4 mln t | 270 kt |

## Corporate structure as of 31 December 2015

**OJSC PhosAgro (holding company)**

| Apatite-nepheline ore mining and beneficiation | Phosphate based fertilizers and feed phosphate | Ammonia and nitrogen-based fertilizers | Distribution | Logistics | Engineering and R&D |
|---|---|---|---|---|---|
| JSC Apatit **100%** | JSC PhosAgro-Cherepovets **100%** | CJSC Agro-Cherepovets **100%** (merged with PhosAgro-Cherepovets in 2015) | PhosAgro-Region LLC (storage and distribution) **99.99%** | PhosAgro – Trans LLC (transportation) **100%** | OJSC NIUIF (research and development) **94.41%** |
| | Balakovo branch of JSC Apatit **100%** | | Phosagro Asia Pte Ltd (distribution) **100%** | Smart Bulk Terminal LLC (loading) **70%** | CJSC Mining and Chemical Engineering **100%** |
| | CJSC Metachem **100%** | | Phosint Trading Ltd (distribution) **100%** | | |
| | | | PhosAgro Trading SA **97.6%** (trading company based in Zug) | | |




**Metachem (Volkhov)**
Production of PKS, SOP, STPP, sulphuric and phosphoric acid.

| PKS | STPP |
|---|---|
| **100 kt** | **130 kt** |

| SOP |
|---|
| **80 kt** |

## Distribution and sales



**PhosAgro-Region**
Russia's largest distributor of fertilizers, with 10 distribution centres and three branches in close proximity to Russia's major agricultural regions.

**PhosAgro trading**
With sales offices in Zug (Switzerland), Warsaw (Poland), Singapore (Asia) and San Paulo (Brazil) we are extending our vertical integration into priority export markets.

| Distribution centres in Russia | International trading offices |
|---|---|
| **10** | **4** |

## Logistics



**PhosAgro-Trans**
Handles domestic freight rail operations, with over 6,500 railcars (primarily mineral hoppers) in operation.

**Smart Bulk Terminal**
Construction and operation of a container and bulk terminal in Ust-Luga with a capacity of 2 million tonnes/year.

| Railcars | Own shipment terminal capacity |
|---|---|
| **6,500** | **2 mln t** |

# Our low cash-cost base and a premium-quality end product set us apart from our peers

**We are the world's largest producer of high-grade phosphate rock and Europe's largest producer of phosphate-based fertilizers. We control a premium phosphate resource that contains almost no dangerous impurities, and we leverage this exceptional asset through our vertically integrated, flexible fertilizer production capacities to deliver a wide range of tailored crop nutrients to farmers in Russia and across the globe. Our sustainable low-cost advantage sets us apart from our peers and offers our stakeholders unique value that other phosphate-based fertilizer producers cannot offer.**




**Value for our stakeholders**

With mining assets that will last for more than 70 years, we are in the phosphate-based fertilizer business for the long term. This means that we have to take a long-term view not only of how we develop our production assets, logistics operations and sales network. Our business also depends on creating value in all of our relationships with a full range of stakeholders, from our employees to investors and shareholders. We invest in the communities where we operate in coordination with local governments and administrations, as well as trade unions and educational institutions. By helping these communities develop, we are addressing a whole range of issues that could affect our business in the long term, from the supply of healthy and qualified personnel to work at our plants to ensuring we are recognised by residents and officials for making a positive impact.

**We invest in the communities where we operate in coordination with local governments**

### Low impurities equals safer food supplies

We use our own high-quality raw materials from igneous phosphate ore (phosphate rock with high phosphate content and low levels of dangerous impurities). Companies that use high-quality phosphate rock benefit from lower processing costs for the manufacture of end products, which enables them to achieve higher profits on mineral fertilizer sales.

We also believe that national regulators and farmers in Europe and other intensive farming regions will be increasingly concerned with issues related to the quality and purity of crop nutrients used to produce food products–concerns over cadmium and other soil pollutants are on the rise.

### Customer focus

We aim to build value through further integration of our sales and distribution operations. To achieve this, we have opened our own sales offices in priority export markets, while also investing in our domestic distribution network.

### Growing range of superior quality fertilizers

PhosAgro's in-house R&D enables us to develop and start production of new fertilizer grades quickly, in order to deliver the crop nutrient solutions our customers need. We currently produce 33 grades of fertilizers including those containing secondary (sulphur) and micro nutrients (zinc and boron).

The superior quality of our phosphate-based fertilizers comes from the exceptionally pure phosphate raw material we use, which contains extremely low levels of dangerous impurities.

### Vertical integration

We are one of the most vertically integrated companies in our industry, starting with high levels of self-sufficiency in key feedstocks and reaching all the way through to sales and distribution to our end customers. Taken together, this gives us the lowest cash cost in the industry. For more information on our vertical integration, see 'Our Business Model' on pages 18–19.

### Flexible production and sales

We have flexible production and sales models that enable us to focus on producing exactly what our customers require, and to sell what we have produced nearly anywhere in the world in order to achieve a fair netback price for PhosAgro. PhosAgro's flexible production lines are capable of switching between production of DAP, MAP and complex NPK or NPS fertilizers less than two shifts, meaning we can react quickly to changing demand and maintain high-capacity utilisation rates. This is further enhanced by a flexible sales model, which enables us to sell our product nearly anywhere in the world at competitive prices and in volumes ranging from 500–1,000 kg big-bags for domestic shipments to 20–40-tonne containers and entire bulk ships for export.

### In-house R&D

Our research and development employees are highly skilled and support and facilitate decision-making related to our investments in construction by developing feasibility studies, supervising construction and designing projects.

### World's premium phosphate resource base

| Location[1] | PhosAgro | Morocco | USA | Jordan | China | Tunisia |
|---|---|---|---|---|---|---|
| World phosphate rock reserves, bln t | **2.05** | 50 | 1.4 | 1.5 | 3.7 | 0.1 |
| Ore type | **Igneous** | Sedimentary | Sedimentary | Sedimentary | Sedimentary | Sedimentary |
| $AL_2O_3$ content | **13.0-14.0% High** | Very low | Very low | Very low | Very low | Low to moderate |
| Minor Element Ratio (MER)[2] | **0.02-0.04** | 0.02-0.04 | 0.05-0.1 | 0.02-0.03 | More than 0.05 | 0.05 |
| **Cadmium content[3]** | **Less than 0.1** | **15-40** | **9-38** | **5-6** | **2** | **40** |
| Level of radioactivity | **Very low** | Moderate | Moderate to high | Low to moderate | Low to moderate | Moderate |
| Hazardous metals content | **Very low** | Moderate | Moderate to high | Low | Low to moderate | Low to moderate |

Source: Fertecon, IMC, USGS 2011.
1 Primary global DAP/MAP producing regions.
2 Average Minor Element Ratio (MER) greater than 0.1 not sustainable for production of high-quality DAP.
3 Average cadmium content in ppm.

# Creating a platform for growth through 2020 and beyond

**Our strategy to 2020 is aimed at creating value for stakeholders by building on PhosAgro's inherent strengths: ownership of unique high-quality apatite-nepheline resources containing almost no impurities, vertical integration, and domestic access to key inputs for fertilizer manufacturing such as gas and sulphur. On top of that, we aim to extend our vertical integration further through the supply chain by integrating logistics and expanding our on-the-ground sales presence (sales offices) in priority markets.**

**2015 summary**

After introducing our new strategy at the end of 2014, we began delivering tangible, value-creating results already in 2015:

- Opened three new sales offices to bring us closer to farmers in our priority European markets (Zug, Switzerland, Warsaw, Poland) and Latin American markets (Sao Paulo, Brazil)
- Launched our Smart Bulk Terminal at the Ust-Luga port
- Commissioned Main Shaft No 2 at the Kirov mine, significantly expanding the scale of our lower-cost underground mining operations
- Launched a new sulphur-containing phosphate-based fertilizer production line (PKS-100) at Metachem, introducing new complex fertilizers with secondary and micronutrients zinc and boron
- Launched a series of tests in cooperation with the International Plant Nutrition Institute to assess the impact on soy yields of applying sulphur-containing PKS fertilizers. The first stage of tests demonstrated a good response to PKS resulting in higher yields
- Streamlined our corporate structure by merging Agro-Cherepovets, Nordic Rus Holding and PhosAgro AG into PhosAgro-Cherepovets
- Increased fertilizer production volumes by 10% year-on-year thanks to investments in removing bottlenecks and modernisation of existing lines
- Implemented a new workplace health and safety policy piloted in 2014 across all production facilities

## Our key strategic priorities

**1 Direct access to premium markets**

Sales presence on the ground

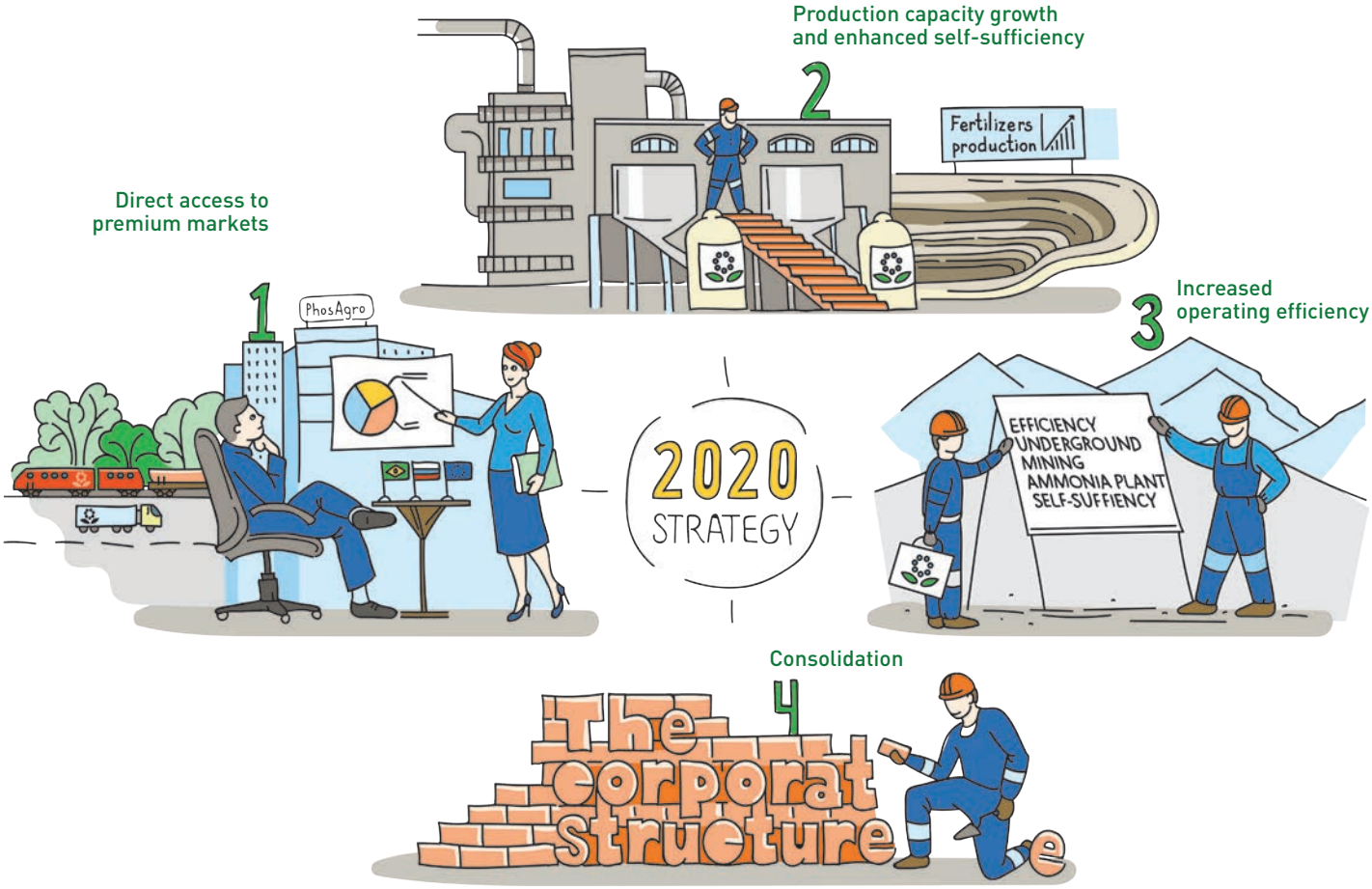
Our long-term strategic focus is on bringing our crop nutrient solutions closer to our customers in priority markets by establishing our own presence in these markets. With sales offices covering Europe, Latin America and Asia now open, we will be able to speak directly with our customers about what they actually require, react faster to changes in demand by introducing new grades of fertilizers, including those that contain macro (sulphur) and micro (boron and zinc) nutrients, gain a better understanding of the local markets, and be able to provide customers with information about the unique qualities of fertilizers made from our phosphate rock. On top of that, we are considering new offices in France and Germany.

Marketing our pure, cadmium-free fertilizers

At the beginning of 2016, PhosAgro signed agreements with leading agricultural universities in Europe (Wageningen in the Netherlands and the University of Milan and University of Sassari in Italy) to conduct extensive research that will assess the impact on the quality and safety of crops and soil from using cadmium-free fertilizers produced by PhosAgro. The tests will be run in different geographical locations, as well as for different types of crops, and will include a direct comparison with the traditional types of fertilizers used in each selected location.

**2 Production capacity growth and enhanced self-sufficiency**

As the world's lowest cash-cost producer with a best-in-class phosphate resource base, we see significant opportunity to expand our production of value-added fertilizers in order to both meet growing global demand and take market share from higher-cost producers. We are investing in production of other key inputs like ammonia, which will enable us to significantly increase production volumes and further decrease cash costs (per tonne) for all of our fertilizers.




**3 Increased operating efficiency**

- Upstream: We aim to increase underground mining up to 80% of total apatite-nepheline ore extraction at Apatit in 2016 following the launch of Main Shaft No 2 at the Kirov mine, which increased extraction capacity to 14 million tonnes of ore per year, with subsequent increases to 16-17 million tonnes of ore per year planned. This will support further declines in per-unit costs thanks to cash costs for underground mining being lower than costs for open-pit production.
- Upstream: In 2016, we will continue modernising our ANOF-3 beneficiation plant, which will result in lower production costs and increased overall beneficiation capacity (to 9 million tonnes of phosphate rock per year).
- Downstream: The new ammonia and granulated urea capacities are at the heart of our downstream efficiency drive–we are using the latest technologies available for these projects, ensuring that they are efficient and help minimise environmental impact by reducing carbon dioxide emissions even as overall production volumes increase.
- Logistics: With the launch of our Smart Bulk Terminal at the Ust-Luga port near St Petersburg, we have further improved our netback earnings through vertical integration into port logistics.

**4 Consolidation**

Streamlining our corporate structure helps increase transparency and simplifies corporate governance systems within PhosAgro, which can contribute to cost reductions by eliminating duplicate functions across subsidiaries.

# 1 Direct access to priority markets

## Opportunity

Increasing the share of sales to premium markets and those where PhosAgro has traditionally worked

## Why this is our priority

Russia, Europe, Latin America and Asia were identified as priority regions/ premium markets for exports based on:

- The geographic proximity of European customers to our main production facilities located in the European part of Russia
- European customers are potentially sensitive to impurities such as cadmium, giving us an advantage over other phosphate-based fertilizer producers
- $P_2O_5$ nutrient deficit forecast to increase

The main drivers of growth for the key domestic market include such fundamental factors as proximity to end consumers, geographic diversification of sales channels, and the significant potential for growth in consumption of phosphate-based fertilizers. Moreover, PhosAgro's complex, vertically integrated structure enable it to achieve maximum efficiency throughout the entire production and sales chain, all the way to sales to end consumers.

| What we did in 2015 | What we aim to do in 2016 | Where we want to be in 2020 |
|---|---|---|
| • Opened sales offices in Zug (Switzerland), Sao Paulo (Brazil) and Warsaw (Poland)<br>• Increased the sale of fertilizers and MCP to Europe by 34% year-on-year to 1.2 million tonnes<br>• Our overall sales volumes to Asia (including India) and Oceania more than tripled to 0.9 million tonnes<br>• In 2015, Europe and Asia, together with Oceania, contributed 19% and 14%, respectively, to our overall sales breakdown | • More active direct marketing of our pure, high-quality fertilizers<br>• Enter into agreements with leading agriculture universities in Europe to research the effect on both crop yields and soil quality from using fertilizers with negligible cadmium content and containing secondary (sulphur) and micro (zinc and boron) nutrients<br>• Leverage international sales offices launched in 2015 to better understand farmers' needs in priority markets in order to fine-tune our crop nutrient offerings and achieve premium prices. In addition to existing offices, we are considering establishing new ones in France and Germany | • We believe that our ability to deliver farmers ready crop nutrient solutions from our wide portfolio of products, combined with the high quality and low heavy metals content of our fertilizers, will help us increase sales in our priority markets.<br>• Another important priority is expansion of the Company's product line to include premium granulated urea (capacity of up to 500 kt/year), primarily for export to Europe. This will happen after the commissioning of the new ammonia and urea capacities at PhosAgro-Cherepovets. |

**Related risks**

**Strategic risks**
Ineffective strategic planning

**Operational, regulatory, reputational and financial risks**

For more information on risks, please see pages 66–73

# 2 Production capacity growth and greater self-sufficiency

## Opportunity

Removing bottlenecks in existing capacities, as well as building new downstream capacities to produce ammonia in order to ensure self-sufficiency while increasing fertilizer production volumes and maintaining vertical integration

## Why this is our priority

Ammonia is a key input that we require to expand our fertilizer output while maintaining self-sufficiency, which has driven our decisions to construct a 760 kt/year ammonia plant

With these key inputs secured, we will be able to expand downstream end products' production capacities to achieve a 13% increase from where we are today in total fertilizer capacity in 2020 through modernisation of existing capacities and new construction of:

- 500 kt/year of granulated urea capacity (new capacity)
- up to 400 kt/year of MAP/DAP/NPK production (modernisation and removing bottlenecks)

### What we did in 2015

- Removing bottlenecks, which involves relatively negligible costs (compared to new greenfield or brownfield projects), enabled us to increase our overall phosphate-based fertilizer production by more than 12% year-on-year to 5.4 million tonnes
- The number of grades of NPK(S) reached 22, while NPK(S) fertilizers contributed to almost 43% of total phosphate-based fertilizer production
- Continued construction of:
  — a new 760 kt/year ammonia plant
  — a new 500 kt/year granulated urea line

### What we aim to do in 2016

- Implementation of our key investment project: construction of Ammonia Unit No 3 at PhosAgro-Cherepovets is on track
- Continue construction of 500 kt/year granulated urea line
- Increase phosphate-based fertilizer production by up to an additional 5% year-on-year on the back of the removal of bottlenecks completed in 2015
- Updates to existing strategy to develop a strategy for the development of PhosAgro assets through 2025

### Where we want to be in 2020

- Launch new 760 kt/year ammonia plant to achieve 100% self-sufficiency into ammonia
- Launch of new 500 kt/year granulated urea line at PhosAgro-Cherepovets in 2017
- Increase production of nitrogen fertilizers and modernisation of MAP/DAP/NPK production lines, bringing total sales of end products over 8 million tonnes/year – an increase of 25% from 2014
- Nitrogen segment to see more than 40% increase in production capacity

### Related risks

**Strategic risks**
Ineffective strategic planning (including lower-than-expected demand on target markets and as a result lower sales)

**Operational, regulatory, reputational and financial risks**

For more information on risks, please see pages 66–73

# 3 Increase operating efficiency

## Opportunity

Further strengthen our sustainable low-cost position through modernisation of existing fleet, optimisations, and reducing logistics costs

## Why this is our priority

The key to our competitive advantage is maintaining low production costs

In order to reduce production costs throughout the cycle, we are focusing on reducing costs at all stages of production and logistics

| What we did in 2015 | What we aim to do in 2016 | Where we want to be in 2020 |
|---|---|---|
| • Launched Main Shaft No 2 at the Kirov mine, expanding the scale of our lower-cost underground mining operations to 70% in 2015 vs. 64% in 2014.<br>• Launched the Smart Bulk Terminal at the Ust-Luga port, and shipped more than 20% of our total export volumes for the year through the terminal – helping us to save on port charges and rail freight costs compared to other Baltic ports<br>• We initiated a project to modernise Beneficiation Plant No 3, which will further cut phosphate rock production costs | • Continue monitoring costs, with the aim of containing the growth of fixed costs within the inflation level<br>• The full impact from the launch of Main Shaft No 2 at the Kirov Mine to be seen in 2016<br>• Continue modernisation of Beneficiation Plant No 3 | • With the launch of new ammonia and granulated urea units in Cherepovets in 2017, we aim to reduce costs by becoming fully self-sufficient in ammonia (purchased ammonia accounted for 10% of 2015 CoGS)<br>• Reduce mining cash costs by increasing share of underground mining up to 80%<br>• Achieve sustainable cost savings by shipping up to 2 million tonnes/year of fertilizer export volumes through the Ust-Luga port |

**Related risks**

**Strategic risks**
Ineffective strategic planning

**Operational, regulatory, reputational and financial risks**

For more information on risks, please see pages 66–73

# 4 Consolidation

## Opportunity

Reduce duplicate functions and increase transparency

## Why this is our priority

Consolidating and streamlining our corporate structure to increase management efficiency and enhance intragroup cash management

| What we did in 2015 | What we aim to do in 2016 | Where we want to be in 2020 |
|---|---|---|
| • Further simplified corporate structure by completing merger of subsidiaries Nordic Rus Holding, Agro-Cherepovets and PhosAgro AG into PhosAgro-Cherepovets as well as consolidating Phosint Limited<br>• Operating management staff was relocated to Cherepovets | • Review additional opportunities to streamline corporate structure | • Further changes to corporate structure may be linked to the long-term strategy currently under development |

**Related risks**

**Strategic risks**
Ineffective strategic planning

**Operational, regulatory, reputational and financial risks**

For more information on risks, please see pages 66–73

# Increasing production capacity while maintaining utilisation rates



**We managed to increase sales of phosphate-based fertilizers by 12% year-on-year thanks to low-cost investments in removing bottlenecks, enabling us to further expand our internal use of phosphate rock for processing into high-quality, value-added fertilizers.**

**In cooperation with UC Rusal, we commissioned an aluminium fluoride production plant in Cherepovets with a total annual capacity of 43,000 tonnes. The aluminium fluoride will be used as feedstock at UC Rusal plants.**

Mikhail Rybnikov
Chief Operating Officer

## Upstream

**Capacity by product**

| Phosphate rock | Nepheline concentrate |
|---|---|
| **7.9** mln t | **1.7** mln t |

**Phosphate rock sales in 2015, kt**

| | |
|---|---|
| Total phosphate rock sales | 7,770 |
| Intragroup sales | 5,808 |
| External sales | 1,962 |
| Domestic | 873 |
| Export | 1,089 |

### Phosphate segment

The upstream operations in our phosphate segment take place at Apatit, which mines apatite-nepheline ore that is processed into phosphate rock and nepheline concentrate.

The downstream operations in our phosphate segment take place at PhosAgro-Cherepovets, the Balakovo branch of Apatit (formerly Balakovo Mineral Fertilizers) and Metachem. PhosAgro-Cherepovets 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).

### Highlights

- Phosphate-based fertilizer production up 12.2% year-on-year to 5.4 million tonnes
- Phosphate-based fertilizer sales up 12.0% year-on-year to 5.3 million tonnes
- Internal use of the Company's own phosphate rock increased to 74.8% of total sales volume

**Phosphate-based fertilizer production up 12.2% year-on-year to 5.4 million tonnes thanks to production optimisation**

### Upstream

We extracted 27.2 million tonnes of apatite-nepheline ore in 2015, compared to 26.1 million in 2014. We produced 7.9 million tonnes of phosphate rock, up from 7.5 million tonnes in 2014.

Intra-Group sales of phosphate rock amounted to 74.8% (5,808 kt) of our total phosphate rock sales in 2015, compared to 68.5% (5,191 kt) in 2014. This was primarily due to the 12.2% year-on-year increase in our own phosphate-based fertilizer production in 2015.

## Production and sales volumes – Apatit mine and beneficiation plant

| | Production volumes, kt | | | Sales volume[1], kt | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | Change y-o-y, % | **2015** | 2014 | Change y-o-y, % |
| Phosphate rock | **7,853.3** | 7,500.5 | 4.7% | **1,962.4** | 2,392.4 | (18.0%) |
| Nepheline concentrate | **951.9** | 940.3 | 1.2% | **954.6** | 936.4 | 1.9% |

[1] Not including intra-Group sales.

We sold 11.2% of the phosphate rock we produced to domestic external customers and 14.0% to international customers, compared with 11.0% and 20.6%, respectively, in 2015. Prayon (Belgium) and Yara (Norway) accounted for most of the exports. The year-on-year decline in phosphate rock sales volumes was primarily due to greater internal use.

Nepheline concentrate production and sales increased by 1.2% and 1.9% year-on-year, respectively, in 2015. We sell all of our nepheline concentrate to Basel Cement Pikalevo, which slightly increased its nepheline concentrate processing in 2015.

## PhosAgro's ore resources as of 1 January 2016

| Deposit | Resources, 000 t (Categories A+B+C1) | Average $P_2O_5$ content % |
|---|---|---|
| Kukisvumchorr | 407,134 | 14.24 |
| Yukspor | 515,292 | 14.17 |
| Apatitovy Cirque | 107,918 | 14.24 |
| Plateau Rasvumchorr | 325,168 | 13.01 |
| Koashva | 595,550 | 16.88 |
| Njorkpahk | 59,957 | 13.30 |
| Iyolitovy otrog | 1,754 | 14.14 |
| **Total** | **2,012,773** | **14.78** |

PhosAgro's Apatit mine and beneficiation plant holds five 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 one deposit.

| Mining licenses | License expiration date |
|---|---|
| Kirov mine (Kukisvumchorr and Yukspor deposits) | 31.12.2025 |
| Vostochniy mine (Koashva deposit) | 31.12.2017 |
| Vostochniy mine (Njorkpahk deposit) | 31.12.2016 |
| Rasvumchorrskiy mine (Apatitovy Cirque and Plateau Rasvumchorr deposits) | 01.01.2024 |
| Tsentralniy mine (Plateau Rasvumchorr deposit) | 31.12.2017 |

| Exploration license | Date granted |
|---|---|
| Illitoviy otrog deposit | 07.02.2014 |

## Resource category classification

**Category A**: the deposit is known in detail; boundaries of the deposit have been outlined by trenching, drilling or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the reliability of the projected exploitation.

**Category B**: the deposit has been explored but is only known in fair detail; boundaries of the deposit have been outlined by trenching, drilling or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the basic reliability of the projected exploitation.

**Category C1**: the deposit has been estimated by a sparse grid of trenches, drill holes or underground workings. The quality and properties of the deposit are known tentatively by analogy with known deposits of the same type and the general conditions for exploitation are tentatively known. This category includes resources peripheral to the boundaries of Categories A and B and also reserves allocated in complex deposits in which the ore distribution cannot be reliably determined even by a very dense grid.

### Production and sales volumes – Apatit mine and beneficiation plant

| | Production volume, kt | | | Sales volume, kt | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | Change y-o-y, % | **2015** | 2014 | Change y-o-y, % |
| DAP/MAP | **2,643.2** | 2,366.7 | 11.7% | **2,639.2** | 2,364.1 | 11.6% |
| NPK | **1,922.6** | 1,725.2 | 11.4% | **1,878.5** | 1,680.4 | 11.8% |
| NPS | **272.8** | 248.4 | 9.8% | **265.3** | 250.0 | 6.1% |
| APP | **109.6** | 89.7 | 22.2% | **104.5** | 89.9 | 16.2% |
| MCP | **272.2** | 252.1 | 8.0% | **257.7** | 250.3 | 3.0% |
| PKS | **95.9** | 58.5 | 63.9% | **89.8** | 45.5 | 97.4% |
| SOP | **36.7** | 29.7 | 23.6% | **35.8** | 27.5 | 30.2% |

## Downstream

### Phosphate segment capacity by product

**MAP/DAP/NPK/NPS**
**4.9 mln t**

**Feed phosphate**
**270 kt**

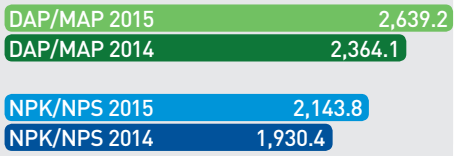
**APP**
**140 kt**

**PKS**
**100 kt**

**Phosphoric acid**
**2.1 mln t**

**STTP**
**130 kt**

### DAP/MAP vs NPK/NPS sales, kt




**Phosphate segment**
We increased our production and sales of phosphate-based fertilizers by 12.2% and 12.0% year-on-year, respectively.

Our ability to quickly switch between production of MAP/DAP and NPK/NPS fertilizers and to our competitive position as a low-cost producer (we are positioned at the low end of the cash-cost curve) helped us to increase production and sales of MAP/DAP by 11.7% and 11.6% year-on-year, respectively, in 2015.

Production of NPK fertilizers increased by 11.4% to 1.9 million tonnes, while sales rose by 11.8%, also reaching 1.9 million tonnes in 2015. NPS production and sales increased by 9.8% and 6.1% (to 273 kt and 265 kt), respectively.

Our PKS fertilizer production line with a capacity of 100 kt per year was officially launched in February 2015. Production and sales of fertilizers from this line during the year amounted to 95.9 kt and 89.8 kt, respectively.

Production and sales volumes of SOP decreased by 23.6% and 30.2%, respectively, in 2015 to 36.7 kt and 35.8 kt.

Due to our production flexibility and cash-cost leadership, we were also able to maintain near-100% capacity utilisation throughout 2015, even as we increased MAP/DAP/NPK/NPS production capacity by 8.9% year-on-year to 4.9 million tonnes and MCP production capacity by 8.0% year-on-year to 270 kt.

**Outlook**
- PhosAgro will continue to focus on strategic goals of optimising costs in upstream operations
- We are intensifying production activities at our Cherepovets site. In 2015, we managed to increase the production capacity of existing lines by 10%.

### In-house R&D – Playing a Key Role in PhosAgro's Growth

Our research and development employees are highly skilled and support and facilitate decision-making related to our investments in construction by developing feasibility studies, supervising construction and designing projects.

In 2015, for example, NIUIF developed technical solutions that will enable Metachem to expand the grades of the NPKS fertilizers it can produce, including those containing microelements. At PhosAgro-Cherepovets, the Institute helped develop new production methods for expanding the grades of MAP and NPS that the site can produce.

The scientific institute is also working on new methods to improve the safety of our phosphogypsum storage by neutralising some of the dangerous elements contained in this material.

**The Y. Samoylov Scientific and Research Institute for Fertilizers and Insectofungicides** (NIUIF) is the only research institute in Russia specialising in research and development in phosphate-based processing technologies and the production of phosphoric and sulphuric acid, phosphorus and nitrogenous mineral fertilizers and complex mineral fertilizers, including fertilizers with micronutrients.

**Mining and Chemical Engineering** develops feasibility studies, supervises construction and design projects to support and facilitate decision-making relating to our investments in construction and modernisation of production facilities, and also provides us with general engineering support.

### Nitrogen segment capacity by product

**Ammonia**
**1,190 kt**

**Urea**
**980 kt**

**AN**
**450 kt**

### Production and sales volumes – Apatit mine and beneficiation plant

| | Production volumes, kt | | | Sales volume, kt | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | Change y-o-y, % | **2015** | 2014 | Change y-o-y, % |
| Urea | **978.1** | 966.0 | 1.3% | **949.4** | 1 016.6 | (6.6%) |
| NP | **0.0** | 120.5 | (100.0%) | **0.0** | 120.3 | (100.0%) |
| AN | **455.3** | 291.4 | 56.2% | **416.0** | 247.6 | 68.0% |

## Nitrogen segment

Our nitrogen segment includes the assets of PhosAgro-Cherepovets, which produces ammonia, ammonium nitrate, ammonium nitrate-based fertilizers and urea, and Agro-Cherepovets, which produces urea from the ammonia produced by PhosAgro-Cherepovets. Agro-Cherepovets was merged into PhosAgro-Cherepovets in 2015.

### Highlights

- Nitrogen fertilizer production increased 4.0% year-on-year to 1.4 million tonnes
- Nitrogen fertilizer sales were stable at 1.4 million tonnes
- Construction of a new 760 kt/year ammonia plant remains on track for commissioning in 2017
- Financing secured for a new 500 kt granulated urea plant.

### Performance

Overall sales volumes of nitrogen fertilizers were stable year-on-year in 2015.

Urea production increased by 1.3% year-on-year to 978.1 kt in 2015, while sales declined by 6.6% year-on-year to 949.4 kt.

In 2015, 67.1% of our urea exports were attributed to long-term urea sales contracts with Trammo AG (Switzerland), which we signed for the period from July 2013 to June 2015 (in 2015, this contract was extended through September 2016), and with Ameropa AG (Switzerland) for the period from October 2014 through September 2015). The majority of our remaining urea sales were on the spot market or based on short-term quarterly sales contracts. 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 2015, ammonia production decreased by 5.8% compared to 2014 as a result of scheduled maintenance. Our self-sufficiency in ammonia decreased from 81.8% in 2014 to 72.4% in 2015.

In 2015, production and sales of ammonium nitrate (AN) and ammonium nitrate-based fertilizers (NP) increased by 10.5% and 13.1%, respectively.

### Outlook

- New ammonia plant due to come online in 2017, adding 760 kt of annual capacity and increasing self-sufficiency to over 100%
- New 500 kt/year urea plant due to come online in 2017.

# Increasing revenue by enhancing production flexibility

### Statement of comprehensive income

**Revenue**

During 2015, PhosAgro's revenue and sales volumes benefited significantly from the Company's strategy of enhancing production flexibility and ongoing debottlenecking activities: total fertilizer production and sales volumes grew by 10% and 9%, respectively, year-on-year. Revenue in 2015 grew by 54% year-on-year to RUB 189.7 billion, supported by respective 52% and 50% increases in average export revenue per tonne of fertilizer for DAP/MAP and NPK, denominated in roubles.

In 2015 export sales accounted for 73% of our consolidated revenue, compared to 71% in 2014.

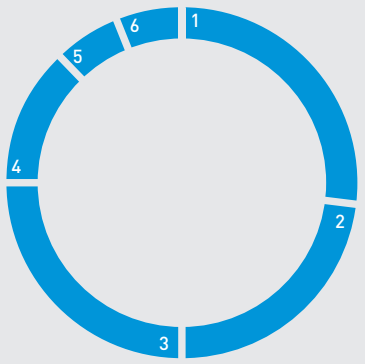
**Gross profit, operating profit, EBITDA and profit for the period**

Gross profit in 2015 increased by 92% year-on-year to RUB 106.7 billion, from RUB 55.7 billion in 2014, which resulted in significant gross margin expansion of 11 p.p., from 45% in 2014 to 56% in 2015.

Operating profit for the period was RUB 73.3 billion, a year-on-year increase of 148% from RUB 29.6 billion in 2014. Operating profit margin rose by 15 p.p. from 24% in 2014 to 39% in 2015.

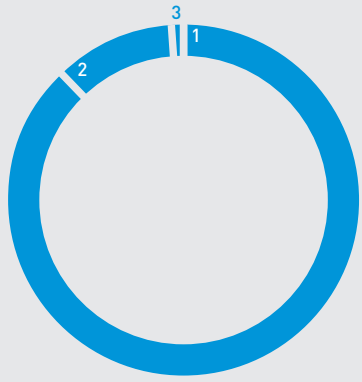
EBITDA was RUB 82.5 billion in 2015, up by 119% year-on-year from RUB 37.6 billion in 2014. This strong result supported an increase in the EBITDA margin of 12 p.p. from 31% in 2014 to 43% in 2015.

**Revenue structure by regions, %**




| | | |
|---|---|---|
| 1 | Russia | 27% |
| 2 | Europe | 25% |
| 3 | North and Latin America | 23% |
| 4 | Asia | 13% |
| 5 | Africa | 6% |
| 6 | CIS | 6% |

**Revenue structure by products, %**




| | | |
|---|---|---|
| 1 | Phosphate-based products | 88% |
| 2 | Nitrogen fertilizers | 11% |
| 3 | Other | 1% |

**Key financial performance indicators, RUB mln**

| | 2015 | 2014 | Change y-o-y, % |
|---|---|---|---|
| Revenue | **189,732** | 123,124 | 54% |
| Cost of sales | **83,064** | 67,467 | 23% |
| Gross Profit | **106,668** | 55,657 | 92% |
| Gross profit margin | **56%** | 45% | 11 p.p. |
| Operating profit | **73,331** | 29,596 | 148% |
| Opertaing profit margin | **39%** | 24% | 15 p.p. |
| Loss/Profit for the year | **36,436** | -13,395 | n/m |
| Loss/Profit margin | **19%** | -11% | n/m |
| EBITDA | **82,464** | 37,609 | 119% |
| EBITDA margin | **43%** | 31% | 12 p.p. |
| Net Debt | **105,165** | 93,137 | 13% |
| Net Debt/EBITDA ratio | **1.28** | 2.48 | |

### Key operational indicators sales volumes, kt

| | 2015 | 2014 | Change y-o-y, % |
|---|---|---|---|
| Phosphate-based products | **5,384** | 4,837 | 11% |
| Nitrogen-based fertilizers | **1,365** | 1,385 | -1% |
| Apatit mine and beneficiation plant | **2,917** | 3,329 | -12% |
| Other products | **103** | 221 | -53% |

### Revenue structure by region, RUB mln

| | 2015 | 2014 | Change y-o-y, % |
|---|---|---|---|
| North and Latin America | **44,430** | 39,477 | 13% |
| Europe | **47,303** | 25,491 | 86% |
| Africa | **12,475** | 8,799 | 42% |
| Asia | **23,909** | 6,193 | 286% |
| CIS | **10,740** | 6,882 | 56% |
| Russia | **50,875** | 36,282 | 40% |
| **Total** | **189,732** | **123,124** | **54%** |

### Segment revenue structure, RUB mln

| | 2015 | 2014 | Change y-o-y, % |
|---|---|---|---|
| Phosphate-based products | **167,430** | 105,832 | 58% |
| Nitrogen fertilizers | **21,574** | 16,626 | 30% |
| Other operations | **728** | 666 | 9% |
| **Total** | **189,732** | **123,124** | **54%** |

The significant depreciation of the rouble as of 31 December 2015 (RUB 72.88 per USD) compared to 31 December 2014 (RUB 56.26 per USD) resulted in a foreign exchange loss of RUB 22.2 billion in 2015; in 2014 the foreign exchange loss was RUB 33.5 billion. Despite recording a foreign exchange loss for the second year in a row, PhosAgro's net profit in 2015 amounted to RUB 36.4 billion, compared to a net loss of RUB 13.4 billion in 2014.

Basic and diluted earnings per share came to RUB 281 for 2015, compared to loss per share of RUB 105 in 2014.

### Statement of financial position

Gross debt at 31 December 2015 amounted to RUB 134.5 billion, compared to RUB 123.8 billion at 31 December 2014. Cash and cash equivalents totalled at RUB 29.3 billion at 31 December 2015 (vs. RUB 30.7 billion on 31 December 2014). This brought net debt to RUB 105.2 billion at 31 December 2015, up from RUB 93.1 billion on 31 December 2014. Most of the PhosAgro's debt is denominated in USD as a natural hedge against primarily USD-denominated sales. The further rouble devaluation in 2015 was the primary reason behind the growth in the company's Gross Deb reported in roubles.

While net debt increased, strong EBITDA performance for 2015 helped bring the Company's net debt to EBITDA ratio down to 1.28 as of 31 December 2015, from 2.48 as of 31 December 2014.

### Phosphate-based products segment

Phosphate-based products segment revenue grew by 58% year-on-year and totalled RUB 167.4 billion in 2015. PhosAgro increased production and sales of phosphate-based fertilizers and MCP by 12% year-on-year in 2015. Sales volumes for phosphate rock and nepheline concentrate in 2015 decreased by 12% year-on-year.

The phosphate-based products segment's gross profit for 2015 increased by 104% year-on-year to RUB 97.1 billion, resulting in a gross profit margin of 58%, compared to a 45% margin 2014, which was the result of higher sales in rouble terms.

### 2015 Phosphate-based fertilizers market conditions

- The average price for DAP in 2015 was USD 459/t FOB Tampa, representing a slight 3% year-on-year decrease from USD 472/t in 2014.
- Overall demand for $P_2O_5$-based products in 2015 was characterised by two main factors: strong recovery in imports of $P_2O_5$ products (DAP, MAP, NPK) into India. After almost three years of gradual decline, India's imports of phosphate-based products grew 65% year-on-year to 6.4 million tonnes in 2015. However, this recovery was offset by a decline in imports into Brazil caused by sharp increase in borrowing rates to farmers. The overall import of phosphate-based products into Brazil dropped by 26% year-on-year to 5.1 million tonnes, while imports of MAP dropped by 24% year-on-year to 2.3 million tonnes, compared to the historical high of 3.0 million tonnes seen in 2014.
- On the supply side the most notable shift is attributed to China: the further liberalisation of the fertilizer export regime resulted in a flat RMB 100/t export duty throughout the year (vs. seasonal duties in 2014 that reached 15% of the price). As a result, the overall export of DAP/MAP products from China increased by 49% year-on-year to 10.8 million tonnes in 2015.

- The global trade of phosphate rock in 2015 dropped by 2.4% year-on-year to 28.4 million tonnes thanks to lower export from Morocco, Egypt and Syria. The average export price for phosphate rock (32% $P_2O_5$) stood at USD 125/t FOB Morocco, a year-on-year increase of 8% vs. USD 116/t in 2014.

The growth in fertilizer sales volumes was primarily due to favourable market conditions and higher demand, which enabled the Company to substantially increase sales of MAP, DAP and NPK to Europe and India.

- DAP/MAP fertilizers: Revenue from DAP/MAP sales was up 72% year-on-year, from RUB 42.7 billion in 2014 to RUB 73.4 billion in 2015, reflecting the overall 13% year-on-year growth in sales volumes and 53% year-on-year rise in DAP/MAP average revenue per tonne denominated in roubles.
- NPK fertilizers: Revenue from NPK sales was up from RUB 23.4 billion in 2014 to RUB 38.9 billion in 2015, an increase of 66% year-on-year, reflecting the overall 12% year-on-year growth in sales volumes and the 49% year-on-year rise in NPK average revenue per tonne denominated in roubles.
- Phosphate rock: revenue from phosphate rock sales rose by 33% year-on-year to RUB 19.2 billion in 2015. Revenue per tonne in rouble terms increased by 62%. Sales volumes decreased by 18% year-on-year due to higher internal consumption of phosphate rock by PhosAgro's own downstream production sites.

## Phosphate-based products segment, RUB mln

| Result | 2015 | 2014 | Change y-o-y, % |
|---|---|---|---|
| Revenue | **167,430** | 105,832 | 58% |
| Cost of goods sold | **-70,344** | -58,156 | 21% |
| Gross Profit | **97,086** | 47,676 | 104% |
| Gross Profit margin | **58%** | 45% | 13 p.p. |

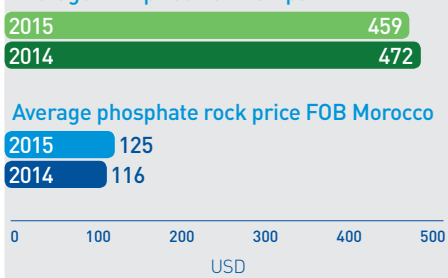
## Revenue and sales volumes for principal phosphate-based products

| Item | Revenue, RUB mln | | | Sales Volume, kt | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | Change y-o-y, % | **2015** | 2014 | Change y-o-y, % |
| Phosphate rock | **19,155** | 14,393 | 33% | **1,962** | 2,392 | -18% |
| DAP/MAP | **73,362** | 42,654 | 72% | **2,625** | 2,330 | 13% |
| NPK/NPS | **45,769** | 27,770 | 65% | **2,144** | 1,930 | 11% |
| MCP | **7,749** | 5,262 | 47% | **258** | 250 | 3% |

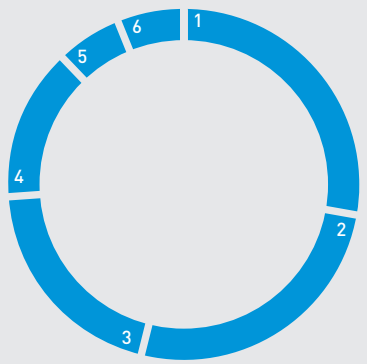
## Phosphate-based segment revenue by region, RUB mln

| Region | 2015 | 2014 | Change y-o-y, % |
|---|---|---|---|
| North and Latin America | **33,623** | 30,026 | 12% |
| Europe | **43,692** | 23,732 | 84% |
| Africa | **9,057** | 6,326 | 43% |
| Asia | **23,782** | 6,191 | 284% |
| CIS | **10,719** | 6,877 | 56% |
| Russia | **46,557** | 32,680 | 42% |
| **Total** | **167,430** | **105,832** | **58%** |

## Phosphate based fertilizers market, USD




## Phosphate-based segment revenue by region, %




| | | |
|---|---|---|
| 1 | Russia | **28%** |
| 2 | Europe | **26%** |
| 3 | North and Latin America | **20%** |
| 4 | Asia | **14%** |
| 5 | Africa | **6%** |
| 6 | CIS | **6%** |

### Nitrogen fertilizers segment

Nitrogen segment revenue increased by 30% year-on-year to RUB 21.6 billion in 2015, from RUB 16.6 billion in 2014. Production volumes of nitrogen fertilizers increased by 4% in 2015. Sales volumes remained almost unchanged.

Nitrogen segment gross profit for 2015 increased by 20% year-on-year to RUB 9.5 billion, mainly as a result of significant revenue growth caused by the devaluation of the rouble against the US dollar. A 74% year-on-year increase in purchase volumes of ammonia as a result of higher fertilizer production balanced the rapid growth in gross profit, which meant that the gross margin for 2015 was 44%, compared with 48% in 2014.

### 2015 Nitrogen fertilizer market conditions

- The average price for Urea in 2015 stood at USD 267/t FOB Baltic, representing a 14% year-on-year decrease from USD 311/t FOB Baltic in 2014.
- Global demand for nitrogen fertilizer was relatively stable in 2015, and is estimated by IFA at 110.1 million tonnes (in N nutrient). Urea traditionally accounts for around 60% of total nitrogen-based fertilizer sales volumes.
- Chinese urea exports accounted for 30% of global urea exports in 2015, and stood at 13 million tonnes, unchanged from 2014.

Export revenue from urea was 32% higher year-on-year, up from RUB 11.9 billion in 2014 to RUB 15.7 billion in 2015, due to a 41% year-on-year increase in revenue per tonne, balanced by a decrease in sales volumes of 6%. Total revenue from ammonium nitrate (AN) rose by 114% year-on-year, from RUB 2.5 billion in 2014, to RUB 5.4 billion in 2015, due to 28% growth in revenue per tonne and a 68% increase in sales volumes.

### Nitrogen products segment, RUB mln

| Results | 2015 | 2014 | Change y-o-y, % |
|---|---|---|---|
| Revenue | **21,574** | 16,626 | 30% |
| Intersegment | **–** | 8 | – |
| Cost of goods sold | **-12,063** | -8,720 | 38% |
| Gross Profit | **9,511** | 7,914 | 20% |
| Gross Profit margin | **44%** | 48% | -4 p.p. |

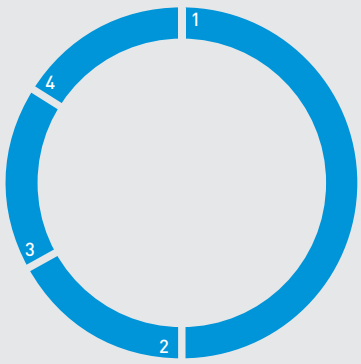
### Revenue and sales volumes for nitrogen fertilizers

| Item | Revenue, RUB mln | | | Sales Volume, kt | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | Change y-o-y, % | 2015 | 2014 | Change y-o-y, % |
| Urea | **16,101** | 12,250 | 31% | **949** | 1,017 | -7% |
| AN | **5,358** | 2,499 | 114% | **416** | 248 | 68% |

### Nitrogen Segment Revenue by region, RUB mln

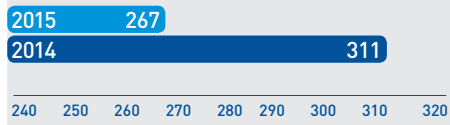
| Region | 2015 | 2014 | Change y-o-y, % |
|---|---|---|---|
| North and Latin America | **10,807** | 9,451 | 14% |
| Europe | **3,611** | 1,759 | 105% |
| Africa | **3,418** | 2,474 | 38% |
| Asia | **126** | 1 | n/m |
| CIS | **22** | 5 | 340% |
| Russia | **3,590** | 2,936 | 22% |
| **Total** | **21,574** | **16,626** | **30%** |

### Nitrogen segment revenue by region, %




| | | |
|---|---|---|
| **1** | North and Latin America | **50%** |
| **2** | Europe | **17%** |
| **3** | Russia | **17%** |
| **4** | Africa | **16%** |

### Average urea price FOB Baltic, USD



### Cost of sales

PhosAgro's cost of sales in 2015 increased by 23% year-on-year to RUB 83.1 billion, while overall fertilizer sales volumes increased by 9% year-on-year. This cost of sales performance was primarily due to the following factors:

- An increase of RUB 2.5 billion, or 12%, year-on-year in the cost of materials and services due primarily to 10% growth in fertilizer production volumes and inflation.
- A year-on-year increase in personnel costs of RUB 0.4 billion, or 4%, primarily due to indexation of payroll.
- An 85% year-on-year increase in expenditure on sulphur and sulphuric acid to RUB 8.4 billion in 2015. This was driven by a 6% increase in volumes consumed due to higher production of phosphate-based fertilizers, mainly MAP/DAP and NPK, and by 75% growth in rouble-denominated purchase prices.
- A year-on-year increase in expenditure on purchased ammonia to RUB 8.2 billion or by 139%, due to 74% higher purchase volumes and a 37% rise in rouble-denominated prices, year-on-year.
- Expenditure on potash rose 93% year-on-year to RUB 7.6 billion in 2015. This was mainly due to a 68% rise in rouble-denominated potash purchase prices and 15% growth in potash purchase volumes as a result of an 11% increase in NPK production.
- Expenditures on natural gas did not change significantly, due to a decline in consumption of gas by 4% balanced by a 4% increase in average purchase prices. Natural gas is required primarily for the production of ammonia.
  The decline in volume of gas consumed was due to PhosAgro's 6% year-on-year decline in ammonia production as a result of planned maintenance to the ammonia unit.
- Despite the increase in phosphate rock production, fuel consumption remained almost on the same level of RUB 2.9 bln in 2015. The increase in phosphate rock production volumes was made possible by higher volumes of underground mining of apatite-nepheline ore, where primarily electricity is used.
- Spending on ammonium sulphate grew 159% year-on-year to RUB 2.2 billion. Rouble-denominated purchase prices rose by 78% year-on-year, while higher production of NPK with high nitrogen content led to growth in consumption of ammonium sulphate by 45% year-on-year.
- Heating energy expenses declined by 38% year-on-year in 2015 and amounted to RUB 0.7 billion. Heating energy purchase volumes declined by 32% as a result of changes to the conditions of the contract with the city of Kirovsk, as a result of which the city began direct purchases of heating energy from local suppliers.

### Selling, general and administrative expenses

Administrative expenses rose by 32% year-on-year to RUB 12.2 billion in 2015, primarily due to:

- An increase in professional services by 81%, or RUB 0.9 billion, year-on-year, related to strategic development projects.
- A year-on-year rise in personnel expenses by RUB 1.5 billion, or 29%, mainly due to the implementation of the new management KPI incentive system, which led to increased bonuses to key management tied to EBITDA growth and selective salary indexation.

Selling expenses rose by 37% year-on-year to RUB 17.8 billion in 2015. This was primarily due to the following changes:

- A 60% increase in freight, port and stevedoring expenses to RUB 8.4 billion in 2015, mainly due to growth in CFR shipments, leading to higher freight costs and port charges, denominated in USD.
- Russian Railways infrastructure cost and operators' fees increased by 11% to RUB 6.1 billion. This was mainly due to a 10% year-on-year increase in railway tariffs on internal transportation for the domestic market, and by 23% year-on-year for exports.
- Growth of 46% year-on-year in materials and services to RUB 2.4 billion in 2015 due to an increase in multi-mode shipment volumes to end consumers in export markets.

### Statement of cash flows

#### Cash flow from operating activities

The net cash flow from operation increased by more than 130% year-on-year, from RUB 27.5 billion in 2014 to RUB 63.3 billion in 2015. This was caused primarily by favourable market conditions coupled with further rouble devaluation during the reporting period.

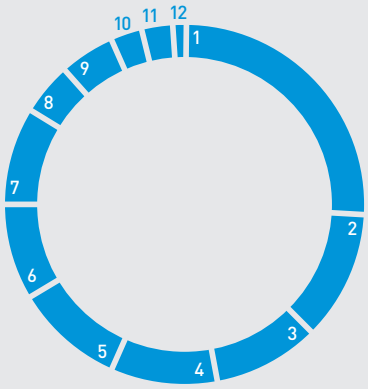
#### Cash used in investing activities

Net cash used in investing activities in 2015 grew 56% year-on-year to RUB 31.5 billion, primarily due to higher capital spending on the construction of PhosAgro's new ammonia plant and investments in main ore shaft No2 at Apatit's Kirov mine.

#### Cash used in financing activities

Net cash used in financing activities was RUB 37.4 billion in 2015, compared to positive cash flow from financing of RUB 8.4 billion in 2014, primarily due to RUB 15.7 billion net cash spent on the debt outflow and a more than three-fold increase in dividends payments.

## Cost of sales, %




| | | |
|---|---|---|
| 1 | Materials and services | 27% |
| 2 | Salaries and social contributions | 12% |
| 3 | Sulphur and sulphuric acid | 10% |
| 4 | Ammonia | 10% |
| 5 | Depreciation | 10% |
| 6 | Potash | 9% |
| 7 | Natural gas | 9% |
| 8 | Chemical fertilizers and other products for resale | 5% |
| 9 | Electricity | 5% |
| 10 | Fuel | 3% |
| 11 | Ammonium sulphate | 3% |
| 12 | Heating energy | 1% |

### Capital expenditure

Cash spent on capex in 2015 amounted to RUB 42.6 billion. Capital expenditure focused on ore extraction capacity development in Apatit, construction of the new 760 kt/year ammonia plant at PhosAgro-Cherepovets.

## Cost of sales

| | 2015 | | 2014 | | |
|---|---|---|---|---|---|
| Item | **RUB mln** | **% of cost of sales** | RUB mln | % of cost of sales | Change y-o-y, % |
| Materials and services | **22,905** | **27%** | 20,398 | 30% | 12% |
| Salaries and social contributions | **10,155** | **12%** | 9,754 | 15% | 4% |
| Sulphur and sulphuric acid | **8,385** | **10%** | 4,522 | 7% | 85% |
| Ammonia | **8,190** | **10%** | 3,423 | 5% | 139% |
| Depreciation | **8,057** | **10%** | 7,198 | 11% | 12% |
| Potash | **7,559** | **9%** | 3,915 | 6% | 93% |
| Natural gas | **7,484** | **9%** | 7,505 | 11% | – |
| Chemical fertilizers and other products for resale | **4,091** | **5%** | 2,932 | 4% | 40% |
| Electricity | **3,927** | **5%** | 3,650 | 5% | 8% |
| Fuel | **2,865** | **3%** | 2,791 | 4% | 3% |
| Ammonium sulphate | **2,176** | **3%** | 839 | 1% | 159% |
| Heating energy | **718** | **1%** | 1,161 | 2% | -38% |
| Other items | **23** | **–** | 14 | – | 64% |
| Change in stocks of works in progress and finished goods | **-3,471** | **-4%** | -635 | -1% | 447% |
| **Total** | **83,064** | **100%** | **67,467** | **100%** | **23%** |

## Cash flow statement, RUB mln

| | **2015** | 2014 |
|---|---|---|
| Cash flow from operating activities | **63,261** | 27,509 |
| Cash flow used in investing activities | **-31,463** | -20,210 |
| Cash flow used in/from financing activities (net of dividends paid) | **-19,243** | 14,138 |
| Dividends paid to shareholders | **-18,130** | -5,737 |
| Net change in cash and cash equivalents | **-5,575** | 15,700 |

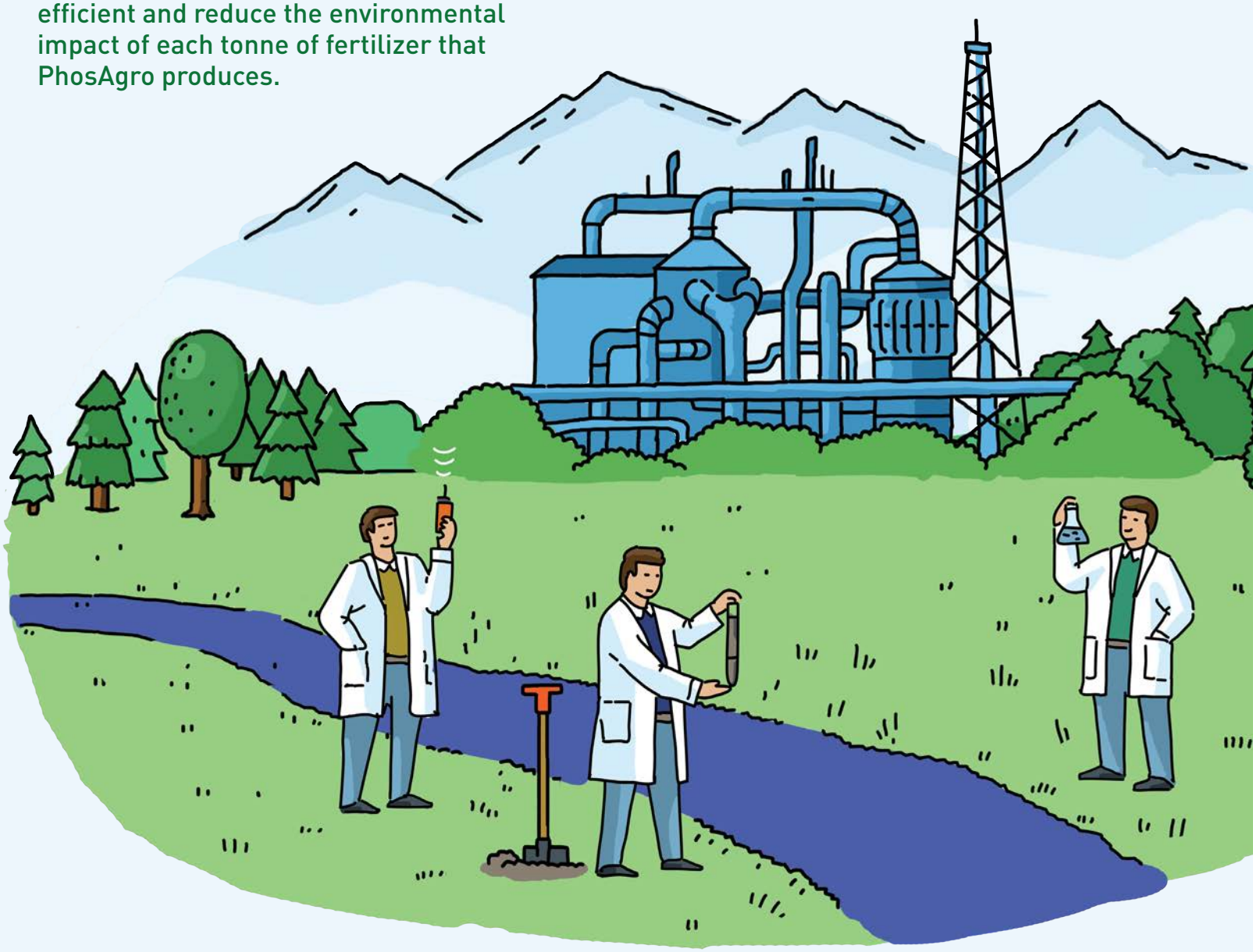
## Capital expenditure*, RUB mln

| | **2015** | 2014 | Change y-o-y, % |
|---|---|---|---|
| Phosphate-based products/mining and beneficiation | **10,471** | 6,984 | 50% |
| Phosphate-based products/fertilizers production | **7,442** | 5,834 | 28% |
| Nitrogen fertilizers | **25,025** | 4,352 | 475% |
| Other | **1,255** | 1,405 | -11% |
| **Total** | **44,193** | **18,575** | **138%** |

* capital expenditure, which consists of additions to property, plant and equipment

# Managing our environmental performance and investing in new technologies

We are investing in new technologies to make our production activities more efficient and reduce the environmental impact of each tonne of fertilizer that PhosAgro produces.





### Environment 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.

## We continually invest in new technologies and processes that reduce our use of energy and finite 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;
- Implementing energy-efficiency and energy-saving programmes at all our enterprises.

### Policy highlights

PhosAgro maintains a policy framework and related management systems procedures to address business conduct matters. Highlights of the organisation's policy framework are recorded below.

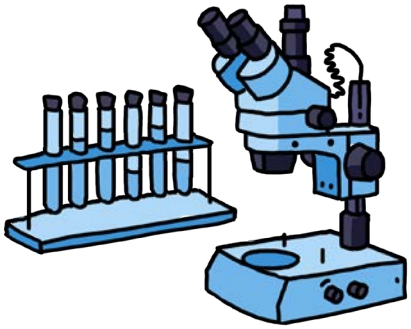
- We continually monitor and try to understand our environmental impacts;
- We aim to comply with all applicable Russian and international legislation and standards;
- We continually invest in new technologies and processes that reduce our use of energy and finite resources;
- We look to reduce, process or recycle the waste we produce wherever possible;
- We embed a culture of respect for the environment and communities in which we operate.

### Systems highlights

#### Management and reporting

PhosAgro's environmental affairs are overseen by the chief ecologist based at PhosAgro-Cherepovets, 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.

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



**Legislative and administrative framework**
In general, Russian environmental law meets international standards, and utilises the following main pieces of legislation: the Environmental Protection Law, the Russian Federation Water Code, the Law on Industrial Waste and Consumption, the Law on Protection of Atmospheric Air and the Environmental Expert Review Law. These pieces of legislation require environmental impact assessments prior to the implementation of a project that may have an impact on natural resources. No construction or operation 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).

Regional legislation supports and expands 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 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:

- the issuance of permits or licences (including for water use; subsoil use, for example, in mining; and forest use; air emissions; disposal and recycling of waste; and the operation of hazardous industrial facilities);
- the establishment of limits with respect to the amount of environmental impact;
- payment for negative environmental impact (emissions and waste disposal);
- payment of a fine for negative impact;
- liability in the event of a violation up to and including criminal prosecution.

None of PhosAgro's enterprises use ozone-depleting substances in the production process. A small amount of carbon tetrachloride (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. We also comply with IFC standards.

**Permits and certificates**
The Company's production sites hold all necessary licenses and permits related to environmental protection.

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.

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 and No 1907/2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) in the development of exposure scenarios.

**ISO and OHSAS certificates held by PhosAgro enterprises:**

| | ISO 9001 | OHSAS 18001 | ISO 14001 |
|---|---|---|---|
| Apatit | – | – | – |
| PhosAgro-Cherepovets | Since 2004 | Since 2008 | Since 2006 |
| Balakovsky subsidiary of Apatit | Since 2005 | – | Since 2009 |

**Waste water emissions by Balakovo branch of Apatit thanks to unique closed cycle process**

0

### Emissions and air quality

In 2015, consolidated atmospheric emissions by PhosAgro's production subsidiaries increased by 1.1 kt, or 4%, year-on-year to 28.9 kt. The increase in emissions was due to a 6% year-on-year increase in production output by PhosAgro-Cherepovets, as well as the merger of Agro-Cherepovets into PhosAgro-Cherepovets. At the same time, Metachem decreased its emissions by 34% year-on-year, and Apatit achieved a 5% year-on-year decline.

Atmospheric emissions per unit of production remained virtually unchanged, at 1.83 kg/t in 2015.

### 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 wastewater volumes. The Balakovo branch of Apatit, for example, uses a closed cycle process that produces no wastewater–something that is not used anywhere else in Russia or its neighbouring countries.

Apatit and PhosAgro-Cherepovets are responsible for the majority of PhosAgro's water withdrawal, accounting for 66.5% and 25% of the total, respectively. In addition, Apatit provides drinking water for Kirovsk and Apatity. The largest volume of waste water discharges, 94.9%, comes from Apatit.

In 2015, PhosAgro's total consumption from surface water sources increased by 5.7% year-on-year to 85.1 million $m^3$. Water consumption per unit of production has declined by 23.3% over the last three years, and was 5.38 $m^3$ per tonne.

Water discharges by PhosAgro's production sites slightly increased and amounted to 188.1 million $m^3$.

#### Environmental impact of the Company's production sites in 2015

| | Emissions into the atmosphere, kt | Water withdrawal, mln $m^3$ | Water discharges, mln $m^3$ | Solid waste, mln t | Solid waste re-used/ recycled, mln t |
|---|---|---|---|---|---|
| Apatit | 11.7 | 53.9 | 178.6 | 77.88 | 20.37 |
| PhosAgro-Cherepovets | 11.8 | 21.1 | 8.4 | 4.8 | 2.46 |
| Balakovo branch of Apatit | 4.5 | 6.9 | 0 | 3.26 | 0.016 |
| Metachem | 0.9 | 3.2 | 1.1 | 0.0024 | 0.0019 |
| **Total** | **28.9** | **85.1** | **188.10** | **85.94** | **22.84** |

#### Emissions into the atmosphere

| | **2015** | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Emissions of pollutants into the atmosphere, kt | **28.90** | 27.80 | 29.90 | 28.40 | 30.0 |
| Per unit emissions of pollutants into the atmosphere (kg/t of production output) | **1.83** | 1.86 | 2.0 | 1,93 | 2.13 |

#### Water withdrawal

| | **2015** | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Total water withdrawal (mln $m^3$) | **85.1** | 80.5 | 103.5 | 75.20 | 80.0 |
| Per unit water withdrawal ($m^3$/t of production output) | **5.38** | 5.39 | 6.92 | 5.13 | 5.68 |

#### Reuse/recycling of solid waste

| | **2015** | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Total volume of solid waste reused/recycled, kt | **22,851.80** | 2,249.90 | 2,236.10 | 5,637.90 | 4,730.10 |
| Ratio of reused/recycled waste, % | **26.20** | 2.83 | 2.16 | 4.81 | 3.97 |

**Solid waste**

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Total volume of solid waste, mln t | **85.9** | 78.2 | 103.20 | 117.03 | 119.08 |
| Total volume of solid waste, excluding overburden, mln t | **27.75** | 26.51 | 26.53 | 25.43 | 27.13 |
| Per unit volume of solid waste, excluding overburden, t/t of production output | **1.75** | 1.77 | 1.77 | 1.73 | 1.92 |

### Waste

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

In 2015, 42 kt of phosphogypsum from the Balakovo branch of Apatit was used for construction of a 7-kilometre section of road near the facility and around the Balakovo district of the Saratov region. AO Apatit 18.8 million tonnes of overburden from surface mining for road construction.

In 2015, the total volume of waste produced was 85.9 million tonnes. Approximately 90.6% of this volume was produced by Apatit. The 6% year-on-year increase in production volumes was the primary driver behind this increase in waste, created per unit of production was almost unchanged. The majority of solid waste (up to 70%) consists of rocks and overburden from Apatit.

### Energy efficiency

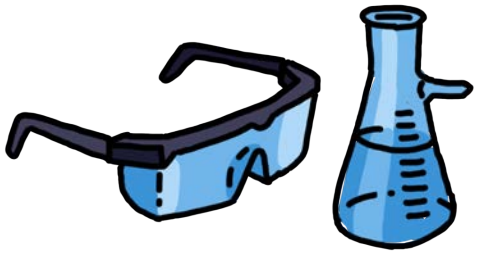
As a group, PhosAgro's production subsidiaries were 38.3% self-reliant in electricity and heating energy during 2015. This includes the use of heat generated in the sulphuric acid production process. We also continue to implement energy-saving and energy-efficiency programmes.

**PhosAgro's production subsidiaries were 38.3% self-reliant in electricity and heating energy during 2015**

### Natural gas and fuel oil

In 2015, PhosAgro's natural gas consumption decreased 4% year-on-year to 1,820 million $m^3$, while fuel oil consumption declined 6.6% year-on-year to 137 kt.

Apatit is our only consumer of fuel oil. The decrease in fuel oil consumption was a result of optimisation of the heating supply to Apatit's Vostochniy mine. This included the construction of a modular boiler and the construction of a second modular boiler in the village of Koashva. This enabled the Company to shut down an old fuel oil boiler at the Vostochniy mine. Further improvements were achieved thanks to the removal of certain infrastructure from the Tsentralniy mine and the shutting down of that mine's fuel oil boiler.



**Electricity**

PhosAgro's total electricity consumption in 2015 was 3,260 million kWh. PhosAgro-Cherepovets and the Balakovo branch of Apatit have their own generating capacities on-site, and in 2015 they supplied 83.3% and 78.2% of their own electricity needs, respectively.

**Electricity consumption**

| | **2015** | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Total electricity consumption, million kWh | **3,260** | 3,126 | 3,158 | 3,089 | 2,957 | 3,043 |
| Electricity consumption per unit of production, kWh/t | **206** | 210 | 211 | 211 | 210 | 215 |

**Case study**

PhosAgro, together with UNESCO and the International Union of Pure and Applied Chemistry, launched the Green Chemistry for Life programme in 2013. With USD 1.4 million in financing from PhosAgro, this programme offers research grants of up to USD 30,000 to young scientists for innovative research projects that adhere to the 12 principles of green chemistry.

In addition to aiming to harness the talents of young scientists for the advancement of green chemistry, Green Chemistry for Life aims to raise awareness among decision- and policy-makers, industrial companies and the general public about the promise that green chemistry holds for helping business to develop in an environmentally sound way.

In March 2016, a special nomination was launched, to research on innovative new ways to process or recycle phosphogypsum and other by-products of the fertilizer production process.

**12 Principles of Green Chemistry:**

1 Prevention of waste to avoid treating or cleaning up waste after it has been created;
2 Atom economy through new synthetic methods designed to maximise the incorporation of all materials used in the process into the final product;
3 Less hazardous chemical syntheses designed to use and generate substances that possess little or no toxicity to human health or the environment;
4 Design of safer chemicals able to carry out the desired function while minimising their toxicity;
5 Avoiding wherever possible or minimising the use of auxiliary substances (e.g. solvents, separation agents and others), and introducing safer solvents and auxiliaries that are innocuous when they have to be used;
6 Design for energy efficiency of chemical processes to minimise their environmental and economic impacts and, if possible, to introduce synthetic methods to be conducted at ambient temperature and pressure;
7 Promotion of the use of renewable raw materials or feedstock instead of depleting ones whenever technically and economically practicable;
8 Reduce derivatives through minimising or avoiding the use of blocking groups, protection/deprotection, and temporary modification of physical/chemical processes that require additional reagents and can generate waste;
9 Catalytic reagents as selective as possible;
10 Design for degradation of chemical products at the end of their function into innocuous degradation products that do not persist in the environment;
11 The development of analytical methodologies needed to allow real-time analysis for pollution prevention, in-process monitoring and control prior to the formation of hazardous substances;
12 Inherently safer chemistry for accident prevention substances and the form of a substance used in a chemical process to be chosen to minimise the potential for chemical accidents, including releases, explosions and fires.

# Implementing best practices in workplace health and safety

**We have established unified policies and governance systems across our production facilities. Our priority is to provide safe and healthy workplaces for our employees, and to keep our employees updated on the latest rules, regulations and best practices.**

Minor injuries reduced year-on-year

**-30%**

LTIRF reduced year-on-year

**-20%**



### Health and safety strategy

With large-scale mining and chemical processing operations, health and safety are critical elements to the success of our business. Our health and safety strategy focuses on three key areas: accident prevention and occupational health.

PhosAgro's management is committed to the health and safety of its employees because promoting their well-being and a culture of health and safety helps to ensure the sustainability of our business. We aim to learn from incidents when they occur by conducting a thorough investigation and sharing information as needed with production lines or an entire site.

### Policy highlights

- We have established and maintain the required level of workplace health and safety, whereby the risk of injuries or death, or accidents at hazardous production sites is minimised and reflects the latest scientific, industrial and community standards
- We seek to constantly create and develop a unified corporate culture concerning workplace health and safety among the employees of our production sites
- We provide for adherence to all legal and regulatory requirements in the area of workplace health and safety by all employees, regardless of their position in the Company
- We aim to improve the efficiency of workplace health and safety monitoring at our production sites with the help of modern information system, technical diagnostics and remote monitoring

### System highlights

We create a clear culture that embraces personal, team and company-wide responsibility for health, safety and care for fellow employees. In addition to adherence to federal legal requirements for workplace safety, PhosAgro's management has introduced additional measures to improve our workplace health and safety practices based on international best practices.

### Governance and oversight

- Oversight begins at the Board of Directors level, with the Environmental, Health and Safety Committee chaired by Igor Antoshin.
- Management receives weekly reports on workplace health and safety performance across the Company, and receives detailed information about incidents if and when they happen.
- At the executive management level, we aim to create a culture of safety whereby each person embraces responsibility for his or her own safety, as well as that of others.
- Each of our subsidiaries has a workplace health and safety service, or dedicated specialists, responsible for ensuring that proper workplace health and safety measures are in place and followed. Their responsibilities include monitoring adherence to safety requirements, incident investigations, working to disseminate any learning from near misses or incidents causing an injury or fatality and working to mitigate any identified risks.
- We operate a whistle-blower hotline, and we strongly encourage employees to report to management any concerns regarding possible violations or potentially dangerous situations at our production sites, as well as any issues related to health and safety.

### Unified standards:

- As part of the integration and streamlining of PhosAgro's production assets, we have been introducing new, unified safety standards and practices across all of our subsidiaries. These new standards are based on internationally recognised best practices, and are being implemented together with some of the best external experts available.
- Currently, our PhosAgro-Cherepovets production site has OHSAS 18001:2007 certification for its occupational health and safety management systems.

### Workplace injuries and fatalities

| | **2015** | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Minor injuries | **10** | 15 | 29 | 32 |
| Serious injuries | **4** | 3 | 5 | 9 |
| Fatalities | **0** | 5 | 2 | – |
| LTIFR (per 1 million hours) | **0.73** | 0.92 | 1.03 | 1.01 |

### Training

- Training and instruction on hazard mitigation and safe work practices, including fire safety and other topics relevant to a given production site in accordance with legal requirements, are provided to all new employees.
- In 2015, our upstream subsidiary Apatit conducted workplace safety training for two groups of managers at the site, with 34 people receiving eight hours of training.
- In 2016, the Company plans to conduct 35 such training programmes for groups of 12-15 people.

### Our performance

The significant efforts undertaken by the entire PhosAgro team to ensure workplace health and safety produced tangible results in 2015. The LTIFR rate declined by 20% year-on-year, and we had no fatalities or serious injuries leading to permanent injuries during the year.

### Workplace injuries and fatalities

Our goal for 2016 is to have another year without fatalities, and to reduce the LTIFR rate by another 10% year-on-year. We will continue implementing the measures developed together with DuPont Sustainable Solutions in 2014, and we are also in the process of establishing a unified HSE policy for all of PhosAgro's production sites in line with our strategy of streamlining and optimising business processes across our operations.

### Case study

In 2014, we worked with DuPont Sustainable Solutions to implement leading-edge safety management practices and tools. This 'Improving the effectiveness of workplace health & safety management' project was implemented at all of PhosAgro's production sites.

Our cooperation with DuPont Sustainable Solutions led to the introduction of the following initiatives in our HSE practices:

- Behavioural safety audits
- Internal investigations of every accident recorded by the Company, including mandatory investigation of micro-traumas and minor incidents, and the implementation of a methodology aimed at identifying the root cause of every incident
- 'Golden rules' for workplace health and safety. The golden rules of safety aim to protect the life and well-being of employees, lower injury rates, ensure adherence to legal requirements and maintain a healthy environment
- Qualification ratings of contractors prior to participation in tenders, and ongoing cooperation with contractors while they are working on Company territory
- Training of all factory personnel on safety principles
- Development of matrices for skills and tools for individual protection

After introducing these new practices in 2015, we have seen a positive impact on our workplace health and safety performance, as discussed above.

# Our people are vital in helping us deliver on our strategy

We aim to offer our employees rewarding careers and opportunities to advance within the company. We offer regular training, run a staff reserve programme and use a transparent system of KPIs to determine additional remuneration.

**Headcount, average per year**

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Upstream | **7,375** | 8,708 | 11,307 |
| Downstream | **8,136** | 8,904 | 10,226 |
| Other | **2,009** | 2,021 | 1,735 |





### Strategy highlights

We view the 17,520 people who work for us as one of the keys to our success, and they play a vital role in helping us deliver on our strategy to create value for our shareholders, our communities and our customers. In order to recruit and retain the right people to achieve this, we have focussed on the following areas:

- Phosphate-based fertilizer production up 12.2% year-on-year to 5.4 million tonnes.
- Being an employer of choice in the regions where we are present.
- Rewarding good performance using KPIs to determine remuneration.
- Ensuring continuity with a staff reserve system that helps identify and prepare future leaders.
- Offering fair and competitive salary and benefits packages.
- Ensuring our employees learn the skills they need to do their jobs today and in the future with training programmes.
- Preparing future generations of PhosAgro employees by supporting educational initiatives from primary school to university.
- Ensuring that our headcount reflects the real needs of our business and gives us the flexibility we need to remain competitive against our global peers.

### Policy highlights

We have successfully streamlined and consolidated the structure of our business, as discussed earlier in this report. In parallel, we have introduced new policies to integrate and centralise company management, including making how we deal with personnel consistent across the entire business.
Our policies are aimed at achieving the following key goals:

- Compliance with relevant local and national employment regulations, frameworks, guidelines, globally applicable standards and best practice at all times.
- Support for the fundamental principles in the International Labour Organization Declaration on fundamental principles and rights at work. We do not discriminate on the basis of gender, colour, religion, sexual orientation or disability. We ensure that employment with us is freely chosen. We prohibit the use of forced and child labour throughout our operations and supply chain.
- Ensure that our human resources policies are adopted and adhered to by our contractors and suppliers.
- Provide the training necessary to ensure that our employees have the skills they need to do their jobs, and to support career advancement within the Company.
- Invest in education to help produce future generations of PhosAgro employees that possess the right skills to help us succeed.
- Provide fair and transparent remuneration and benefits that motivate our employees to achieve PhosAgro's strategic goals.

### System highlights

**Executive remuneration**

At the top level, the KPI system we introduced in 2014 has set uniform standards linking top executive remuneration to a number of factors, including health and safety performance at the management company and subsidiary levels. We plan to complete implementation of the KPI system across all PhosAgro companies in 2016.



### Employee benefits
In addition to competitive wages, we aim to ensure that our employees benefit from good on-site working conditions, high-quality food at factory canteens, as well as access to corporate medical, rest and recreation programmes for employees and members of their families. PhosAgro also provides private pension plans, housing programmes, access to corporate sport facilities and the opportunity to participate in regular sporting and cultural events.

### Communication and feedback
When employment-related or other issues arise, we maintain numerous channels for communication, including Q&As in the corporate newspaper, town hall meetings for staff and management and an anonymous whistle-blower hotline. This variety of formats gives employees a range of anonymity when deciding how to raise an issue.

We also maintain a corporate intranet, which is used for internal messaging, announcements, planning and informational resources.

### Training and development
Our long-term success depends on creating a pipeline of talented individuals who are capable of moving into leadership and/or more technically challenging roles. Ensuring we develop our people also limits the risk of a shortage of talent, particularly in regions where the availability of suitably skilled people can be limited. We are taking steps to integrate recruitment and training to encompass schools, universities and our own staff programmes.

### PhosAgro Classes
At the school level, we encourage the study of applied sciences, including chemistry through the PhosAgro Classes programme. PhosAgro invests RUB 19 million every year into supporting this programme.

### High-Potential Graduates
At the university level, we recruit students based on recommendations from our partner universities through the High-Potential Graduates programme. Each one of the High-Potential Graduates is offered a competitive salary, relocation and housing support, and is assigned a mentor at PhosAgro.

### Workplace training
PhosAgro's Professional Training and Development Centre works with Company personnel to help them prepare for changes, both external (legislative/regulatory) and internal (related to optimisation, changes to production or business processes). As part of its ongoing activities, the Centre participates in PhosAgro's long-term HR projects, like PhosAgro Classes, "High-Potential Graduates" and the Staff Reserve programme, as well as competitions for professional skills and young managers.

### Management development
Our management development programmes train groups of 14-16 people on topics like:
- Human resources management: planning, setting goals, organisation and oversight
- Results-oriented thinking
- Leadership
- Decision-making
- Effective communication
- Influence and relationship-building
- Organisations and oversight
- Mentoring



**Staff Reserve**
Our Staff Reserve programme helps PhosAgro to identify and provide additional training for talented employees capable of both expanding their roles and stepping into more senior positions. Management training programmes cover a wide range of business skills, including decision-making, leadership and delegation, conflict management, project management, communication skills and staff mentoring.

**Equal opportunity**
Equal opportunity is important because it contributes to PhosAgro's position as an employer of choice. Our approach to equal opportunity is quite straightforward: we aim to appoint the best person for a given job, regardless of gender, sexual orientation, religion, ethnicity or race. We also comply fully with Russian federal and regional laws governing a business's obligations to society and its employees. This includes a ban on child or forced labour, the right to exercise freedom of association and collective bargaining.



## Developing our human resources

**Career classes in schools**

- Preparatory course PhosAgro classes (grades 10–11)
- Programme 'DROZD' (Pre-school, school, Technical Colleges: from 4 to 18 years of age)

**Vocational education support**

Participating colleges:
- Khibinsk Technical College
- Apatity Polytechnic College
- Cherepovets College of Chemistry and Technology
- Balakovo Polytechnic College
- Volkhov Aluminium College
- Volkhov Polytechnic College

**Secondary education 'Phosagro Classes' Programme**

Participating colleges:
- Kirovsk
- Apatity
- Cherepovets
- Balakovo
- Volkhov

**High-Potential Graduates Programme**

Technical institutes and specialised universities

Apprenticeships

Internships

**Employment with PhosAgro Enterprises**

PhosAgro Staff Reserve

### How we measure success

Our human resources management strategy has long-term targets to 2020, aimed at securing further the vertical integration of our recruiting and training process. Some of the ways we do this are described below:

### Training and development

#### PhosAgro Classes

In 2015, we had 246 students enrolled in PhosAgro Classes, selected for their strong achievements and interest in studying chemistry, physics, mathematics and computer science. In 2015, 120 students from five schools completed the programme, and 50% of them went on to join technical degree programmes with a potential career track. Another 20% were accepted into universities on sponsored placement programmes.

We aim to continue having 125 students participate annually in the PhosAgro Classes programme in five schools in five cities. We hope that by 2020 we will be able to recruit over 50% of these students.

#### High-Potential Graduates

We hired 47 recent graduates under this programme in 2015, bringing to 149 the total number of graduates to join PhosAgro since its beginning (2012-2015). Today, 131 of the graduates are still with PhosAgro, pursuing careers in areas like mineralogy, geology, hydraulic engineering, chemistry, rail transport, open pit and underground mining, and environmental protection.

As of December 2015, 43% of the participants in the High-Potential Graduates programme still working with PhosAgro had been promoted and/or entered the Staff Reserve, and 82% had successfully completed individual projects they were given upon hiring.

### Workplace training

| | Training hours in 2015 | |
|---|---|---|
| | **Staff Reserve** | **High-Potential Graduates** |
| Apatit | **200** | **384** |
| Balakovo branch of Apatit | **128** | **56** |
| Metachem | **280** | **232** |
| PhosAgro-Cherepovets | **288** | **272** |
| **Total** | **896** | **944** |

| | 2015 participants | | 2014 participants | |
|---|---|---|---|---|
| Subsidiary | **Current Managers** | **Staff Reserve** | Current Managers | Staff Reserve |
| Apatit | **48** | **172** | 102 | 83 |
| PhosAgro-Cherepovets | **129** | **235** | 97 | 174 |
| Balakovo Branch of Apatit | **50** | **83** | 97 | 64 |
| Metachem | **6*** | **10*** | 49 | 39 |
| **Total** | **233** | **500** | 345 | 360 |

* At Metachem the number of employees declined year-on-year due to the use of coaching as the main development tool. Selected participants received 6 months of training.

### Partnership with CCCT

In 2016, we launched a programme called 'selection, training and recruitment of graduates of the Cherepovets College of Chemistry and Technology ("CCCT") for positions at PhosAgro-Cherepovets and companies it manages'. The main goal of this programme is to establish and develop a system for cooperation on hiring of graduates from the CCCT, helping them adapt to the labour market, including through work at PhosAgro companies, including PhosAgro-Cherepovets. Candidates are monitored from the very beginning of their studies on a range of parameters including internship experience, academic progress and social activity. This year, we aim to hire 30% of graduates with relevant degrees.

### Workplace training

In 2015, 233 employees in management positions and 500 members of the Staff Reserve, from floor managers to line managers (area managers, shift managers, senior engineers, engineers), participated in training courses to help develop management competencies. Total training hours for our Staff Reserve programme amounted to 896 in 2015, while an additional 944 hours of training was provided for the Young Talented Professionals programme.

## Staff Reserve

In 2015, the Staff Reserve review process involved 584 employees. PhosAgro invested a total of RUB 74 million into the personal and professional development of its employees, of which RUB 12 million was devoted to special programmes for current and future leaders from PhosAgro's Staff Reserve.

| Subsidiary | **Number of employees added to staff reserve in 2015** | Number of employees added to staff reserve in 2014 |
|---|---|---|
| Apatit | **215** | 147 |
| PhosAgro-Cherepovets | **157*** | 39 |
| Balakovo Branch of Apatit | **160** | 99 |
| Metachem | **52** | 12 |
| PhosAgro AG | **–** | 43 |
| **Total** | **584** | 340 |

* Numbers for PhosAgro's Cherepovets subsidiaries include only production staff: staffing committees for non-production positions following the merger will take place in June 2016.

This includes employees that passed the review as candidates for management positions and were added to the Staff Reserve.

### Employees identified as candidates for management positions following review

| | **2015** | | 2014 | |
|---|---|---|---|---|
| Subsidiary | **Number of employees** | **%** | Number of employees | % |
| Apatit | **36** | **17** | 68 | 46 |
| PhosAgro-Cherepovets | **48*** | **31*** | 18 | 90 |
| Balakovo Branch of Apatit | **77** | **48** | 5 | 36 |
| Metachem | **22** | **42** | 8 | 67 |
| **Total** | **183** | **31** | 99 | 52 |

* Numbers for PhosAgro's Cherepovets subsidiaries include only production staff: staffing committees for non-production positions following the merger will take place in June 2016.

### Headcount, average per year

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Upstream division | **7,375** | 8,708 | 11,307 |
| Downstream division | **8,136** | 8,904 | 10,226 |
| Storage and distribution | **611** | 532 | 443 |
| Logistics | **89** | 75 | 85 |
| Engineering units | **346** | 425 | 461 |
| Other | **963** | 989 | 746 |
| **Total** | **17,520** | 19,633 | 23,268 |

## Headcount optimisation

In line with our strategy for streamlining the business, we continued with the outsourcing of non-core services and re-engineering of business processes in 2015, which was combined with the expansion of job responsibilities and consolidation of service functions at the group-wide level.



Average headcount in upstream production decreased by 15% from 8,708 in 2014 to 7,375 in 2015. The average headcount in downstream production decreased by 9% from 8,904 in 2014 to 8,136 in 2015. The overall effect on productivity, measured in tonnes of output per capita, has been significant: upstream productivity increased 23% year-on-year to 1,189 tonnes per capita, while downstream productivity increased 21% year-on-year to 850 tonnes per capita.

### Employee productivity, tonnes/person

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Upstream | **1,189** | 969 | 766 |
| Downstream | **850** | 705 | 592 |

# Supporting the long-term sustainable development of communities in the regions where we operate

**We take an active role in supporting the development of the regions where we operate, investing in priority areas like education, sports, healthy lifestyles, and culture.**

**Social investments**

Our social policy is an integral part of PhosAgro's comprehensive development strategy. PhosAgro's social projects aim to provide for safe and comfortable working conditions, professional education, solving housing issues, improving the quality of life of our employees and their families, material support for veterans and pensioners, as well as the socio-economic development of the regions where the Company operates.

We pay special attention to developing local initiatives, working in partnership with a broad range of stakeholders, including government bodies, social institutions and active citizens. In order to support the sustainable socio-economic development of the regions where we work, PhosAgro has established a practice of signing socio-economic partnership agreements with the governments of the regions where we operate: Saratov, Vologda, Leningrad and Murmansk.

The priority areas of our social activities have been determined as: education, sports and health lifestyle, infrastructure development, medicine, health care and culture:

- **Support for education**: PhosAgro has developed and is successfully implementing a unique, multi-level programme to support education, which has been developed by the Company's own specialists. This programme is different from others because it consolidates external and internal social projects within a unified framework: children start participating at pre-school age, and the programme covers all successive levels up to higher education, with the potential for participants to be employed at PhosAgro after graduation.

  For children and youth, the programmes we implement are Educated and Healthy Children of Russia (DROZD), PhosAgro Classes, New Horizons and Talented Young Specialists.

  With the goal of improving the quality of education in areas that are required at PhosAgro and other modern chemicals industry businesses, PhosAgro also works with professional and higher education institutions.

- **Creating conditions for employment**: we aim to help support former employees by developing programmes to support small business. In the city of Kirovsk, for example, our subsidiary Apatit is implementing a public-private partnership with the Murmansk region Ministry of Industrial and Entrepreneurial Development and Kirovsk municipal authorities. This unique agreement covers the programmes Khibinsky Start and Kind Work, which aim to create an atmosphere conducive to conducting business, helping to reduce tensions in the local labour market and support local small business. This is a new form of support for first-time businessmen who had previously worked at the factory. The programme provides grants to help new business get off the ground, with a clear application and review procedure for potential participants.

- **Cooperating with partners**: PhosAgro and Severstal have signed an agreement on strategic partnership that identifies areas for cooperation between the companies in regions of shared presence. The goal of this agreement is to cooperate on implementation of activities that aim to develop the socio-economic potential of the Vologda, Murmansk, Leningrad and Saratov regions. Areas for cooperation include developing and implementing corporate social responsibility programmes, environmental protection, best practice sharing on investment projects, as well as in areas like purchasing of raw materials, goods and services, as well as rail and air transport logistics.

Promoting sports and healthy lifestyles

> RUB 400 mln

Investment in PhosAgro Classes and renovation of schools

RUB 122 mln



**Total community investments**

> RUB 1.2 bln

**Urban space development**

> RUB 500 mln

### Plans for 2016 and beyond

We seek to conduct our production and social activities in a way that creates the conditions for current and future generations to support and contribute to PhosAgro's success. In the coming 3-5 years we will also be investing in a number of new capacity expansions that involve construction of new facilities or replacement of old equipment. We will also be further streamlining the structure of our business to reduce the number of legal entities we have within the group. Both of these processes will require considerable work with local governments, communities and employees to ensure that all stakeholders are properly informed of our plans, understand how they may be affected by these changes, and have an opportunity to provide feedback or raise issues throughout the process.

### Mutually beneficial cooperation with local authorities

- We will comply with relevant national and local regulations, frameworks, guidelines, globally applicable standards and best practice.
- We aim to adhere to corporate social responsibility principles at all times and address any grievances or complaints about our operations promptly and effectively.
- We seek to hold our community investments to the same strict standards of governance and control that we do for investments into our own production operations.
- We seek to ensure that residents are informed about planned changes at our production facilities that may affect them, and have an opportunity to voice concerns or ask questions before a new project is launched.
- As we build new facilities and expand our existing production capacities and build new facilities, we are guided by Russian legislative and regulatory requirements, as well best global practices in the area of minimising our impact on society and the environment. One of the ways we engage with local communities in this context is through public hearings.

With the goal of ensuring efficient implementation of the PhosAgro Classes and the DROZD programmes we have signed agreements with the municipal administrations of Kirovsk and Apatity in the Murmansk region, Balakovo in the Saratov region, Volkhov in the Leningrad region and Cherepovets in the Vologda region.

In order to monitor the health of children and youth in all the cities where DROZD operates we have established health monitoring offices. The results of this monitoring make it possible to analyse and adjust the training process in individual classes or in the educational centre.

Improving the quality of life of the residents of the regions where we operate is possible thanks to a comprehensive approach to implementing social programmes while minimising our impact on the environment (see Environmental review on pages 40-45).

### System highlights

Implementation of social programmes at PhosAgro is the responsibility of the Government Relations, Information Policy, Human Resources and Social Policy Directorates in accordance with their respective authority. Social projects implemented by PhosAgro are coordinated on the federal, regional and municipal levels, as is the reporting on these projects.
In 2015 the Company's subsidiary, JSC PhosAgro-Cherepovets, approved a charitable giving policy, regulations on documentation for charitable assistance and rules for providing charitable assistance.

We develop every social programmed through an active dialogue with stakeholders that will be affected by the programme. This dialogue takes place with input from negotiations with unions, meetings with local authorities as well as through work with educational and cultural centres.

## Supporting education

| Initiative | Target group | Description | **Spent in 2015** | Spent in 2014 |
|---|---|---|---|---|
| DROZD | Pre-school, school, technical colleges (age 4 to 18) | PhosAgro initiated DROZD over a decade ago to promote education and health lifestyles for children. The organisation operates five regional sport and education centres in: Cherepovets, Volkhov, Kirovsk, Apatity and Balakovo. The goal of the movement is to establish effective systems to combat youth alcoholism, neglect, drug abuse and other negative influences on children. Over 3,200 children participate in DROZD on a regular basis, and at least 5,000 children are involved in various DROZD activities every year. We have contributed over RUB 187 million to the scheme since 2013. | **RUB 79 mln** | RUB 57 mln |
| PhosAgro Classes | Grades 10-11 | PhosAgro classes operate in five cities: Balakovo, Volkhov, Kirovsk, Apatity and Cherepovets. This programme provides targeted support for mathematics, computer science, physics and chemistry. In the last year the number of students participating in the PhosAgro Classes programme doubled to 250. | **RUB 109 mln** | RUB 17 mln |
| Vocational colleges | Students | We work with five colleges in the cities where we operate to support their vocational education programmes, including investing in refurbishing classrooms and laboratories and buying equipment. | **RUB 35 mln** | RUB 26 mln |
| Universities | Professional education and research | PhosAgro partners with the Cherepovets State University to develop new models of professional education, and have helped with the creation of a new department: Inorganic Material and Fertilizer Technologies.<br><br>With the St. Petersburg State University of Mines we have cooperated closely on developing PhosAgro's new strategy, new technologies, as well as conducting scientific research for PhosAgro's subsidiaries and professional training for students planning to work at PhosAgro, and providing charitable support to develop the universities' infrastructure. | **RUB 160 mln** | RUB 71 mln |
| Scholarships and grants | University students | We provide scholarships and grants to university students working on chemistry or other degrees that provide skills needed at PhosAgro's production sites. | **RUB 7 mln** | RUB 6 mln |
| High-Potential Graduates Programme | Recent university graduates | The High-Potential Graduates Programme is designed for recent graduates interested in a career at PhosAgro. We work with them to establish individual development plans and give them specific projects to lead, helping to set their careers on a fast track to more senior positions. | **RUB 9 mln** | RUB 5 mln |

## Case studies: Green Chemistry for Life

In 2015 the United Nations Education and Science Organisation (UNESCO) gave grants to leading chemistry researchers as part of a joint programme with PhosAgro and the International Union of Pure and Applied Chemistry (IUPAC). The grants were given to support research in the area of green chemistry, with priority given to projects that aim to help process waste products. The event took place as part of the UN General Secretary's Scientific Advisory Board and the UNESCO Congress of Chairs.

The Green Chemistry for Life Programme was launched on 29 March 2013 at the UNESCO headquarters in Paris. The goal of the partnership s to support young scientists working on green chemistry projects in order to protect the environment and human health, to develop energy-efficient processes and to invent environmentally safe technologies with the help of innovative ideas.

### Murmansk region

- Renovated the Kirovsk town clock tower. The tower is part of the Apatit museum and exhibition centre, and an exhibition about movement from the earth's core to the upper atmosphere was opened in the seven-story tower.
- Approximately RUB 400 million was spent on financing education, sports and other parts of the Kirovsk-Apatit local infrastructure.
- The Company continued its investments into the Bolshoi Vudyavr ski area included opening of a covered rope tow for children and a new practice slope. In the year since the new ski area facilities were launched, use of the facilities has increased by over 30%. This project highlights how a public-private partnership has helped to diversify the economy of a one-industry town.
- Tax breaks were granted to the Kanatnaya Doroga (chairlift) company for investments in a project to build a new chairlift on the Aikyaivechorr mountain.
- A new paediatric day-patient facility and a sport medicine office were opened at the Apatit municipal clinic as part of the DROZD programme with support from Apatit and PhosAgro.
- The Khibinsky Centre for Business Development programme
- The renovation of the Khibiny airport.

### Vologda region

- Tax breaks for investments in new high-tech production facilities for ammonia, granulated urea and ammonium sulphate at PhosAgro-Cherepovets.
- Agreement with the Vologda region to implement projects to develop the fields of biotechnology and agriculture in the Vologda region
- Three-way agreement between PhosAgro, Severstal and the city of Cherepovets to develop hockey and volleyball sporting competitions in the city.

### Saratov region

- Agreement with Saratov region government aimed at supporting a sustainable social and economic climate in the region, including support for education, sports, culture and other priority areas. In 2015, PhosAgro nearly doubled its charitable giving in the region to RUB 182.9 million.
- Renovation of a sports facility at Balakovo Secondary School #25, supported by the Balakovo Branch of Apatit.
- Saratov State University and the Balakovo Branch of Apatit signed a cooperation agreement whereby the university, with financial support from the Company, would develop research projects related to finding applications for phosphogypsum currently stored as waste.
- A programme to build road using waste materials from the chemicals production process. Phosphogypsum, which was previously stored in a dump, is now being used for road surface construction. The project began with the repair of a 600-metre section of road and continued construction of a 7 km section of the Balakovo-Ershov road, both with the application of phosphogypsum.

### Leningrad region

- PhosAgro opened the local branch of DROZD at Volkhov School #1
- Signed an additional agreement to the agreement dates 22 May 2014 to provide government support for investment activities in the Leningrad region.

# The Company aims to conduct its business responsibly at all times



**Policy highlights**

PhosAgro maintains a policy framework and related management procedures to address business conduct matters. Highlights of the organisation's policy framework can be found below.

- PhosAgro has a Government Relations Policy that prescribes that the company's relationships with the government should be legal and ethical, and based on fairness and partnership. It also states that its activities with the government should only relate to specific strategic or operational matters.
- PhosAgro has a Conflicts of Interest Policy that establishes rules for identifying where a conflict may exist.
- PhosAgro has an Anti-corruption Policy. This states that the company's directors and senior management should set high standards for the remainder of the business in this area. It commits the entire company to a zero-tolerance approach to corruption.
- PhosAgro has a Code of Ethics. This addresses the company's relationships with a variety of material stakeholders, including its employees, shareholders, government, NGOs, customers, suppliers and other business partners. It commits the organisation to conducting its affairs with its stakeholders in a fair and proper manner.

## In 2015, the Internal Audit service conducted 12 audits and one consultation for management

- PhosAgro has a Charity Policy. This commits the company to supporting sustainable development in the regions where it operates. The Company has established the following principles for charitable giving: must address a clear need and be used for clear purposes, use of funds is closely monitored, transparency and disclosure of information. The Company does not engage in charitable giving to representatives of the Government, to political parties or movements, or to commercial organisations. It also establishes key areas of activity, including education, sport, health and well-being and vulnerable members of society such as older people.
- PhosAgro does not participate in political activities or provide financial support to political organisations.

**Systems highlights**

- The Company has a whistle-blowing procedure that includes the provision of a telephone hotline. Information is provided for all employees about the purpose of the hotline, the circumstances under which it should be used (for example, to confidentially report matters such as theft, corruption, reputational risks, conflicts of interest, legal violations and environmental, health and safety incidents). The company's Chief Executive Officer is responsible for the allocation of internal resources to document the matters reported in this manner.
- All employees are regularly trained and tested on corruption avoidance through an established company-wide presentation procedure. The aim of this exercise is to build an understanding of the importance of this area and a culture of corruption avoidance throughout the business.
- In 2015 PhosAgro-Cherepovets has established a Commission for Adherence to the Code of Ethics and Regulating Conflicts of Interest. The Commission, whose members are appointed by the Chief Executive Officer, is tasked with identifying potential conflicts of interest and assisting with their resolution, implementing behaviour standards, creating an environment where employees can work honestly and effectively, ensuring that the Code of Ethics and the Conflicts of Interest Policy are adhered to.
- In accordance with Russian law, the Company has established a Commission for Adherence to the Code of Ethics and Regulating Conflicts of Interest. The Commission, whose members are appointed by the Chief Executive Officer, is tasked with identifying potential conflicts of interest and assisting with their resolution, implementing behaviour standards, creating an environment where employees can work honestly and effectively, ensuring that the Code of Ethics and the Conflicts of Interest Policy are adhered to.

**Activities in 2015**

- In 2015, the Internal Audit service conducted 12 audits and one consultation for management. The audits looked at areas like the purchasing of services, analysis of financial and operating performance and business processes, inventory management, investments, cash management and compliance.

Long-term relationships with our stakeholders are key to long-term value. PhosAgro engages with the various groups that are affected by our business, or that can impact our business, in order to ensure the sustainability of the Company. Through effective, strategic engagement, we are able to understand and respond to our stakeholders' evolving expectations.

| Stakeholders | Why we engage |
|---|---|
| **Investment and finance community** | • Explain and gain support for the Company's development strategy<br>• Educate new investors about the company with the goal of supporting liquidity and share price<br>• Improving the culture and quality of corporate governance<br>• Build the long-term value of the Company<br>• Maximise accessibility to capital markets<br>• Apply knowledge gained from dialogue to improve the running of the business |
| **Regional governments & local communities** | • Promoting the socio-economic development of regions<br>• Maintaining an awareness and understanding of evolving government policies or proposed regulatory changes that could impact our business<br>• Addressing community needs and addressing social or environmental concerns<br>• Support the health and well-being of the communities where we operate<br>• To ensure that we are a good neighbour |





| How we engage | 2015 engagement activities | How we create value |
|---|---|---|
| • Roadshows<br>• Investor conferences<br>• One-on-one meetings with investors<br>• Capital Markets Day<br>• Results and operating conference calls<br>• Regulatory press releases<br>• On-going engagement with analysts<br>• AGM and formal reporting<br>• Corporate website<br>• Site visits to production facilities for analysts and investors<br>• Provision of a dedicated in house team and the support of knowledgeable professional advisory services<br>• Three independent non-executive directors on the Board of Directors ensure that the interests of public shareholders are represented | • Conducted nine roadshows with Company management in key financial market centres: London, Paris, Zurich, Geneva, Stockholm, Copenhagen, Helsinki, New York, Boston, Hong Kong, Singapore, Tokyo, etc.<br>• Organised site visits to mining facilities (surface and underground) and the beneficiation plant at Apatit for institutional investors and sell-side analysts (more than 35 participants)<br>• Organised visits to nitrogen and phosphate production facilities, as well as the construction site of the new ammonia plant at PhosAgro-Cherepovets for analysts of CRU, an independent analytical agency<br>• Organised four conference calls and webcasts for analysts and investors to discuss the Company's financial and operational results.<br>• Disclosure of 62 press releases via UK a regulatory news service<br>• 233 Russian Federation mandatory information disclosures via the corporate information disclosure centre and Interfax<br>• 26 investment conferences and forums | • We deliver on our updated dividend policy, which increased the portion of net income to be paid out to shareholders<br>• We are successfully implementing PhosAgro's growth strategy through 2020<br>• We stick to our conservative financial policy and maintain an investment-grade credit rating from Standard & Poor's |
| • Developing cooperation agreements with regional governments based on what is most appropriate to the region<br>• Meetings with government and community representatives<br>• Supporting local social and sporting organisations<br>• Sponsoring PhosAgro classes to support chemistry education for school-aged children<br>• Investing in universities and technical colleges that grant degrees that could lead to careers in PhosAgro<br>• Introducing University scholarship and recruitment programmes aimed at encouraging chemistry | • Organised and conducted public hearings in the Kormezhnskiy and Bykovo-Otrogskiy districts regarding construction of an ammonia pipeline<br>• Held meetings with the Saratov region Government and Saratov State University regarding cooperation on development of technology to use phosphogypsum for road construction<br>• Joint implementation of a project to renovate the Tirvas sport and leisure complex<br>• Conducted regular tours of Apatit production sites for community representative from Kirovsk, Apatity and Murmansk | • We contribute to the sustainability and well-being of the communities where we operate, helping to ensure we have a healthy and well-educated workforce at our production facilities<br>• We pay taxes into local (and federal) budgets<br>• Through cooperation with local governments on programmes aimed at improving housing, public utilities and municipal services, we help to improve the comfort and quality life of community residents |

| Stakeholders | Why we engage |
|---|---|
| **Employees & trade unions** | • Creating conditions for the professional growth and social well-being of employees<br>• Improvement in employee motivation<br>• Responsible approach to use of human resources<br>• Social support for current and retired employees<br>• Establishing an effective corporate culture<br>• Maintaining productive relationships with trade unions and employees<br>• Responsible and effective use of manpower<br>• Retain and develop an effective employee team |
| **Farmers** | • Ensuring that we are able to provide ready and relevant solutions to the end consumers of our products<br>• Providing the most efficient and effective mix of nutrients based on the crop, soil and other factors<br>• Producing phosphate-based crop nutrients from exceptionally pure raw materials, reducing the risk of dangerous contaminants entering the food chain, especially in areas of intensive farming |






| How we engage | 2015 engagement activities | How we create value |
|---|---|---|
| • Participation of trade unions in developing PhosAgro's workplace health & safety programmes including surveying compliance with safety instructions<br>• Collective agreements reached following negotiations with representative trade unions incorporating conditions and compensation for employees (usually of three-year terms, entered into with each of our production entities)<br>• Ongoing engagement with trade unions, including joint working groups, negotiations and meetings<br>• Collaboration with trade unions to create sporting and cultural programmes and joint participation in workplace health & safety committees, nomination of workplace health & safety representatives and annual participation in workplace health & safety workshops<br>• Employee development programmes, including our Staff Reserve Programme<br>• Employee surveys, presentations, bulletin boards, intranet<br>• Meetings with general directors of production sites and management responsible for social and HR issues together with trade union representatives, and questions asked though corporate newspapers<br>• Whistle-blower hotline: dedicated email addresses for complaints, telephone hotlines for inquiries about social issues, reporting violations | • Weekly engagement with representatives of the primary trade union organisations. Participation in labour dispute committees<br>• Adoption of local regulations and workplace health & safety promotions<br>• Trade unions, with the support of PhosAgro, arrange the following events annually:<br>— PhosAgro Stars Festival<br>— Company-wide sporting competitions<br>— Professional skills competitions (including in welding, lathe turning, and electrical work)<br>• General directors and management responsible for HR and social issues at production facilities, together with trade unions, regularly meet in person with employees; every corporate newspaper provides contact information for feedback, and in the event of violation of Company rules employees are encouraged to call dedicated hotline numbers<br>• The union chairmen from all of PhosAgro's production sites participated in the Congress of the Russian Chemical Workers Union, where all of the union organisations at PhosAgro facilities are represented by the Minudobreniya association | • We provide fulfilling careers that reward, engage, recognise, motivate and develop our people<br>• We deliver training and leadership programmes to help employees to meet their personal career goals<br>• We engage in fair employment practices that meet the needs of employees while enabling the Company to develop profitably<br><br>For more information, see the "people review" section of this report |
| • In our domestic market: through feedback from our distribution network, which works directly with Russian farmers and agricultural holdings<br>• International markets:<br>— Establishing own trading operations in priority markets, bringing us closer to farmers<br>— Membership in industry organisations like the International Plant Nutrient Institute and the International Fertilizer Association<br>• PhosAgro enters into agreements with leading scientific research institutes in Europe (Wageningen in the Netherlands, and the University of Milan and University of Sassari in Italy) to conduct extensive research that will assess the impact on the quality of crops and soil of using almost entirely cadmium-free fertilizers produced by PhosAgro. The tests will be run in different geographical locations, as well as for different types of crops, and will include a direct comparison with the traditional types of fertilizers used in each selected location. | • Launched new grades of PKS, as well as NPK and NPS fertilizers containing micro-elements (boron and zinc)<br>• We opened new sales offices in Zug (Switzerland), Warsaw (Poland) and Sao Paulo (Brazil), to enhance our ability to work directly with farmers in our priority export markets<br>• Cooperating with IPNI to develop recommendations for 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<br>• Distribution of marketing materials, cooperation with key clients and end customers | • Our strategy to 2020 aimed at bringing us closer to farmers<br>• We offer customers 33 fertilizer grades after introducing two new PKS grades and one new NPS grade in 2015. We continue investing in further enhancing our product offering<br>• Our fertilizers have some of the lowest levels of impurities due to the exceptionally high quality of our phosphate rock, meaning it is more effective<br>• We provide information about the positive effects of phosphate-based fertilizers on crop output and their important role in global food security |

| Stakeholders | Why we engage |
| --- | --- |
| **The general public and media** | • Enhance and protect the Company's image and business reputation<br>• Secure support for Company initiatives in the production of mineral fertilizers, mining and support in improving global food security<br>• Support in resolving production and social issues |
| **Business partners** | • Creating a business relationship built on trust and respect. Mutual understanding of obligations and expectations of the relationship<br>• Consumer health<br>• Understanding and contribution to major issues affecting the fertilizer and mining industries |






| How we engage | 2015 engagement activities | How we create value |
|---|---|---|
| • Interaction with experts and public organisation<br>• Media engagement including regular meetings and briefings with journalists, access to senior management, site tours for press and press releases.<br>• Attendance at public hearings<br>• Company plant tours, exhibitions and congresses<br>• Corporate website, social media | • Published four weekly newspapers at production sites and monthly corporate newspaper<br>• PhosAgro and its subsidiaries published aver 170 press releases<br>• Over 20,000 mentions of PhosAgro in domestic and international media<br>• PhosAgro's CEO conducted regular meetings and interviews with Russian and foreign journalists, providing expert comments on important Company and industry events to leading publications including the Financial Times, Bloomberg, Reuters, Wall Street Journal, Forbes, Rossiya-24, Vedomosti, Kommersant, Interfax<br>• The CEO held press conferences part of various domestic and international events, including the St. Petersburg International Economic Forum, the World Economic Forum in Davos, the VIII Russo-German Natural Resources Forum, the Brazil-Russia Business Forum, VTB's Russia Calling! Investor Conference, and the signing ceremony for a loan agreement with UniCredit Bank Czech Republic and Slovakia; also as part of the launch of the modernised aluminium fluoride production facility together with UC RUSAL, and to mark the signing of social-economic partnership agreements with the heads of regions where PhosAgro is present.<br>• Protected the Company's reputation and informed the public about its ongoing activities<br>• Participated in 10 international and regional industry conferences<br>• Maintained membership in Russian and international professional associations<br>• Organised grant ceremony for young talented scientists as part of the PhosAgro/UNESCO/IUPAC Green Chemistry for Life programme<br><br>The PR division also organised information support for the following events:<br>• Commissioning of the new ammonia storage facilities at the Balakovo branch of Apatit<br>• Commissioning of the PKS-100 fertilizer capacity at Metachem in Volkhov<br>• Commissioning of the Smart Bulk Terminal in Ust-Luga<br>• Commissioning of Main Shaft №2 at Apatit's Kirov mine<br>• Launch of the modernised aluminium fluoride production facility together with UC RUSAL | • We protect the reputation of our company and making sure the public is informed about our activities |
| • Contracts and agreements<br>• Conferences<br>• Joint submissions on issues affecting our industry<br>• Support for international applied research and sustainability projects<br>• Negotiations with consumers, publications and distribution of advertising materials<br>• Membership in industry associations | • Attended 15 international and local industry conferences (4 IFA, 3 CRU, 4 FMB Argus, 2 IPNI, 2 other) and local industry conferences<br>• Participated in domestic and international professional associations<br>• Hosted a conference to award the first grants given out under the PhosAgro / UNESCO / IUPAC 'Green Chemistry for Life' programme sponsored by PhosAgro to support promising projects by young chemists<br>• In cooperation with UC Rusal, we commissioned an aluminium fluoride production plant in Cherepovets with a total annual capacity of 43,000 tonnes. The aluminium fluoride will be used as feedstock at UC Rusal plants | • We are a reliable partner and a sought-after client within our industry<br>• We work with our peers to ensure that the industry's voice is properly represented around the world<br>• We support scientific research to help develop "green chemistry" technologies, including in the field of crop nutrients<br>• Under their long-term cooperation agreement, PhosAgro and UC RUSAL signed contracts to increase the production of aluminium fluoride and raw materials for UC RUSAL's factories |

## In 2015, PhosAgro ensured 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. Senior management devoted significant attention to managing key risks that have a high impact and a high probability.

In 2015, the Company reassessed its risks. As a result of the reassessment, key risks were identified (updated), and a risk passport was formulated for each one. The map and passports were reviewed by the Board's Risk Management Committee.

Throughout 2016, PhosAgro plans to monitor the measures it has in place to manage key risks, and inform the Board of the results of this monitoring, as well as carry out at least one reassessment of risks with the aim of updating key risks where necessary.

No significant changes were made to the Company's corporate governance overall resulting from changes to the risk management system in 2015. The Risk Management Committee coordinates issues related to risk management on behalf of the Board of Directors, and the Risk Management Department coordinates 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.

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

### Risk Management System

**Risk Management Committee**
- Regularly reviews risk management system and policies
- Provides recommendations to the Board on changes and improvements to the risk management system

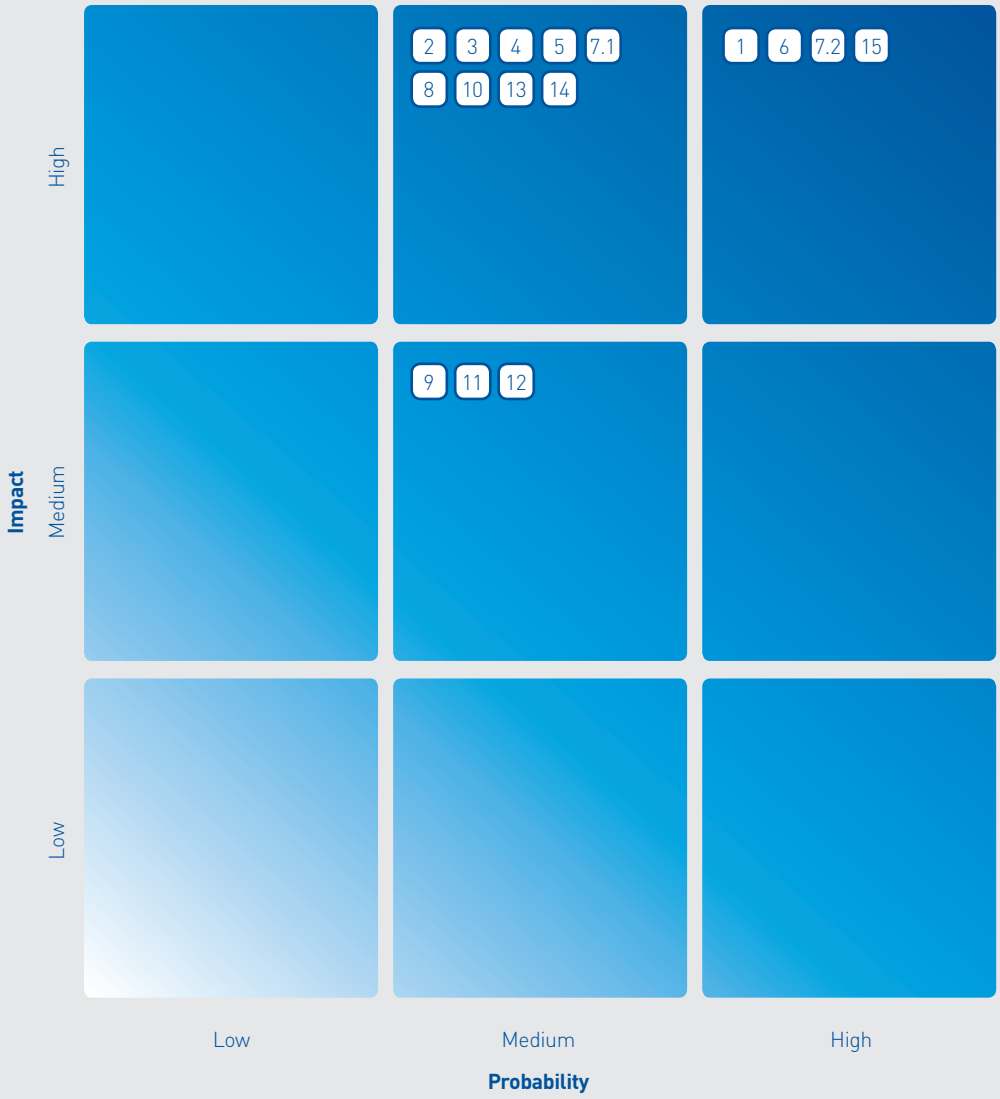
**Board of Directors**
- Overall responsibility for management of financial and non-financial risks
- Establishes and monitors performance of risk management systems
- Holds management accountable for implementation of risk management system

**Audit Committee**
- Oversight responsibility for the finance function
- Provides recommendations to the Board on changes and improvements to the financial risk management system

**Internal audit department**
- Regular assessment of the Company's internal control and risk management systems
- Oversight of compliance of PhosAgro's financial and economic operations with Russian legislation and the Company's Charter
- Development of recommendations on strategic changes to the risk management

**Risk management department**
- Facilitating work across the Company's divisions to identify and assess risks as well as develop programmes to manage and address risks
- Provision of PhosAgro employees with methodological and consultative support on issues related to risk management
- Organisation of risk management

**Management**
- Implementation of, and adherence to, risk management policies
- Monitoring and management of risks relevant to job function
- Risk identification and reporting
- Operational risk management




**Strategic risks**
1 Risk of inadequate strategic planning
2 Social and human resources

**Production risks**
3 Risks in the production process
4 Risks related to occupational health and industrial safety
5 Environmental risks

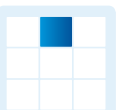
**Operational risks**
6 Planning
7.1 Risks of inefficiency and infringement of business processes (key risk)
7.2 Taxation risks (key risk)
8 Risks in the field of information security
9 Risks in the area of economic security

**Regulatory risks**
10 Compliance with legal and regulatory requirements
11 Corruption

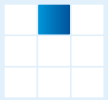
**Reputational risks**
12 Reputational risks

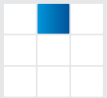
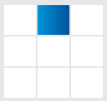
**Financial risks**
13 Credit risks
14 Currency risks
15 Marketable goods

Please see the full description of each risk in the table on pages 68–73

| Risk description | Methods for minimising risk | Risk level | Impact |
|---|---|---|---|
| **Strategic risks** | | | |
| **1 Risk of inadequate strategic planning (key risk)**<br>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. | PhosAgro is developing on a system to monitor internal and external factors that may have an impact on the key results of its strategy until 2020 and the strategy until 2025 that is currently under development. This allows the Company to respond to changes in a timely manner and take them into account when making decisions. PhosAgro also carries out analysis 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. |  | Loss of competitive advantages associated with the level of technological development of production and the constraints of external infrastructure |
| | |  | Failure to reach the target values of key strategic indicators |
| **2 Social and human resources risks (key risk)**<br>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. | PhosAgro carries out independent and joint programmes aimed at attracting talented young specialists, developing employees' professional competencies, increasing employee motivation to ensure long-term retention. These programmes include regular training and skills development for staff, conducting an assessment of staff loyalty, cooperation programmes with institutions of higher learning, programmes to support the health of employees, etc. |  | Discrepancies between the number of staff members and their qualifications and the Company's needs |
| **Production risks** | | | |
| **3 Production risks (key risk)**<br>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. | 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 schedules preventative maintenance of equipment and major overhauls, while using back-up equipment and creating a reserve of components, accessories and spare parts. A programme to boost the quality and reliability of repair work carried out by suppliers is in place. Insurance covers the Company's dangerous production facilities and property. |  | Accidents and incidents at production facilities, the loss of production output, setbacks in economic indicators, damage to or loss of equipment |
| | |  | Accidents and incidents at facilities related to energy infrastructure |
| **4 Workplace health and safety risks (key risk)**<br>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. | 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 all contractors adhere to workplace health and safety standards, carries out safety audits and inspections to ensure compliance with guidelines both for Company divisions and for suppliers for which the Company has put the OHSAS 18001 system in place. |  | Occupational injuries, complete or partial loss of the capacity to work |

| Risk description | Methods for minimising risk | Risk level | Impact |
|---|---|---|---|
| **Production risks** continued | | | |
| 5 **Environmental risks (key risk)**<br><br>Environmental risks cover the occurrence of potential damage to the environment as a result of the Company's activities. | PhosAgro regularly assesses and analyses 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, creating energy-efficient processes and implementing ecological safety technologies on the basis of innovative ideas. |  | Non-compliance with established regulations regarding the impact on various components of the environment |
| **Operational risks** | | | |
| 6 **Planning risks (key risk)**<br><br>Planning risks are related to exceeding planned budgets and timelines for the completion of new construction and modernization projects, as well as the failure to achieve efficiency targets related to projects. | PhosAgro aims to carry out its projects (the key projects are the construction of new Ammonia and granulated Urea plants) in line with planned budgets and timelines. Uniform approaches to project implementation and management are employed. Projects undergo a multi-step review and approval process. Project offices are established for particularly large and important projects. Contracts can be made with a fixed (hard) price. Regular monitoring to ensure compliance with project timelines and budgets is carried out.<br><br>For our key ammonia and granulated urea projects we have secured financing from international banks supported by export credit agencies from the countries supplying the technology. For the ammonia plant we received a USD 440.6 million syndicated loan from JBIC with insurance cover from the Nippon Export and Investment Insurance. As part the loan agreement, PhosAgro undertook an independent environmental audit of the impact of the new capacity that we planned to build. For the granulated urea unit, we secured a EUR 73.4 million loan from UniCredit with insurance cover from the Czech Republic Export Guarantee and Insurance Corporation. |  | Exceeding planned budgets and timelines for the implementation of projects involving capital construction and modernisation of existing facilities<br><br>Poor implementation or work tasks |
| 7.1 **Risks of inefficiency and infringement of busines (key risk)**<br><br>Risks associated with inefficiency or the intentional or unintentional infringement of the Company's business processes, including counterparty risk related to supply chain. | PhosAgro seeks to support the efficient functioning of all of the Company's business processes. 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.<br><br>We also seek to minimise risk in our supply chain by choosing supplier through competitive tender processes. PhosAgro seeks to establish long-term relationships with reliable suppliers by signing long-term supply contracts. |  | Late deliveries of feedstock, raw materials, equipment and spare parts from third parties.<br><br>Interruption of production lines and lower production volumes.<br><br>Interruptions to deliveries of finished goods due to limited capacity of railway infrastructure |

| Risk description | Methods for minismising risk | Risk level | Impact |
|---|---|---|---|
| **Operational risks** continued | | | |
| 7.2 **Taxation risks (key risk)**<br><br>Taxation risks are related to potential claims by tax authorities that the Company has not correctly filed its tax return or made payment on time. | 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, accountancies and tax authorities are consulted on questions related to double taxation and various tax-related laws. |  | Financial (penalties), administrative and criminal consequences as a result of violations uncovered by the tax authorities |
| 8 **Information security risks (key risk)**<br><br>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. | The Company carries out various measures aimed at preventing unauthorised access to information systems as well as disclosure of confidential information. Different technical and software solutions 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; and periodic audits are carried out to ensure strict compliance with the Company's confidentiality policy. |  | Distribution of confidential information |
| 9 **Risks to economic security**<br><br>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. | The Company takes measures aimed at preventing potential damage 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; and a "hotline" is created to enable the Company to receive feedback from employees. And additional oversight checks are carried out by various departments within the Company. |  | The loss of an enterprise's property as a result of illegal actions, including fraud and theft |

| Risk description | Methods for minimising risk | Risk level | Impact |
|---|---|---|---|
| **Regulatory risks** | | | |
| 10 **Compliance with legal and regulatory requirements (key risk)**<br><br>Compliance with legal and regulatory requirements cover the risk of timely receipt/extension of licenses and risks from 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. | 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 a government and regulatory level, and takes part in discussions of 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 necessary licenses needed to carry out its business. |  | Non-compliance on the part of the Company with the requirements for licensed activities |
| | |  | The publication of legal acts by federal and regional authorities of the Russian Federation that provide new burdens and restrictions for the Company |
| 11 **Corruption risks**<br><br>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. | The Company ensures compliance of its activities 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. In 2015 the Company's subsidiary, JSC PhosAgro-Cherepovets, became a member of the Anti-Corruption Charter of Russian Business. |  | The performance of corrupt acts by the employees or contractors of Company enterprises |

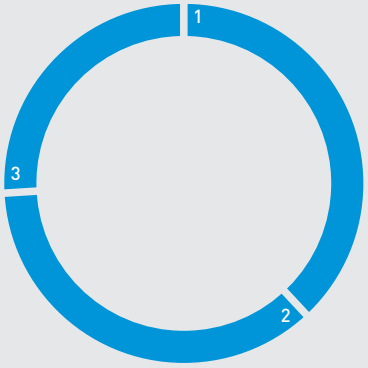
| Risk description | Methods for minimising risk | Risk level | Impact |
|---|---|---|---|
| **Reputational risks** | | | |
| **12 Reputational risks**<br><br>Reputational risks cover damage to the Company's business reputation as a result of unauthorised disclosure in the media of information about the Company's operations, financial results, upper management etc. | 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. |  | The unauthorised disclosure of information to the media about the Company's operations by unauthorised and/or unidentified representatives of the Company (leaks)<br><br>Public statements and actions on the part of third parties (individuals or organisations) concerning the Company that denigrate the Company's business reputation in order to have a negative impact on its operations |
| **Financial risks** | | | |
| **13 Credit risks (key risk)**<br><br>Credit risks resulting in potential financial losses caused by the failure of commercial contractors, suppliers, banks, insurance companies, clearing centres or other financial contractors to fulfil their financial obligations to the Company completely and on time. | The Company employs different methods of managing and reducing credit risk, including by completing deliveries after full or partial pre-payments, with full or partial insurance of credit risk and by using letters of credit. Delivery without pre-payment 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 and insurance companies with a high level of financial stability, and that meet the criteria set out by the Company's treasury policy.<br><br>To mitigate credit default risks the Company runs three internal policies that provide enough flexibility in the cash management: a) the total amount of the capital spending should not exceed 50% of forecasted EBITDA (earnings before taxes, interest, depreciation and amortization) b) the company aims to keep the leverage at the appropriate level with Net Debt/EBITDA at below 1 c) flexible dividends policy that keeps the dividends payout in the range of 30-50%.<br><br>The Company monitors all covenants applicable to existing loans on a regular basis. |  | Failure by clients to pay for delivered goods<br><br>Late payments by clients for delivered goods<br><br>Inability to repay debt upon maturity |

| Risk description | Methods for minimising risk | Risk level | Impact |
|---|---|---|---|
| **Financial risks** continued | | | |
| 14 **Currency risks (key risk)**<br><br>Currency risks resulting in potential financial losses caused by unfavourable changes in exchange rates with respect to the Company's base currency. | In the current environment of volatility with respect to the oil price and the fluctuations in the rouble exchange rate against major currencies, the Company aims to align the currency structure of the debt financing in line with the currency structure of the main 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. |  | Debt levels as reported in our main operating currency could increase as a result of unfavourable fx rate changes<br><br>Losses from derivative financial instruments<br><br>Realised and unrealised losses from revaluation of fx-denominated debt<br><br>Decrease in cash flow in our main operating currency |
| 15 **Marketable-goods risks**<br><br>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. | 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.<br><br>In 2015 the company added 3 new trade offices (in Zug, Switzerland, Warsaw, Poland, and Sao Paulo, Brazil) to the existing office in Singapore. With 4 offices are on the ground, the Company is presented in all three priority export markers – Europe, Latin America and Asia. Moreover, the company currently considers new offices in France and Germany.<br><br>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. |  | The critical impact on the cost of production of one or more raw materials, cost increases and worsening financial results<br><br>The loss of revenue as a result of the poor choice of a product with low marginality |

## The Board of Directors consists of a diverse group of professionals with experience in audit, chemicals, investing and financial markets.

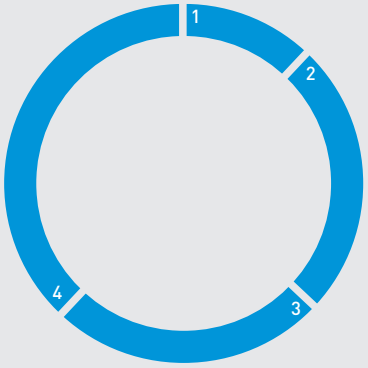
## We have the right mix of knowledge of Russia and international business to help PhosAgro succeed in all of its priority areas.

### Board of Directors structure, %




| | | |
|---|---|---|
| 1 | Executive directors | 38% |
| 2 | Independent directors | 38% |
| 3 | Non-executive directors | 24% |

### Board of Directors professional experience, %




| | | |
|---|---|---|
| 1 | Sales | 12% |
| 2 | Capital Markets | 25% |
| 3 | Finance and audit | 25% |
| 4 | Chemical industry | 38% |

◇ **Audit Committee**

○ **Strategy Committee**

⎔ **The Remuneration and Human Resources Committee**

△ **The Environmental, Health and Safety Committee**

▢ **The Risk Management Committee**

### Andrey A. Guryev
Executive Director



**Year appointed to Board:** 2013

**Committee appointments:** ○ △ ▢

**Recent roles:**
2013-present: CEO of PhosAgro
2011-2013: Deputy CEO for Sales and Logistics of PhosAgro AG
2011-2013: Deputy CEO of PhosAgro

**Education:**
Bachelor's degree in Economics from the University of Greenwich (UK). Graduated from the Russian Academy of National Economy under the Government of the Russian Federation. PhD in Economics.

**Shares in PhosAgro:**
Mr Andrey A. Guryev owns no shares in PhosAgro. According to information available to the Company, the ownership of companies holding 45.46% of PhosAgro's authorised capital, namely Adorabella Limited, Chlodwig Enterprises Limited, Fornido Holding Limited, Dubhe Holdings Limited, Miles Ahead Management Limited, and Owl Nebula Enterprises Limited, is held in trusts, the economic beneficiaries of which are Andrey G. Guryev and members of his family.

### Igor Antoshin
Executive Director



**Year appointed to Board:** 2006

**Committee appointments:** △

**Recent roles:**
2013-present: Adviser to the CEO of PhosAgro
2009-2013: CEO of PhosAgro Engineering Centre
2006-2009: CEO of PhosAgro

**Education:**
Graduate degree in Economics from the G.V. Plekhanov St. Petersburg State Mining University

**Shares in PhosAgro:**
Mr Antoshin owns shares equivalent to 1.92% of the Company's authorised capital. Based on information available to the Company, Mr Antoshin holds the right to indirectly control 100% of the voting shares of Vindemiatrix Trading Limited, Carranita Holdings Limited and Dubberson Holdings Limited, which together hold shares equivalent to 12.66% of PhosAgro's authorised capital.

## Andrey G. Guryev
Non-Executive Director



**Year appointed to Board:** 2013

**Committee appointments:** ○

**Recent roles:**
2006-present: Vice President of the Russian Union of Chemical Sector Businesses and Organisations, a non-profit organisation 2001-2013: Member of the Federation Council

**Education:**
Graduated from G.V. Plekhanov St. Petersburg State Mining Institute and the Lenin State Central Institute of Physical Culture

**Shares in PhosAgro:**
Mr Andrey G. Guryev owns no shares in PhosAgro. According to information available to the Company, the ownership of companies holding 45.46% of PhosAgro's authorised capital, namely Adorabella Limited, Chlodwig Enterprises Limited, Fornido Holding Limited, Dubhe Holdings Limited, Miles Ahead Management Limited, Owl Nebula Enterprises Limited, is held in trusts, the economic beneficiaries of which are Andrey G. Guryev and members of his family. Andrey G. Guryev's wife owns shares representing 4.82% of PhosAgro's authorised capital.

## Sven Ombudstvedt
Independent Director



**Year appointed to Board:** 2011

**Committee appointments:** ◇ ○ △

**Recent roles:**
2010-present: Chief Executive Officer, Norske Skogindustrier ASA
2008-2009: Senior Vice President, SCD SAS
2006-2008: Chief Financial Officer and Head of Strategy, Yara International ASA

**Education:**
Master of Science degree in International Management from the Thunderbird School of Global Management (USA).
Bachelor of Science degree in Business Administration from Pacific Lutheran University (USA).

**Shares in PhosAgro:**
Mr. Ombudstvedt owns 4,000 Global Depositary Receipts ("GDRs" – 3 GDRs = 1 ordinary share) for PhosAgro shares, which represents 0.001% of the company's authorised capital.

## Marcus Rhodes
Independent Director



**Year appointed to Board:** 2011

**Committee appointments:** ◇ ○

**Recent roles:**
2002-2008: Audit Partner, Ernst & Young
1998-2002: Audit Partner, Arthur Andersen

**Education:**
Graduate degree in Economics from the University of Loughborough (UK). Qualified Chartered Accountant, member of the Institute of Chartered Accountants in England & Wales (ICAEW) and member of the Non-Executive Director Group of the ICAEW.

**Shares in PhosAgro:**
Mr. Rhodes owns 2,500 Global Depositary Receipts ("GDRs" – 3 GDRs = 1 ordinary share), which represents 0.0006% of the Company's authorised capital.

**Membership of the Board of Directors in other organisations:**
Member of the Boards of Directors of Rosinter Restaurants Holding, Cherkizovo Group, QIWI and Zoltav.

## Ivan Rodionov
Non-executive Director



**Year appointed to Board:** 2004

**Committee appointments:** □

**Recent roles:**
2003-present: Professor, Higher School of Economics
2006-2014: Professor, Russian State University for the Humanities
2004-2006: Managing Director, AIG-Interros RCF Adviser
1997-2006: Managing Director, AIG Brunswick Capital Management

**Education:**
Graduate degree in Economics from the Lomonosov Moscow State University (Russia).

**Shares in PhosAgro:**
Mr. Rodionov owns shares equivalent to 0.003% of the Company's authorised capital.

## Roman Osipov
Executive Director



**Year appointed to Board:** 2012

**Committee appointments:** ○

**Recent roles:**
2013-present: Business Development Director of PhosAgro
2012-2013: Adviser to the CEO of PhosAgro
2012-2013: Deputy CEO for Business Development of PhosAgro AG
2009-2012: Chief Financial Officer of PhosAgro AG

**Education:**
Graduate degree from the D.F. Ustinov Baltic State Technical University.
Master of Science degree from the LETILovanium International School of Management (now the International School of Management).

**Shares in PhosAgro:**
Mr. Osipov owns no shares in PhosAgro. According to information available to the Company, Mr. Osipov's wife owns shares equal to 0.000077% of PhosAgro's authorised capital.

## James Rogers
Independent Director



**Year appointed to Board:** 2014

**Committee appointments:** ◇ □

**Recent roles:**
Jim Rogers is a legendary investor and founder of the Quantum Fund, a globalinvestment partnership. He is an author, financial commentator, adventurer, and successful international investor, and currently holds Directorships and advisory positions at a dozen companies and investment funds around the world.

**Education:**
BA from Yale University, BA/MA from Balliol College, Oxford University

**Shares in PhosAgro:**
Jim Rogers owns 25,000 Global Depositary Receipts ("GDRs" – 3 GDRs = 1 ordinary share) for PhosAgro shares, which represents 0.0064% of the Company's authorised capital.

# Monitoring our strategy implementation



**In 2015, the Board of Directors monitored PhosAgro's successful implementation of its strategic goals, including the opening of a new port terminal in Ust-Luga and the commissioning of Main Shaft No 2 at Apatit.**

Sven Ombudstvedt
Chairman of the Board of Directors

Members of the Board of Directors visited Apatit in September 2015 together with investors and other stakeholders in order to see first-hand the new facilities and systems that Apatit is implementing to increase efficiency and safety.

The past year was an important one for our recently formed Risk Management Committee. While the Committee continued to provide recommendations on implementation of the Company's new risk management practice, it also considered important issues that arose during the year related to currency volatility, potential export tariffs and taxation. I am pleased to say that the Company's risk management systems helped to successfully navigate these challenging issues.

We also maintained a solid focus on the long-term development of PhosAgro as a global leader in its industry. The Board of Directors and the Strategy Committee recently launched a strategic update to develop PhosAgro's development strategy through 2025. This next phase of our strategic development will focus on maximising our low cash-cost advantage and expanding our market share in priority markets where we can provide farmers with high-quality, ready crop nutrient solutions.

I would like to thank the Board and PhosAgro's management for the hard work that was put into building a responsible, sustainable business in 2015, and all of PhosAgro's stakeholders for your continued engagement with the Company.

**Accountability**

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

- Formulation of the Company's strategy
- Establishing and maintaining systems that enable it to monitor PhosAgro's performance
- Holding management accountable for successful implementation of the Company's strategy.

**Equality**

PhosAgro's corporate governance system is designed to protect shareholders' rights and ensure equal treatment of all shareholders.

**Our corporate governance principles**

**Responsibility**

PhosAgro values the rights of all stakeholders, and aims to cooperate with a wide range of individuals and institutions to find ways to ensure the Company's financial stability and its successful, sustainable development.

**Transparency**

We strive to ensure the appropriate disclosure of reliable information on all significant issues related to our operations, including financial status, social and environmental performance, operating results and ownership.

## How governance works at PhosAgro

Our 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 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 the issued voting shares. The General Shareholders' Meeting has the exclusive authority to take decisions on a number of matters, including:

- the implementation of strategy amendments and additions to the Company's Charter, or adoption of a new version of the Charter
- the 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.

The 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 no less than 30 days prior to an Annual Meeting, or 20 days prior to an Extraordinary 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).

Our Board of Directors has been chaired by an independent director since 2011. It operates in accordance with the Law on Joint Stock Companies, the Company's Charter, the Bank of Russia's recommended Corporate Governance Code, guidelines of the UK Corporate Governance Code and generally accepted good practice in corporate governance.

Key activities undertaken by the Board of Directors in 2015 included:

- monitoring progress on implementation of PhosAgro's strategy until 2020
- approval of a new dividend policy
- recommending dividend payments
- evaluation of the performance of the CEO and other members of the management team
- monitoring implementation of the 2015 budget and strategic plans, and considering a new budget for 2016 based on the Company's operational needs and strategic priorities

Other issues that the Board considered included:

- election of the Chairman and Deputy Chairman of the Board
- approval of the Board Committees and Committee members
- approval of the Management Board members
- review of significant aspects of the performance of PhosAgro's subsidiaries
- review of progress on implementation of HSE practices
- review of the Company's IFRS financial reports
- Quarterly evaluation of the Company's financial and operational performance
- review of the performance of the independent auditor and determining the auditor's remuneration
- approval of related-party transactions
- review IT strategy

As of 31 December 2015, the Board of Directors consisted of eight members, three of whom were independent non-executive directors (INEDs). While formally the number of INEDs on the Board of Directors is three, a fourth Director, Ivan Rodionov, was until recently also considered independent. Mr Rodionov lost his status as an INED on PhosAgro's Board of Directors in 2014 due to Moscow Exchange listing rules under which an individual who has served for more than seven years on a Board of Directors may no longer be considered independent.

The number of directors and the membership of the Board of Directors are determined by the General Shareholders' Meeting, with the term of appointment being until the next Annual General Shareholders' Meeting is held. When choosing Board members, it is of paramount importance that the Company find the right balance between professional skills and experience, independence and industry knowledge.

According to PhosAgro's bylaws, current Russian Federation legislation, the UK Corporate Governance Code and the requirements of the UK Financial Conduct Authority, the criteria of independence for members of the Board of Directors include that an independent director:

- cannot have had any relationship with the Company for a period of five years prior to appointment to the Board
- cannot have any relationship with a company where any of the Company's officials is a member of the other company's Board Committee for Human Resources and Remuneration
- cannot be related by family to any senior manager of the Company or the Chief Executive Officer
- cannot be a representative of Russian federal, regional or municipal authorities
- cannot be a senior manager in any of PhosAgro's subsidiaries and/or hold more than 3% of the Company's authorised capital

## When choosing Board members the Company find the right balance between professional skills and experience, independence and industry knowledge

The Board of Directors constantly aims to improve its effectiveness and to comply with the recommendations of the Bank of Russia regarding corporate governance, as well as internationally recognised good practice in corporate governance. The members of the Board of Directors are elected at the Annual General Shareholders' Meeting by cumulative voting. In 2015, the Board of Directors held nine meetings, one of which was carried out by absentee ballot.

### Board Committees

The Committees of the Board of Directors are advisory and consultative bodies. The Board Committees are comprised 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 advisers on the issues that fall within their remit.

| | | Board | | Audit Committee | | Strategy Committee | | Remuneration | | Environment, Health and and HR Committee | | Risk Management Committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Year of Birth | Held | Attended | Held | Attended | Held | Held | Attended | Attended | Held | Attended | Held | Attended |
| Sven Ombudstvedt | 1966 | 9 | 9 | 4 | 4 | | | 3 | 3 | 3 | 3 | | |
| Marcus Rhodes | 1961 | 9 | 9 | 4 | 4 | | | 3 | 3 | | | | |
| Ivan Rodionov | 1953 | 9 | 9 | 4 | 3 | | | 3 | 3 | 3 | 3 | 2 | 2 |
| Igor Antoshin | 1963 | 9 | 9 | | | | | | | 3 | 3 | | |
| Roman Osipov | 1971 | 9 | 7 | | | 3 | 3 | | | | | 2 | 2 |
| Andrey G. Guryev | 1960 | 9 | 7 | | | 3 | 3 | | | | | | |
| Andrey A. Guryev | 1982 | 9 | 8 | | | 3 | 3 | | | 3 | 3 | 2 | 2 |
| James Rogers | 1942 | 9 | 9 | 4 | 4 | | | 3 | 3 | | | | |

## List of transactions by members of the Board of Directors and Management Board to purchase or sell PhosAgro shares in 2015

**James Rogers**

| Type of transaction | Type of security | Number of securities | Date of transaction |
|---|---|---|---|
| Purchase | Global Depositary Receipts | 2,000 | 23.01.2015 |
| Purchase | Global Depositary Receipts | 3,000 | 12.02.2015 |
| Purchase | Global Depositary Receipts | 2,000 | 10.03.2015 |
| Purchase | Global Depositary Receipts | 2,000 | 29.04.2015 |
| Purchase | Global Depositary Receipts | 816 | 05.05.2015 |
| Purchase | Global Depositary Receipts | 1,184 | 16.06.2015 |
| Purchase | Global Depositary Receipts | 1,000 | 24.09.2015 |

**Marcus Rhodes**

| Type of transaction | Type of security | Number of securities | Date of transaction |
|---|---|---|---|
| Purchase | Global Depositary Receipts | 1,000 | 12.02.2015 |
| Purchase | Global Depositary Receipts | 750 | 02.06.2015 |
| Purchase | Global Depositary Receipts | 750 | 29.09.2015 |

## Audit Committee



**We continue to focus on improving systems that will speed up reporting.**

Marcus Rhodes
Committee Chairman

**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 2016, our aim is to continue moving PhosAgro's reporting dates closer to those of global leaders in transparency and disclosure.**

### Activities in 2015

During the reporting period, the Audit Committee held four meetings, in which matters covering all priority areas of the Company's activity were considered. Considerable focus was placed on improving internal audit procedures. In 2015, the Audit Committee focused on:

- analysis of annual and interim IFRS financial statements
- developing recommendations for the Board of Directors regarding its work with the Internal Audit service
- review of related-party transactions
- development of recommendations for the Board of Directors regarding the appointment of the Company's independent auditor, and analysis of the work done by the independent auditor
- taken principal decision over implementation of OeBS Oracle v. 12.0 and the consolidation system.

**Committee members**
As of 31 December 2015, the Audit Committee comprised:

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

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

**James Rogers**
Committee Member, Independent Non-executive Director of the Board of Directors.

**Key areas**
The Audit Committee supervises the Company's financial and accounting activities. It reviews and evaluates the Company's financial statements, which are prepared by the Company and audited by the Company's external auditor. According to the Statute of PhosAgro's Audit Committee, the Audit Committee shall consist of not fewer than three current members of the Board of Directors, and shall be chaired by an independent director.

The Committee's remit includes:

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

# Strategy Committee



## The Committee is working with management to develop strategic plans for the development of PhosAgro's production assets through 2025.

Andrey A. Guryev
Committee Chairman

**The Committee was pleased to note successful implementation of all of PhosAgro's strategic goals for 2015, and that the Company is on track to complete key investment projects on schedule. We are currently in the process of developing PhosAgro's development strategy through 2025, which is aimed at further strengthening the Company's leading position in the global phosphate-based fertilizers industry.**

### Activities in 2015

In 2015, the Strategy Committee held two meetings, where it focused on:

- identifying key strategic activities for 2015
- review of the Company's 2014 integrated report
- review of the Committee's work in 2014
- establishing the Committee's forward-looking agenda for 2015
- reviewing implementation of strategy in 2014 and plans for 2015
- investment and borrowing plans for 2014 and 2015
- developing the Company's development strategy through 2025.

**Committee members**
As of 31 December 2015, the Strategy Committee comprised:

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

**Andrey A. Guryev**
Committee Member,
Non-executive Director of the Board of Directors

**Roman Osipov**
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 related processes, including management of the Company's assets and the review of major innovation and investment programmes and projects. The Committee and its Chairman are appointed by the Board of Directors, which ensures that issues within the remit of the Committee are discussed and analysed thoroughly from all strategic points of view.

The Committee's remit includes:

- Monitoring and updating the Company's mid-term and long-term strategy, and drafting policy as required
- Evaluation of the development of the Company's subsidiaries, including review of their strategies
- Making recommendations regarding the Company's M&A projects
- Analysis and recommendations regarding potential strategic partnerships

## The Remuneration and Human Resources Committee



We focused on optimising PhosAgro's organisational structure and headcount, as well as fine-tuning management KPIs in 2015.

Jim Rogers
Committee Chairman

**In 2015, we continued further implementation of PhosAgro's headcount optimisation programme, which has been one of the Committee's main priorities since 2012. We also focused on KPIs during the year to ensure that PhosAgro's remuneration system is aligned with our long-term strategic goals. Looking ahead to 2016, the Committee will remain focussed on the two priority areas of finalising the headcount optimisation and further improving PhosAgro's KPI system.**

### Activities in 2015

During the reporting period, the Remuneration and Human Resources Committee held four meetings. The main issues considered by the Committee during 2015 were:

- analysis of implementation of the Company's social programmes in 2014 and priority areas of social policy in 2015
- evaluation of the performance of the Chief Executive Officer and the Management Board, recommendations for the Board of Directors regarding their reappointment
- assessment of the headcount optimisation programme at PhosAgro and its subsidiaries
- review of the Human Resources Policy for PhosAgro and its subsidiaries
- evaluation of the independence of candidates for the Board of Directors
- evaluation of the work of the Board of Directors in 2015.

**Committee members**

As of 31 December 2015, the Remuneration and Human Resources Committee comprised:

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

**Sven Ombudstvedt**
Committee Member, 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 Committee's Chairman be an Independent Non-executive Director on the Company's Board of Directors, and that the Chief Executive Officer cannot be a member of the Committee.

The Committee's remit includes:

- the development of the Company's policy in relation to organising the activities and motivation of the Board of Directors
- the development of the Human Resources Policy in relation to the Company's senior management, and the supervision of its implementation.

# The Environmental, Health and Safety Committee



## We are working with management to implement unified HSE policies and practices across the Company's production sites.

Igor Antoshin
Committee Chairman

**In 2015, we continued to roll out the comprehensive workplace safety and environmental management system that was developed together with DuPont Sustainable Solutions. We also undertook an exercise to benchmark our HSE performance against Russian and global companies in order to identify areas where we can improve. PhosAgro remains committed to maintaining a constructive dialogue with local authorities regarding ways to decrease the Company's impact on the environment and improve workplace health and safety. Finally, we have prioritised understanding local environmental and safety rules for the transportation, storage and unloading of our production in new markets in the Americas, Europe and Asia.**

### Activities in 2015

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

- proposed changes to the Committee regulations in connection with new requirements issued by the Moscow Exchange and the Russian Federation Corporate Governance Code
- review of PhosAgro's integrated report for 2014
- evaluation of the results of subsidiaries' work on compliance with workplace health and safety regulations for hazardous production sites in 2014 and for the first nine months of 2015
- evaluation of the results of subsidiaries' work on compliance with environmental regulations in 2014 and for the first nine months of 2015
- evaluation of subsidiaries' comprehensive safety systems for handling hazardous cargoes (storage, loading and transportation)
- review of proposed changes to Russian Federation environmental protection legislation and analysis of possible effects for the Company.

### Committee members

As of 31 December 2015, the Environmental, Health and Safety Committee comprised:

**Igor Antoshin**
Committee Chairman, 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.

### Key areas

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

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

## The Risk Management Committee



**The Committee monitored implementation of risk management systems across the enterprise, and met several times to analyse emerging risks related to events that took place during the year.**

Ivan Rodionov
Committee Chairman

**In 2015, the Board of Director considered risk management issues in connection with volatility of the rouble, the Russian Government's taxation plans and sanctions against Turkish construction companies. In 2016, the Committee plans to continue to develop and further improve its Risk Management Policy, and to review our risk analysis and risk tolerance in line with the current market situation.**

### Activities in 2015

- 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

**Committee members**
As of 31 December 2015, the Remuneration and Human Resources 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

**Roman Osipov**
Committee Member, Executive Director of the Board of Directors

**Key areas**
The Risk Management Committee was created in 2014 with the goal of developing 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 Committee is established by the Board of Directors, which is also responsible for appointing its members and chairman. The Committee's remit includes:

- evaluation of the effectiveness of the Company's risk management system and recommendations regarding improvements
- preparation of recommendations for the Company's Board of Directors regarding:
  - risk management methodology, determining the Company's most material 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.

# The Executive Body

### Management Board

As of 31 December 2015, the Management Board consisted of:

**Andrey A. Guryev**
Chairman of the Management Board

**Mikhail Rybnikov**
Member of the Management Board

**Siroj Loikov**
Member of the Management Board

**Alexander Sharabaiko**
Member of the Management Board

**Alexei Sirotenko**
Member of the Management Board

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

- review, revision and approval of PhosAgro's quarterly and annual budgets
- development of PhosAgro's capital expenditure plans and strategy with respect to any new business activities
- approval of certain transactions related to the disposal of securities and stakes in other companies
- arranging the preparation and provision of reports to the Board of Directors on PhosAgro's financial and operating performance.
- approval of incentivisation and similar documents that determine the compensation and benefit policies for PhosAgro employees
- election and removal of the secretary of the Management Board and his/ her powers.

During the reporting period, the Management Board held three meetings, at which it reviewed:

- the Company's financial and operational performance for 2014
- PhosAgro's 2015 budget
- the Company's financial and operational performance for the first six and nine months of 2015

### Senior management

The Management Board effectively represents PhosAgro's senior management. It oversees the day-to-day operations of the Company and implements the Company's strategy.

### 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 one year 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 shall 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 Company 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 2015. For Mr Guryev's biographical details, please see the 'Board of Directors' section of this report.

List of transactions by members of the Management Board to purchase or sell PhosAgro shares in 2015

**Mikhail Rybnikov**

| Type of transaction | Type of security | Number of securities | Date of transaction |
|---|---|---|---|
| Purchase | Ordinary registered uncertified shares with the state registration number 1-02-06556-A dated 14.02.2012. | 31,110 | 15.05.2015 |

**Board and senior management 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, the remuneration shall not exceed the amount needed to achieve this.

In 2015, the total remuneration paid to the Board of Directors of PhosAgro was USD 800.0 thousand, and RUB 6,349.9 thousand. The amount of remuneration and additional compensation paid to the Chief Executive Officer of PhosAgro is regulated by a contract between the Chief Executive Officer and the Company, which is signed and approved by the Company's 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.

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 2015 was RUB 80.9 million in salary and additional compensation (compared to RUB 41.1 million in 2014).

The remuneration of the Company's senior managers consists of base salary, which is paid monthly, plus additional compensation, paid quarterly and annually. Payment of additional compensation is based on achievement of the Company's key performance indicators, and on accomplishing additional tasks and goals, as set by the Board of Directors and Chief Executive Officer for the reporting quarter or year. 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 contributing to the achievement of corporate growth and strategy.

Annual additional compensation is calculated by adding percentages (as set by the Board of Directors) of the Company's EBITDA for the reporting period.

**Insider Information Policy**
PhosAgro has a well-defined policy on insider information in place that is one of the most important factors in ensuring that the rights and interests of our shareholders and investors are respected. Our principles are outlined in the Regulation on Insider Information, which is available on our 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.

We control 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
- 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 of the General Shareholders' Meeting, based on recommendations provided by the PhosAgro 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 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 attributable to PhosAgro shareholders calculated in accordance with IFRS.

### 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 Department

The Internal Audit Department is an independent department within PhosAgro that reports to the Audit Committee of the Board of Directors. The department assists the Company's Board of Directors and the management team to achieve PhosAgro's strategic objectives, increase the Company's value and improve its performance. It is responsible for conducting internal audits to provide independent and objective assessment of risk management, corporate governance, information systems and internal control of PhosAgro and its subsidiaries. The department uses international guidelines approved by the Institute of Internal Auditors in its work, as well as the recommendations of the Central Bank of Russia's Corporate Governance Code and Moscow Exchange listing rules.

### Internal control and audit

Internal control and audit are part of PhosAgro's corporate governance process. They are incorporated into our ongoing activities and are aimed at improving risk management (for more information, see 'Risk Management' on pages 66-73), control and corporate governance, so as to achieve the following:

- implementation of the Company's strategy and business plan
- legal and regulatory compliance
- efficient operations
- protection of the Company's assets, cost-effective and efficient use of its resources
- timely identification and analysis of risks
- planning and risk management, including facilitating timely and appropriate decisions to mitigate any risks the Company faces
- establishing and maintaining PhosAgro's good reputation in the business community and among customers and investors
- effective reporting
- reliability, accuracy and completeness of financial and operational information for accounting records, financial statements and management data
- up-to-date data for management reporting and decision-making
- timely external reporting on results
- monitoring for compliance with current legislation and internal policies, standards and procedures

## Internal control and audit

| Internal control body | Review Committee | Audit Committee of the Board of Directors |
|---|---|---|
| Appointed by | General Shareholders' Meeting | Board of Directors |
| Reports to | General Shareholders' Meeting | Board of Directors |
| 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.<br><br>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.<br>Considers issues and provides recommendations to the Board of Directors in areas like:<br>• Internal and external audits;<br>• the accuracy and efficiency of internal control procedures;<br>• management accounting and financial reporting;<br>• risk management procedures and systems;<br>• how risks are reflected in the Company's reporting.<br><br>Supervises the Internal Audit Department. |

| Board of Directors | Chief Executive Officer | Internal Audit Department | External Auditor |
|---|---|---|---|
| General Shareholders' Meeting | Board of Directors | Board of Directors | General Shareholders' Meeting |
| Shareholders | Board of Directors | Functional: Audit Committee | Audit Committee |
| Determines how the internal control system operates and approves various actions and policies relating to it.<br><br>Reports annually to the General Shareholders' Meeting on the reliability and efficiency of PhosAgro's internal control system.<br><br>Approves the appointment and dismissal of the Director of Internal Audit. | Functioning of PhosAgro's internal control system.<br><br>Implements internal control procedures, and ensures that they are put into practice.<br><br>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.<br><br>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.<br><br>Analyses the efficiency of corporate governance systems, makes recommendations on how to improve these systems.<br><br>Evaluates the efficiency and effectiveness of business processes, including the use of resources.<br><br>Participates in the creation and development of unified elements of the control system and corporate culture within PhosAgro.<br><br>Participates in developing universal elements for control systems.<br><br>Develops recommendations on strategic changes within the Company related to improving the internal control system, risk management and corporate governance. | Verifies the compliance, in terms of accuracy and completeness, of the Company's annual financial statements with IFRS.<br><br>Inspects the Company's financial and commercial operations and its internal control systems.<br><br>Prepares a report that is submitted to the Audit Committee at least once a year.<br><br>In case of a disagreement between the Company's management and the independent auditor, the Audit Committee oversees the resolution of the disagreement.<br><br>JSC KPMG is currently PhosAgro's external auditor. |

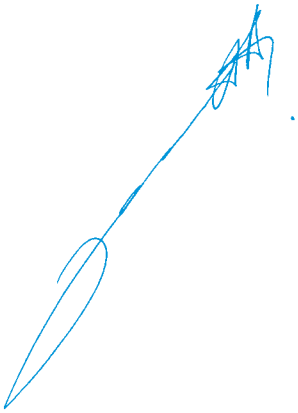
# Management responsibility statement

The Company's management hereby confirms that, to the best of its knowledge:

a. 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;

b. 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.

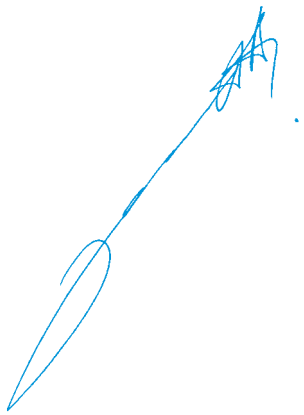
The consolidated financial statements for the year ended 31 December 2015 were approved by the Company's management on 22 March 2016.



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

**OJSC PhosAgro Annual Report for 2015**

Preliminary approval granted by the Board of Directors of OJSC PhosAgro (minutes dated 25 March 2016)



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

# Financials

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# Auditors' Report

JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

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Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

To the Shareholders and Board of Directors

OJSC "PhosAgro"

We have audited the accompanying consolidated financial statements of OJSC "PhosAgro" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**
Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.



I.V. Tokarev

Director, power of attorney dated 16 March 2015 No. 25/15

JSC "KPMG"
22 March 2016
Moscow, Russian Federation

Audited entity: OJSC "PhosAgro"

Registered by the State Registration Chamber with the Russian Ministry of Justice on 10 October 2001. Registration No. P–18009.16.

Entered in the Unified State Register of Legal Entities on 5 September 2002 by the Moscow Inter–Regional Tax Inspectorate No. 39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700190572, Certificate series 77 No. 005082819.

55/1 building 1, Leninsky prospekt, Moscow, Russian Federation, 119333Independent 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.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter–Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self–regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

# Consolidated Statement of Profit or Loss and Other Comprehensive Income for 2015

| | Note | 2015 RUB Million | 2014* RUB Million |
|---|---|---|---|
| Revenues | 7 | **189,732** | 123,124 |
| Cost of sales | 9 | **(83,064)** | (67,467) |
| **Gross profit** | | **106,668** | **55,657** |
| | | | |
| Administrative expenses | 10 | **(12,184)** | (9,217) |
| Selling expenses | 11 | **(17,751)** | (12,963) |
| Taxes, other than income tax | | **(1,994)** | (1,983) |
| Other expenses, net | 12 | **(1,408)** | (1,898) |
| **Operating profit** | | **73,331** | **29,596** |
| | | | |
| Finance income | 13 | **1,222** | 1,059 |
| Finance costs | 13 | **(6,093)** | (11,610) |
| Foreign exchange loss, net | 29(b) | **(22,178)** | (33,545) |
| Share of loss of associates | 16 | **(59)** | (756) |
| Restructuring costs | | **–** | (173) |
| **Profit/(loss) before tax** | | **46,223** | **(15,429)** |
| | | | |
| Income tax (expense)/benefit | 14 | **(9,787)** | 2,034 |
| **Profit/(loss) for the year** | | **36,436** | **(13,395)** |
| | | | |
| Attributable to: | | | |
| Non–controlling interests ^ | | **(6)** | 246 |
| Shareholders of the Parent | | **36,442** | (13,641) |
| | | | |
| **Other comprehensive income** | | | |
| Revaluation of available–for–sale securities | | **–** | 23 |
| Actuarial gains and losses, net of tax | | **(4)** | 133 |
| Foreign currency translation difference | | **3,405** | 5,220 |
| **Other comprehensive income for the year** | | **3,401** | **5,376** |
| **Total comprehensive income/(loss) for the year** | | **39,837** | **(8,019)** |
| | | | |
| Attributable to: | | | |
| Non–controlling interests ^ | | **(6)** | 248 |
| Shareholders of the Parent | | **39,843** | (8,267) |
| Basic and diluted earnings/(loss) per share (in RUB) | 24 | **281** | (105) |

^ non–controlling interests are the minority shareholders of the subsidiaries of OJSC "PhosAgro"
* comparative information has been represented, see note 5

The consolidated financial statements were approved on 22 March 2016:



Chief executive officer
**A.A. Guryev**



Chief financial officer
**A.F. Sharabaiko**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 97 to 131.

## Consolidated Statement of Financial Position as at 31 December 2015

| | Note | 31 December 2015 RUB Million | 31 December 2014 RUB Million |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 15 | **120,952** | 86,086 |
| Intangible assets | | **566** | 572 |
| Investments in associates | 16 | **810** | 12,975 |
| Deferred tax assets | 17 | **5,901** | 4,249 |
| Other non-current assets | 18 | **10,246** | 8,935 |
| **Non-current assets** | | **138,475** | **112,817** |
| | | | |
| Other current investments | 19 | **4,902** | 1,656 |
| Inventories | 20 | **17,814** | 12,527 |
| Current income tax receivable | | **453** | 2,975 |
| Trade and other receivables | 21 | **25,511** | 18,993 |
| Cash and cash equivalents | 22 | **29,347** | 30,687 |
| **Current assets** | | **78,027** | **66,838** |
| **Total assets** | | **216,502** | **179,655** |
| | | | |
| **Equity** | 23 | | |
| Share capital | | **372** | 372 |
| Share premium | | **7,494** | 7,494 |
| Retained earnings | | **43,460** | 22,708 |
| Other reserves | | **8,659** | 5,258 |
| Equity attributable to shareholders of the Parent | | **59,985** | 35,832 |
| Equity attributable to non-controlling interests | | **213** | 149 |
| **Total equity** | | **60,198** | **35,981** |
| | | | |
| **Liabilities** | | | |
| Loans and borrowings | 25 | **105,565** | 93,002 |
| Defined benefit obligations | 26 | **424** | 453 |
| Deferred tax liabilities | 17 | **3,677** | 2,118 |
| **Non-current liabilities** | | **109,666** | **95,573** |
| | | | |
| Trade and other payables | 28 | **17,011** | 15,321 |
| Current income tax payable | | **491** | 620 |
| Loans and borrowings | 25 | **28,947** | 30,822 |
| Derivative financial liabilities | | **189** | 1,338 |
| **Current liabilities** | | **46,638** | **48,101** |
| **Total equity and liabilities** | | **216,502** | **179,655** |

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 97 to 131.

# Consolidated Statement of Cash Flows for 2015

| | Note | 2015 RUB Million | 2014 RUB Million |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) before tax | | **46,223** | (15,429) |
| Adjustments for: | | | |
| Depreciation and amortisation | 9, 10, 11 | **9,133** | 8,013 |
| Loss on disposal of property, plant and equipment | 12 | **915** | 280 |
| Finance income | 13 | **(1,222)** | (1,059) |
| Finance costs | 13 | **6,093** | 11,610 |
| Share of loss of associates | 16 | **59** | 756 |
| Foreign exchange loss, net | | **23,663** | 35,010 |
| Operating profit before changes in working capital and provisions | | **84,864** | 39,181 |
| Increase in inventories | | **(5,287)** | (100) |
| Increase in trade and other receivables | | **(6,116)** | (7,191) |
| Increase in trade and other payables | | **2,741** | 2,161 |
| Cash flows from operations before income taxes and interest paid | | **76,202** | 34,051 |
| Income tax paid | | **(7,488)** | (3,847) |
| Finance costs paid | | **(5,453)** | (2,695) |
| **Cash flows from operating activities** | | **63,261** | **27,509** |
| | | | |
| **Cash flows from investing activities** | | | |
| Loans issued, net | | **(151)** | (907) |
| Acquisition of intangible assets | | **(118)** | (160) |
| Acquisition of property, plant and equipment | | **(42,550)** | (20,549) |
| Proceeds from disposal of property, plant and equipment | | **170** | 335 |
| Proceeds from disposal of investments | | **–** | 254 |
| Finance income received | | **1,008** | 817 |
| Cash of Phosint Group at the date of consolidation | 33 | **10,178** | – |
| **Cash flows used in investing activities** | | **(31,463)** | **(20,210)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **46,376** | 71,412 |
| Repayment of borrowings | | **(62,041)** | (43,145) |
| Dividends paid to shareholders of the Parent | 23 | **(18,130)** | (5,737) |
| Payment of finance lease liabilities | | **(1,905)** | (1,015) |
| Payments for settlement of derivatives, net | | **(1,590)** | (5,921) |
| Proceeds from contribution to charter capital of subsidiaries by non–controlling interests | | **71** | 132 |
| Other payments | | **(154)** | (247) |
| Acquisition of non–controlling interests | | **–** | (7,078) |
| **Cash flows (used in)/from financing activities** | | **(37,373)** | **8,401** |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | **(5,575)** | **15,700** |
| Cash and cash equivalents at 1 January | | **30,687** | 8,938 |
| Effect of exchange rates fluctuations | | **4,235** | 6,049 |
| **Cash and cash equivalents at 31 December** | 22 | **29,347** | **30,687** |

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 97 to 131.

## Consolidated Statement of Changes in Equity for 2015

| RUB Million | Attributable to shareholders of the Parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Retained earnings | Available-for-sale investments revaluation reserve | Actuarial gains and losses recognised in equity | Foreign currency translation reserve | Attributable to non-controlling interests | Total |
| **Balance at 1 January 2014** | **372** | **7,494** | **48,556** | **(23)** | **(443)** | **350** | **3,020** | **59,326** |
| **Total comprehensive income for the year** | | | | | | | | |
| Loss for the year | – | – | (13,641) | – | – | – | 246 | (13,395) |
| Reclassification of non-controlling interests reflected as liability | – | – | – | – | – | – | (72) | (72) |
| Actuarial gains and losses, net of tax | – | – | – | – | 131 | – | 2 | 133 |
| Foreign currency translation difference | – | – | – | – | – | 5,220 | – | 5,220 |
| Revaluation of available for sale investments | – | – | – | 23 | – | – | – | 23 |
| | – | – | (13,641) | 23 | 131 | 5,220 | 176 | (8,091) |
| **Transactions with owners recognised directly in equity** | | | | | | | | |
| Acquisition of non-controlling interest in subsidiaries | – | – | (3,633) | – | – | – | (3,179) | (6,812) |
| Dividends to shareholders of the Parent | – | – | (8,327) | – | – | – | – | (8,327) |
| Additional contribution to charter capital of subsidiaries | – | – | – | – | – | – | 132 | 132 |
| Other | – | – | (247) | – | – | – | – | (247) |
| | – | – | (12,207) | – | – | – | (3,047) | (15,254) |
| **Balance at 31 December 2014** | **372** | **7,494** | **22,708** | **–** | **(312)** | **5,570** | **149** | **35,981** |
| **Balance at 1 January 2015** | **372** | **7,494** | **22,708** | **–** | **(312)** | **5,570** | **149** | **35,981** |
| **Total comprehensive income for the year** | | | | | | | | |
| Profit for the year | – | – | 36,442 | – | – | – | (6) | 36,436 |
| Actuarial gains and losses, net of tax | – | – | – | – | (4) | – | – | (4) |
| Foreign currency translation difference | – | – | – | – | – | 3,405 | – | 3,405 |
| | – | – | 36,442 | – | (4) | 3,405 | (6) | 39,837 |
| **Transactions with owners recognised directly in equity** | | | | | | | | |
| Dividends to shareholders of the Parent, note 23 | – | – | (15,540) | – | – | – | (1) | (15,541) |
| Additional contribution to charter capital of subsidiaries | – | – | – | – | – | – | 71 | 71 |
| Other | – | – | (150) | – | – | – | – | (150) |
| | – | – | (15,690) | – | – | – | 70 | (15,620) |
| **Balance at 31 December 2015** | **372** | **7,494** | **43,460** | **–** | **(316)** | **8,975** | **213** | **60,198** |

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 97 to 131.

# Notes to the Consolidated Financial Statements for 2015

## 1 Background

### (a) Organisation and operations

OJSC "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.

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 several Cyprus entities holding between 5% and 9.9% 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 and in accordance with the Federal Law No. 208 – FZ "On consolidated financial statements".

### (b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments available–for–sale and derivative financial instruments are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as of 1 January 2005.

### (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 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 2015 were translated at the closing exchange rate of RUB 72.8827 for USD 1 (31 December 2014: RUB 56.2584 for USD 1);
- Profit and loss items were separately translated at the average exchange rate for 2015 of RUB 60.9579 for USD 1. Taking into account significant RUB volatility during the fourth quarter of 2014, profit and loss items were separately translated at the average exchange rate for the nine months ended 30 September 2014 and for the three months ended 31 December 2014 of RUB 35.3878 and RUB 47.4243 for USD 1, respectively;
- Equity items, which were recognised at the date of adoption of IFRS, 1 January 2005, were translated at the exchange rate of RUB 27.7487 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.

# Notes to the Consolidated Financial Statements for 2015
continued

**2 Basis of preparation (continued)**

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

- Assets and liabilities as at 31 December 2015 were translated at the closing exchange rate of RUB 79.6972 for EUR 1 (31 December 2014: RUB 68.3427 for EUR 1);
- Profit and loss items were separately translated at the average exchange rate for 2015 of RUB 67.7767 for EUR 1. Taking into account significant RUB volatility during the fourth quarter of 2014, profit and loss items were separately translated at the average exchange rate for the nine months ended 30 September 2014 and for the three months ended 31 December 2014 of RUB 47.9894 and RUB 59.1997 for EUR 1, respectively;
- Equity items, which were recognised at the date of adoption of IFRS, 1 January 2005, were translated at the exchange rate of RUB 37.8409 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 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 promissory notes: 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.

**3 Significant accounting policies (continued)**

**(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 RUB at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to RUB at the foreign exchange rate ruling at that date. Non–monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUB at the foreign 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 to RUB at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the profit and 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 recognized in the statement of income as they are incurred.

Expenses in connection with periodic maintenance on property, plant and equipment are recognized as assets and depreciation 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 capitalized and depreciated on a systematic basis.

**(iv) Depreciation**

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

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

- Buildings 12 to 17 years;
- Plant and equipment 4 to 15 years;
- 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.

# Notes to the Consolidated Financial Statements for 2015
continued

**3 Significant accounting policies (continued)**

**(d) Intangible assets and negative goodwill**

**(i) Goodwill and negative goodwill**

Adoption of IFRS

The Parent Company elected not to apply the requirements of IFRS 3 Business combinations to business combinations, which took place prior to the date of adoption of IFRS. As a result, no goodwill was recognised at the date of adoption of IFRS.

**(ii) 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 and 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 and loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

**(iii) 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.

**(iv) 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 and 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.

**Derivative financial instruments**

The Group from time to time buys derivative financial instruments to manage its exposure to foreign currency risk. All derivatives are recognised on the balance sheet at fair value. Derivatives are not designated as hedging instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value with the changes in fair value recognised in profit and loss.

**(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.

## 3 Significant accounting policies (continued)

### (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 evidence of impairment for receivables and held–to–maturity investment securities at both a specific asset and collective level. All individually significant receivables and held–to–maturity investment securities are assessed for specific impairment. All individually significant receivables and held–to–maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held–to–maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held–to–maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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 and 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.

# Notes to the Consolidated Financial Statements for 2015
continued

**3 Significant accounting policies (continued)**

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 and 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 as an expense in the profit and loss on a straight line basis over the average period until the benefits become vested. To the extent the benefits vest immediately, the expense is recognised immediately in the profit and 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 and 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.

**3 Significant accounting policies (continued)**

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 and 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 apatit 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.

# Notes to the Consolidated Financial Statements for 2015
continued

**3 Significant accounting policies (continued)**

**(s) Other expenses**

**(i) Operating leases**

Payments made under operating leases are recognised in the profit and loss on a straight–line basis over the term of the lease. Lease incentives received are recognised in the profit and 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 and 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, and intangible assets other than goodwill.

**(v) Adoption of new and revised standards and interpretations**

No new standards and amendments became effective for the Group from 1 January 2015.

**(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 2015, and have not been applied in preparing these consolidated financial statements:

- IFRS 9 Financial Instruments is intended to replace IAS 39 Financial Instruments: Recognition and Measurement. Amended IFRS 7 Financial Instruments: Disclosure requires additional disclosure on transition from IAS 39 to IFRS 9. The standard provides amended guidance on the recognition and measurement of financial assets and liabilities. Effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.
- IFRS 15 Revenue from contracts with customers outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. Effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.
- Amended IAS 16 Property, plant and equipment and IAS 38 Intangible assets clarify the use of a revenue–based depreciation or amortisation method. Effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- Amended IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. Effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- IFRS 16 Leases outlines a single leesee accounting model and requires to bring most leases on–balance sheet. Effective for annual periods beginning on or after 1 January 2019 with earlier application permitted.

The Group is currently assessing the impact of these new and amended standards on the consolidated financial statements and plans to adopt these pronouncements when they become effective.

## 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. Fair values have been determined for measurement and / or disclosure purposes based on the methods described in 4(a) to 4(d). 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.

For non–quoted investments the fair value, if reliably measurable, is determined using valuation models.

### (b) Derivative financial instruments

The Group's derivative financial liabilities are represented by forward and targeted accrual redemption note (TARN) contracts to sell USD at a predetermined USD/RUB exchange rates.

Fair value of the derivative financial instruments is estimated in accordance with Level 2 of the fair value hierarchy based on Monte Carlo simulation analysis at each reporting date.

A Monte Carlo simulation is a method for iteratively evaluating a deterministic model based on one or more random (stochastic) variables as inputs. The following inputs are used in determining the fair value of the Group's derivative financial instruments using Monte Carlo simulation:

- USD/RUB spot rate;
- USD/RUB forward curve;
- USD/RUB volatility surface.

### (c) 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.

### (d) Non–derivative financial liabilities

Fair value, which is determined for disclosure purposes, 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 2014 on materials and services, depreciation, and Russian Railways infrastructure tariff and operators' fees between cost of sales, administrative expenses, selling expenses and other expenses, net in order to align them with the current year's presentation:

| | 2014 | | |
|---|---|---|---|
| | As previously presented RUB Million | Reclassifications RUB Million | As adjusted RUB Million |
| Cost of sales | (68,821) | 1,354 | (67,467) |
| Administrative expenses | (9,081) | (136) | (9,217) |
| Selling expenses | (11,646) | (1,317) | (12,963) |
| Other expenses, net | (1,997) | 99 | (1,898) |

# Notes to the Consolidated Financial Statements for 2015
continued

## 6 Segment information

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

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

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

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

Management is currently in the process of reviewing and adjusting its internal reporting system based on merger of management accounting and IFRS. As a result, presentation of the segment information has been amended from 1 January 2015. Comparative information has been adjusted to conform to the current year's presentation.

Segment information as at 31 December 2015 and for the year then ended is as follows:

| RUB million | Phosphate–based products | Nitrogen–based products | Other operations | Total |
|---|---|---|---|---|
| **Segment revenue and profitability** | | | | |
| Segment external revenues, thereof: | **167,430** | **21,574** | **728** | **189,732** |
| Export | **120,873** | **17,984** | **–** | **138,857** |
| Domestic | **46,557** | **3,590** | **728** | **50,875** |
| | | | | |
| Inter–segment transfers | **–** | **–** | **–** | **–** |
| Cost of goods sold | **(70,344)** | **(12,063)** | **(657)** | **(83,064)** |
| Gross segment profit | **97,086** | **9,511** | **71** | **106,668** |
| | | | | |
| **Certain items of profit and loss** | | | | |
| Amortisation and depreciation | **(7,022)** | **(1,890)** | **(221)** | **(9,133)** |
| | | | | |
| Total non–current segment assets | **76,090** | **41,992** | **3,436** | **121,518** |
| Additions to non–current assets | **17,913** | **25,025** | **1,255** | **44,193** |

## 6 Segment information (continued)

Segment information of the Group as at 31 December 2014 and for the year then ended is as follows:

| RUB million | Phosphate–based products | Nitrogen–based products | Other operations | Inter–segment elimination | Total |
|---|---|---|---|---|---|
| **Segment revenue and profitability** | | | | | |
| Segment external revenues, thereof: | 105,832 | 16,626 | 666 | – | 123,124 |
| Export | 73,152 | 13,690 | – | – | 86,842 |
| Domestic | 32,680 | 2,936 | 666 | – | 36,282 |
| | | | | | |
| Inter–segment transfers | – | 8 | – | (8) | – |
| Cost of goods sold | (58,156) | (8,720) | (599) | 8 | (67,467) |
| Gross segment profit | 47,676 | 7,914 | 67 | – | 55,657 |
| | | | | | |
| **Certain items of profit and loss** | | | | | |
| Amortisation and depreciation | (6,023) | (1,842) | (148) | – | (8,013) |
| | | | | | |
| Total non–current segment assets | 66,498 | 18,214 | 1,946 | – | 86,658 |
| Additions to non–current assets | 12,818 | 4,352 | 1,405 | – | 18,575 |

The analysis of export revenue by regions is as follows:

| | **2015 RUB million** | 2014 RUB million |
|---|---|---|
| Europe | **47,303** | 25,491 |
| North and South America | **44,430** | 39,477 |
| India | **18,185** | 2,672 |
| Africa | **12,475** | 8,799 |
| CIS | **10,740** | 6,882 |
| Asia | **5,724** | 3,521 |
| | **138,857** | 86,842 |

# Notes to the Consolidated Financial Statements for 2015
continued

## 7 Revenues

| | 2015 RUB million | 2014 RUB million |
|---|---|---|
| Sales of chemical fertilisers | **154,312** | 94,983 |
| Sales of apatite concentrate | **19,155** | 14,393 |
| Sales of sodium tripolyphosphate | **5,803** | 4,713 |
| Sales of nepheline concentrate | **737** | 660 |
| Sales of ammonium | **115** | 760 |
| Other sales | **9,610** | 7,615 |
| | **189,732** | 123,124 |

During the current year the Group made a decision to make certain reclassifications of revenue for the year ended 31 December 2014 between sales of chemical fertilisers and other sales in order to align them with the current year's presentation:

| | 2014 | | |
|---|---|---|---|
| | As previously presented RUB Million | Reclassifications RUB Million | As adjusted RUB Million |
| Sales of chemical fertilisers | 98,164 | (3,181) | 94,983 |
| Other sales | 4,434 | 3,181 | 7,615 |

## 8 Personnel costs

| | 2015 RUB million | 2014 RUB million |
|---|---|---|
| Cost of sales | **(10,155)** | (9,754) |
| Administrative expenses | **(6,784)** | (5,248) |
| Selling expenses | **(373)** | (359) |
| Restructuring costs | **–** | (173) |
| | **(17,312)** | (15,534) |

Personnel costs include salaries and wages, termination benefits, social contributions and current pension service costs.

## 9 Cost of sales

| | 2015 RUB million | 2014 RUB million |
|---|---|---|
| Materials and services | **(22,905)** | (20,398) |
| Salaries and social contributions | **(10,155)** | (9,754) |
| Sulphur and sulphuric acid | **(8,385)** | (4,522) |
| Ammonia | **(8,190)** | (3,423) |
| Depreciation | **(8,057)** | (7,198) |
| Potash | **(7,559)** | (3,915) |
| Natural gas | **(7,484)** | (7,505) |
| Chemical fertilisers and other products for resale | **(4,091)** | (2,932) |
| Electricity | **(3,927)** | (3,650) |
| Fuel | **(2,865)** | (2,791) |
| Ammonium sulphate | **(2,176)** | (839) |
| Heating energy | **(718)** | (1,161) |
| Other items | **(23)** | (14) |
| Change in stock of WIP and finished goods | **3,471** | 635 |
| | **(83,064)** | (67,467) |

## 10 Administrative expenses

| | 2015 RUB million | 2014 RUB million |
|---|---|---|
| Salaries and social contributions | **(6,784)** | (5,248) |
| Professional services | **(2,003)** | (1,107) |
| Depreciation and amortisation | **(606)** | (567) |
| Other | **(2,791)** | (2,295) |
| | **(12,184)** | (9,217) |

## 11 Selling expenses

| | 2015 RUB million | 2014 RUB million |
|---|---|---|
| Freight, port and stevedoring expenses | **(8,425)** | (5,252) |
| Russian Railways infrastructure tariff and operators' fees | **(6,099)** | (5,471) |
| Materials and services | **(2,384)** | (1,633) |
| Depreciation | **(470)** | (248) |
| Salaries and social contributions | **(373)** | (359) |
| | **(17,751)** | (12,963) |

# Notes to the Consolidated Financial Statements for 2015
continued

## 12 Other expenses, net

| | 2015 RUB million | 2014 RUB million |
|---|---|---|
| Social expenditures | **(1,821)** | (1,259) |
| Loss on disposal of property, plant and equipment | **(915)** | (280) |
| Increase in provision for bad debt | **(41)** | (339) |
| Fines and penalties received | **956** | – |
| Decrease/(increase) in provision for inventory obsolescence | **161** | (48) |
| Other income, net | **252** | 28 |
| | **(1,408)** | (1,898) |

## 13 Finance income and finance costs

| | 2015 RUB million | 2014 RUB million |
|---|---|---|
| Interest income | **933** | 1,000 |
| Unwind of discount of financial assets | **128** | – |
| Dividend income | **–** | 3 |
| Other finance income | **161** | 56 |
| Finance income | **1,222** | 1,059 |
| | | |
| Interest expense | **(5,198)** | (2,577) |
| Loss from operations with derivative financial instruments | **(310)** | (7,338) |
| Bad debt provision on promissory notes | **–** | (1,424) |
| Bank fees | **(277)** | (168) |
| Other finance costs | **(308)** | (103) |
| Finance costs | **(6,093)** | (11,610) |
| Net finance costs | **(4,871)** | (10,551) |

## 14 Income tax (expense)/benefit

The Company's applicable corporate income tax rate is 20% (2014: 20%).

| | 2015 RUB million | 2014 RUB million |
|---|---|---|
| Current tax expense | **(9,879)** | (1,628) |
| Origination and reversal of temporary differences, including change in unrecognised assets | **92** | 3,662 |
| | **(9,787)** | 2,034 |

**Reconciliation of effective tax rate:**

| | 2015 RUB million | % | 2014 RUB million | % |
|---|---|---|---|---|
| Profit/(loss) before tax | **46,223** | **100** | (15,429) | 100 |
| Income tax at applicable tax rate | **(9,245)** | **(20)** | 3,086 | (20) |
| Reversal of income tax on intra-group dividends | **399** | **1** | – | – |
| Under provided in respect of prior years | **(250)** | **(1)** | (183) | 1 |
| Unrecognised tax asset on loss from associates | **(12)** | **–** | (151) | 1 |
| Correction of tax loss carry-forward | **–** | **–** | (330) | 2 |
| Non-deductible items | **(638)** | **(1)** | (406) | 3 |
| Effect of tax rates in foreign jurisdictions | **(41)** | **–** | 18 | – |
| | **(9,787)** | **(21)** | 2,034 | (13) |

# Notes to the Consolidated Financial Statements for 2015 continued

## 15 Property, plant and equipment

| RUB Million | Land and buildings | Plant and equipment | Fixtures and fittings | Construction in progress | **Total** |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 January 2014 | 23,506 | 59,796 | 4,584 | 24,839 | **112,725** |
| Additions | 33 | 1,157 | 967 | 16,418 | **18,575** |
| Transfers | 2,381 | 7,475 | – | (9,856) | **–** |
| Disposals | (257) | (1,367) | (178) | (189) | **(1,991)** |
| At 1 January 2015 | 25,663 | 67,061 | 5,373 | 31,212 | **129,309** |
| Additions | 10 | 741 | 1,544 | 41,898 | **44,193** |
| Consolidation of Phosint Group | – | 747 | – | – | **747** |
| Transfers | 5,392 | 8,574 | – | (13,966) | **–** |
| Disposals | (244) | (2,411) | (168) | (644) | **(3,467)** |
| At 31 December 2015 | 30,821 | 74,712 | 6,749 | 58,500 | **170,782** |
| | | | | | |
| Accumulated depreciation | | | | | |
| At 1 January 2014 | (5,489) | (28,308) | (3,000) | – | **(36,797)** |
| Depreciation charge | (1,163) | (5,899) | (740) | – | **(7,802)** |
| Disposals | 88 | 1,163 | 125 | – | **1,376** |
| At 1 January 2015 | (6,564) | (33,044) | (3,615) | – | **(43,223)** |
| Depreciation charge | (1,434) | (6,778) | (777) | – | **(8,989)** |
| Disposals | 75 | 2,162 | 145 | – | **2,382** |
| At 31 December 2015 | (7,923) | (37,660) | (4,247) | – | **(49,830)** |
| Net book value at 1 January 2014 | 18,017 | 31,488 | 1,584 | 24,839 | **75,928** |
| Net book value at 1 January 2015 | 19,099 | 34,017 | 1,758 | 31,212 | **86,086** |
| Net book value at 31 December 2015 | 22,898 | 37,052 | 2,502 | 58,500 | **120,952** |

**(a) Security**

Properties with a carrying amount of RUB nil (31 December 2014: RUB 315 million) are pledged to secure loans and borrowings, see note 25.

**(b) Leasing**

Plant and equipment with the carrying value of RUB 6,008 million (31 December 2014: RUB 5,737 million) is leased under various finance lease agreements, see note 27(a).

## 16 Investments in associates

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

| | 2015 RUB million | 2014 RUB million |
|---|---|---|
| Balance at 1 January | **12,975** | 8,485 |
| Share in loss for the year | **(59)** | (756) |
| Consolidation of Phosint Limited, see note 33 | **(14,047)** | – |
| Foreign currency translation difference | **1,941** | 5,225 |
| Share in revaluation gain on available–for–sale securities | **–** | 21 |
| Balance at 31 December | **810** | 12,975 |

In November 2015, the Group obtained control over additional 46% in Phosint Limited, which has control ownership in PhosAsset GmbH and PhosAgro Trading SA, see notes 33 and 34.

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

| | 31 December 2015 RUB million | 31 December 2014 RUB million |
|---|---|---|
| JSC Khibinskaya Teplovaya Kompaniya | **400** | 400 |
| LLC PHOSAGRO–UKRAINE | **245** | 111 |
| OJSC Giproruda | **116** | 93 |
| OJSC Soligalichskiy izvestkovyi kombinat | **49** | 47 |
| Phosint Group | **–** | 12,324 |
| | **810** | 12,975 |

Summary financial information for associates is as follows:

| 2015 | Total assets RUB Million | Total liabilities RUB Million | Net assets RUB Million | Revenue RUB Million | (Loss)/profit for the year RUB Million |
|---|---|---|---|---|---|
| JSC Khibinskaya Teplovaya Kompaniya | **2,550** | **(1,800)** | **750** | **545** | **(77)** |
| LLC PHOSAGRO–UKRAINE | **1,398** | **(780)** | **618** | **5,959** | **416** |
| OJSC Giproruda | **884** | **(407)** | **477** | **130** | **103** |
| OJSC Soligalichskiy izvestkovyi kombinat | **242** | **(49)** | **193** | **555** | **10** |
| | **5,074** | **(3,036)** | **2,038** | **7,189** | **452** |

| 2014 | Total assets RUB Million | Total liabilities RUB Million | Net assets RUB Million | Revenue RUB Million | (Loss)/profit for the year RUB Million |
|---|---|---|---|---|---|
| Phosint Group | 13,077 | (453) | 12,624 | 55 | (759) |
| JSC Khibinskaya Teplovaya Kompaniya | 2,767 | (1,940) | 827 | 560 | (37) |
| LLC PHOSAGRO–UKRAINE | 400 | (198) | 202 | 2,142 | 48 |
| OJSC Giproruda | 451 | (77) | 374 | 249 | 59 |
| OJSC Soligalichskiy izvestkovyi kombinat | 225 | (42) | 183 | 546 | 29 |
| | 16,920 | (2,710) | 14,210 | 3,552 | (660) |

# Notes to the Consolidated Financial Statements for 2015
continued

## 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 Million | **Assets 2015** | **Liabilities 2015** | **Net 2015** | Assets 2014 | Liabilities 2014 | Net 2014 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | **7** | **(5,235)** | **(5,228)** | 38 | (5,291) | (5,253) |
| Other long-term assets | **85** | **(19)** | **66** | 151 | (236) | (85) |
| Current assets | **958** | **(405)** | **553** | 855 | (328) | 527 |
| Liabilities | **1,566** | **(10)** | **1,556** | 1,640 | (22) | 1,618 |
| Tax loss carry-forwards | **5,298** | **–** | **5,298** | 5,349 | – | 5,349 |
| Unrecognised deferred tax assets | **(21)** | **–** | **(21)** | (25) | – | (25) |
| Tax assets/(liabilities) | **7,893** | **(5,669)** | **2,224** | 8,008 | (5,877) | 2,131 |
| Set off of tax | **(1,992)** | **1,992** | **–** | (3,759) | 3,759 | – |
| Net tax assets/(liabilities) | **5,901** | **(3,677)** | **2,224** | 4,249 | (2,118) | 2,131 |

The deferred tax assets on tax loss carry-forwards will expire in accordance with the below schedule:

| | **31 December 2015 RUB million** | 31 December 2014 RUB million |
|---|---|---|
| 4 years | 167 | – |
| 5 years | – | 167 |
| 6 years | 71 | – |
| 7 years | 208 | 71 |
| 8 years | 720 | 208 |
| 9 years | 2,569 | 720 |
| 10 years | 1,563 | 4,183 |
| | 5,298 | 5,349 |

Management has developed a tax strategy to utilise the tax losses above. In assessing the recoverability of the tax losses, the Group considered a forecast of future taxable profits and the Group's tax position. The forecast is reviewed at each reporting date to ensure that the related tax benefit will be realised.

As at 31 December 2015, no deferred tax liability for taxable temporary differences of RUB 29,090 million has been recognised (31 December 2014: no deferred tax asset for deductible temporary differences of RUB 8,618 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%.

## 17 Deferred tax assets and liabilities (continued)

### (b) Movement in temporary differences during the year

| RUB million | **31 December 2015** | Recognised in profit or loss | Recognised in other comprehensive income | 1 January 2015 |
|---|---|---|---|---|
| Property, plant and equipment | **(5,228)** | 25 | – | (5,253) |
| Other long-term assets | **66** | 151 | – | (85) |
| Current assets | **553** | 26 | – | 527 |
| Liabilities | **1,556** | (63) | 1 | 1,618 |
| Tax loss carry-forwards | **5,298** | (51) | – | 5,349 |
| Unrecognised deferred tax assets | **(21)** | 4 | – | (25) |
| Net tax assets/(liabilities) | **2,224** | 92 | 1 | 2,131 |

| RUB million | 31 December 2014 | Recognised in profit or loss | Recognised in other comprehensive income | 1 January 2014 |
|---|---|---|---|---|
| Property, plant and equipment | (5,253) | (622) | – | (4,631) |
| Other long-term assets | (85) | (128) | – | 43 |
| Current assets | 527 | 669 | – | (142) |
| Liabilities | 1,618 | 560 | (33) | 1,091 |
| Tax loss carry-forwards | 5,349 | 3,177 | – | 2,172 |
| Unrecognised deferred tax assets | (25) | 6 | – | (31) |
| Net tax assets/(liabilities) | 2,131 | 3,662 | (33) | (1,498) |

## 18 Other non-current assets

| | **31 December 2015 RUB million** | 31 December 2014 RUB million |
|---|---|---|
| Advances issued for property, plant and equipment, at cost | **7,424** | 6,927 |
| Financial assets available-for-sale, at cost | **596** | 610 |
| Loans issued to related parties, at amortised cost | **862** | 466 |
| Loans issued to third parties, at amortised cost | **248** | 287 |
| Loans issued to employees, at amortised cost | **133** | 260 |
| Financial assets available-for-sale, at fair value | **81** | 44 |
| Finance lease receivable | **13** | 21 |
| Other long-term receivables | **889** | 320 |
| | **10,246** | 8,935 |

# Notes to the Consolidated Financial Statements for 2015 continued

## 19 Other current investments

| | 31 December 2015 RUB million | 31 December 2014 RUB million |
|---|---|---|
| Investments in debt securities, at amortised cost | **5,671** | 2,531 |
| Financial assets available–for–sale, at fair value | **1,636** | – |
| Loans issued to third parties, at amortised cost | **183** | 96 |
| Loans issued to employees, at amortised cost | **114** | 63 |
| Loans issued to associate, at amortised cost | **68** | – |
| Interest receivable | **27** | 383 |
| Loans issued to related parties, at amortised cost | **–** | 7 |
| Provision for doubtful accounts | **(2,797)** | (1,424) |
| | **4,902** | 1,656 |

As at 31 December 2015 and 31 December 2014 the Group held debt securities issued by entities affiliated to a bank, which at the end of 2014 went into a financial recovery procedure, monitored by the Russian Deposit Insurance Agency, finalised in June 2015. Taking into account the uncertainties associated with the mutual court claims filed by the Group and the bank, the Group recognised a provision of 50% of the nominal value of the debt securities in the amount of RUB 2,797 million (31 December 2014: RUB 1,424 million, including interest receivable in the amount of RUB 159 million). Part of these debt securities was owned by Phosint Group prior to its consolidation (see note 33) with the total gross amount of RUB 2,182 million as of 15 November 2015 (31 December 2014: RUB 1,843 million) and respective provision of RUB 1,091 million (31 December 2014: RUB 921 million).

## 20 Inventories

| | 31 December 2015 RUB million | 31 December 2014 RUB million |
|---|---|---|
| Raw materials and spare parts | **6,561** | 5,137 |
| | | |
| **Finished goods:** | | |
| Chemical fertilisers | **7,664** | 4,932 |
| Apatite concentrate | **299** | 76 |
| | | |
| **Work–in–progress** | | |
| Apatite–nepheline ore | **790** | 991 |
| Chemical fertilisers and other products | **1,643** | 941 |
| | | |
| Other goods for resale | **45** | 30 |
| Chemical fertilisers for resale, purchased from the third parties | **842** | 611 |
| Provision for obsolescence | **(30)** | (191) |
| | **17,814** | 12,527 |

## 21 Trade and other receivables

| | 31 December 2015 RUB million | 31 December 2014 RUB million |
|---|---|---|
| Trade accounts receivable | **11,368** | 6,867 |
| Taxes receivable | **9,429** | 7,514 |
| Advances issued | **4,462** | 4,721 |
| Other receivables | **582** | 318 |
| Deferred expenses | **164** | 54 |
| Receivables from employees | **21** | 42 |
| Finance lease receivable | **12** | 11 |
| Provision for doubtful accounts | **(527)** | (534) |
| | **25,511** | 18,993 |

The movements in provision for doubtful accounts are as follows:

| | 2015 RUB million | 2014 RUB million |
|---|---|---|
| Balance at 1 January | **(534)** | (322) |
| Foreign currency translation difference | **(91)** | – |
| Disposal of provision through trade receivables | **139** | 127 |
| Increase in provision for bad debt | **(41)** | (339) |
| Balance at 31 December | **(527)** | (534) |

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

## 22 Cash and cash equivalents

| | 31 December 2015 RUB million | 31 December 2014 RUB million |
|---|---|---|
| Cash in bank | **18,900** | 13,749 |
| Call deposits | **10,441** | 16,931 |
| Petty cash | **6** | 7 |
| | **29,347** | 30,687 |

# Notes to the Consolidated Financial Statements for 2015
continued

## 23 Equity
### (a) Share capital

| Number of shares unless otherwise stated | Ordinary shares |
|---|---|
| Shares on issue at 31 December 2015, RUB 2.5 par value | **129,500,000** |
| Shares authorised for additional issue at 31 December 2015, RUB 2.5 par value | **994,977,080** |
| | |
| Shares on issue at 31 December 2014, RUB 2.5 par value | 129,500,000 |
| Shares authorised for additional issue at 31 December 2014, RUB 2.5 par value | 994,977,080 |

The historical amount of the share capital of RUB 311 million has been adjusted for the effect of hyperinflation to comply with IAS 29 "Financial Reporting in Hyperinflationary economies".

### (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 OJSC "PhosAgro", adjusted by unrealised foreign exchange 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 2015, the Company had cumulative retained earnings of RUB 31,857 million (31 December 2014: RUB 33,465 million).

In April 2015, the Board of Directors proposed to pay a dividend of RUB 15 per ordinary share. The total amount of proposed dividends was RUB 1,943 million. In June 2015, the proposed dividend payout was approved by a meeting of shareholders.

In May 2015, the Board of Directors proposed to pay a dividend of RUB 48 per ordinary share. The total amount of proposed dividends was RUB 6,216 million. In July 2015, the proposed dividend payout was approved by a meeting of shareholders.

In August 2015, the Board of Directors proposed to pay a dividend of RUB 57 per ordinary share. The total amount of proposed dividends was RUB 7,382 million. In October 2015, the proposed dividend payout was approved by a meeting of shareholders.

In November 2015, the Board of Directors proposed to pay a dividend of RUB 63 per ordinary share. The total amount of proposed dividends was RUB 8,159 million. In January 2016, the proposed dividend payout was approved by a meeting of shareholders.

### (d) Other events subsequent to the reporting date
See note 35 for other significant events which took place after 31 December 2015.

## 24 Earnings/(loss) per share

Basic earnings/(loss) per share is calculated based on the weighted average number of ordinary shares outstanding during the year after adjustment for the share split and issuance of new shares, see note 23(a). Basic and diluted earnings/(loss) per share are the same, as there is no effect of dilution.

| | **2015 RUB million** | 2014 RUB million |
|---|---|---|
| Weighted average number of ordinary shares in issue | **129,500,000** | 129,500,000 |
| Profit/(loss) for the year attributable to shareholders of the Parent, RUB million | **36,442** | (13,641) |
| Basic and diluted earnings/(loss) per share, RUB | **281** | (105) |

## 25 Loans and borrowings

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

| RUB Million | Contractual interest rate | Year of maturity | **31 December 2015** | 31 December 2014 |
|---|---|---|---|---|
| **Current loans and borrowings** | | | | |
| **Unsecured bank loans:** | | | | |
| RUB–denominated | 9.15%–15% | | **6,500** | 9,011 |
| USD–denominated | LIBOR(1M)+1.4%–3.35% | | **11,783** | 13,627 |
| USD–denominated | LIBOR(3M)+2.9%–3% | | **3,644** | 4,220 |
| USD–denominated | 2.2% | | **–** | 928 |
| **Secured letters of credit:** | | | | |
| USD–denominated | EURIBOR(6M)+2.3% | | **–** | 124 |
| **Unsecured letters of credit:** | | | | |
| EUR–denominated | EURIBOR(6M)+1.10%–1.15% | | **317** | – |
| EUR–denominated | EURIBOR(12M)+1.10%–1.83% | | **2,982** | 775 |
| **Unsecured loans from related parties:** | | | | |
| RUB–denominated | 9%–17% | | **29** | 46 |
| **Unsecured loans from associates:** | | | | |
| USD–denominated | 2.25% | | **–** | 242 |
| **Unsecured loans from other companies:** | | | | |
| USD–denominated | LIBOR(1M)+1.50% | | **438** | – |
| **Finance lease liabilities:** | | | | |
| USD–denominated | 3.8%–12.55% [1] | | **2,351** | 1,294 |
| **Interest payable:** | | | | |
| RUB–denominated | | | **3** | 8 |
| USD–denominated | | | **900** | 547 |
| | | | **28,947** | 30,822 |

[1] Contractual interest rate on financial lease agreements consists of:
– interest rate and fees to a lessor
– insurance of property
– property tax (for lease agreements concluded since 2013 property tax is excluded from the interest rate)

# Notes to the Consolidated Financial Statements for 2015 continued

## 25 Loans and borrowings (continued)

| RUB Million | Contractual interest rate | Year of maturity | **31 December 2015** | 31 December 2014 |
|---|---|---|---|---|
| **Non–current loans and borrowings** | | | | |
| **Unsecured bank loans:** | | | | |
| RUB–denominated | 12.65%–13.3% | 2020 | **3,000** | 3,000 |
| USD–denominated | LIBOR(1M)+2%–3.35% | 2017–2019 | **38,506** | 48,217 |
| USD–denominated | LIBOR(6M)+1.05% | 2021 | **8,700** | 2,612 |
| USD–denominated | 4.17% | 2027 | **13,051** | 3,919 |
| **Secured letters of credit:** | | | | |
| EUR–denominated | EURIBOR(6M)+3.25% | | **–** | 208 |
| **Unsecured letters of credit:** | | | | |
| EUR–denominated | EURIBOR(6M)+1.1%–1.15% | 2017 | **185** | – |
| EUR–denominated | EURIBOR(12M)+1.1%–1.15% | 2017 | **1,329** | 2,441 |
| EUR–denominated | 1.79% | 2019 | **104** | – |
| **Unsecured loans from other companies:** | | | | |
| USD–denominated | LIBOR(12M)+1.25% | 2018 | **742** | 571 |
| **Loan participation notes:** | | | | |
| USD–denominated | 4.204% [2] | 2018 | **36,400** | 28,066 |
| **Finance lease liabilities:** | | | | |
| USD–denominated | 3.8%–12.55% [1] | 2017–2021 | **3,548** | 3,968 |
| | | | **105,565** | 93,002 |
| | | | **134,512** | 123,824 |

[1] Contractual interest rate on financial lease agreements consists of:
– interest rate and fees to a lessor
– insurance of property
– property tax (for lease agreements concluded since 2013 property tax is excluded from the interest rate)

[2] 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 36,405 million (31 December 2014: RUB 23,800 million).

## 26 Defined benefit obligations

| | 31 December 2015 RUB million | 31 December 2014 RUB million |
|---|---|---|
| Pension obligations, long–term | **345** | 362 |
| Post–retirement obligations other than pensions | **79** | 91 |
| | **424** | 453 |

Defined benefit pension plans relate to three subsidiaries of the Group: JSC "Apatit", JSC "PhosAgro–Cherepovets" and CJSC "Metachem". The plans stipulate payment of a fixed amount of monthly pension to all retired employees, who have a specified period of service in the entities. The pension increases with the increase of the service period. The pension is paid over the remaining life of the pensioners. In addition, there is a defined benefit plan other than the pension plan in JSC "Apatit". This defined benefit plan stipulates payment of a lump sum to employees who have a specified period of service in JSC "Apatit" upon their retirement. All defined benefit plans are unfunded. The movement in the present value of the defined benefit obligations is as follows:

| | RUB million |
|---|---|
| Defined benefit obligations at 1 January 2014 | 971 |
| Benefits paid | (198) |
| Current service costs and interest | 100 |
| Past service credit | (254) |
| Actuarial gain in other comprehensive income | (166) |
| Defined benefit obligations at 1 January 2015 | 453 |
| Benefits paid | **(99)** |
| Current service costs and interest | **72** |
| Past service credit | **(7)** |
| Actuarial loss in other comprehensive income [3] | **5** |
| Defined benefit obligations at 31 December 2015 | **424** |

[3] The related deferred tax benefit of RUB 1 million (2014: deferred tax expense of RUB 33 million) is recognised in other comprehensive income, see note 17(b).

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

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Discount rate | **10%** | 13% |
| Future pension increases | **5%** | 6% |

# Notes to the Consolidated Financial Statements for 2015
continued

## 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 2015 and 2014. At the end of the lease term, the ownership for the leased assets will be transferred to the lessee.

| | | 2015 | |
|---|---|---|---|
| RUB Million | **Minimum lease payments** | **Interest** | **Principal** |
| Less than one year | **2,760** | **409** | **2,351** |
| Between one and five years | **3,857** | **441** | **3,416** |
| More than five years | **135** | **3** | **132** |
| | **6,752** | **853** | **5,899** |

| | | 2014 | |
|---|---|---|---|
| RUB Million | Minimum lease payments | Interest | Principal |
| Less than one year | 1,724 | 430 | 1,294 |
| Between one and five years | 4,309 | 646 | 3,663 |
| More than five years | 317 | 12 | 305 |
| | 6,350 | 1,088 | 5,262 |

### (b) Operating leases

During 2014–2015, LLC "PhosAgro–Trans", a group subsidiary, entered into several operating lease agreements to rent railway wagons. The rent payments for 2015, which are recorded in the cost of sales, amounted to RUB 278 million (2014: RUB 489 million).

The non–cancellable operating lease rentals are payable as follows:

| | **31 December 2015 RUB million** | 31 December 2014 RUB million |
|---|---|---|
| Less than one year | **62** | 174 |
| Between one and five years | **168** | 214 |
| | **230** | 388 |

## 28 Trade and other payables

| | 31 December 2015 RUB million | 31 December 2014 RUB million |
|---|---|---|
| Trade accounts payable | **4,763** | 3,902 |
| Advances received | **3,901** | 2,599 |
| Payable for property, plant and equipment | **3,282** | 1,891 |
| Taxes payable | **2,617** | 2,362 |
| Accruals | **1,394** | 1,178 |
| Payables to employees | **873** | 735 |
| Dividends payable | **–** | 2,590 |
| Other payables | **181** | 64 |
| | **17,011** | 15,321 |

## 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 uses from time to time derivative financial instruments in order to manage its exposure to currency risk. 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.

# Notes to the Consolidated Financial Statements for 2015
continued

## 29 Financial risk management (continued)

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

| RUB Million | 31 December 2015 USD denominated | 31 December 2015 EUR denominated | 31 December 2014 USD denominated | 31 December 2014 EUR denominated |
|---|---|---|---|---|
| **Non–current assets** | | | | |
| Non–current investments | **862** | **–** | 440 | – |
| **Current assets** | | | | |
| Receivables | **1,403** | **1** | 2,094 | 1 |
| Current investments | **5** | **–** | 1,425 | – |
| Cash and cash equivalents | **7,538** | **298** | 23,087 | 1,212 |
| **Non–current liabilities** | | | | |
| Loans and borrowings | **(100,205)** | **(1,618)** | (86,782) | (2,649) |
| **Current liabilities** | | | | |
| Payables | **(1,951)** | **(358)** | (846) | (3,522) |
| Loans and borrowings | **(18,588)** | **(3,299)** | (19,797) | (775) |
| | **(110,936)** | **(4,976)** | (80,379) | (5,733) |

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 11,591 million, before any tax effect (2014: would have decreased/(increased) the Group's loss for the year by RUB 8,611 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2014.

In 2015, the Group incurred a significant foreign exchange loss, net in the amount of RUB 22,178 million (2014: RUB 33,545 million) resulting primarily from foreign exchange differences on the Group's portfolio of loans and borrowings.

### 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.

## 29 Financial risk management (continued)

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

| | 31 December 2015 RUB million | 31 December 2014 RUB million |
|---|---|---|
| **Fixed rate instruments** | | |
| Long–term loans issued, at amortised cost | **381** | 547 |
| Long–term loans issued to related parties, at amortised cost | **862** | 466 |
| Short–term promissory notes, net of provision | **2,874** | 1,107 |
| Finance lease receivable | **25** | 32 |
| Short–term deposits | **10,441** | 16,931 |
| Financial assets available–for–sale, at fair value | **1,636** | – |
| Short–term loans issued to related parties, at amortised cost | **–** | 7 |
| Short–term loans issued to associate, at amortised cost | **68** | – |
| Short–term loans issued, at amortised cost | **297** | 159 |
| Long–term borrowings | **(56,103)** | (38,953) |
| Short–term borrowings | **(8,880)** | (11,521) |
| | **(48,399)** | (31,225) |
| **Variable rate instruments** | | |
| Long–term borrowings | **(49,462)** | (54,049) |
| Short–term borrowings | **(19,164)** | (18,746) |
| | **(68,626)** | (72,795) |

At 31 December 2015, a 1% increase/(decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group's profit or loss and equity by RUB 686 million (31 December 2014: RUB 728 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.

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 components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

# Notes to the Consolidated Financial Statements for 2015
continued

## 29 Financial risk management (continued)

The analysis of overdue trade accounts receivable is as follows:

| | 31 December 2015 RUB million | 31 December 2014 RUB million |
|---|---|---|
| Not past due | **8,624** | 5,966 |
| Past due 0–90 days | **1,789** | 257 |
| Past due 91–180 days | **215** | 68 |
| Past due 181–365 days | **205** | 103 |
| More than one year | **535** | 473 |
| | **11,368** | 6,867 |

### Current and non–current financial assets

The Group lends money to related 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 loans.

As at 31 December 2015 and 31 December 2014 the Group held promissory notes issued by an entity affiliated to a bank, which at the end of 2014 went into a financial recovery procedure, monitored by the Russian Deposit Insurance Agency, finalised in June 2015. Taking into account the uncertainties associated with the outcome of this procedure and mutual court claims filed by the Group and the bank, the Group recognised a provision of 50% of the nominal value of the promissory notes in the amount of RUB 2,797 million (31 December 2014: RUB 1,424 million, including interest receivable in the amount of RUB 159 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.

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.

## 29 Financial risk management (continued)

The table below illustrates the contractual maturities of financial liabilities, including interest payments:

| RUB Million | Carrying value | Contractual cash flows | 0–1 year | 1–2 yrs | 2–3 yrs | 3–4 yrs | 4–5 yrs | > 5 yrs |
|---|---|---|---|---|---|---|---|---|
| | 31 December 2015 | | | | | | | |
| Unsecured bank loans | **85,184** | **95,401** | **25,480** | **24,053** | **16,459** | **10,333** | **4,601** | **14,475** |
| Unsecured loans from other companies | **1,180** | **1,221** | **460** | **14** | **747** | **–** | **–** | **–** |
| Unsecured loans from related parties | **29** | **34** | **34** | **–** | **–** | **–** | **–** | **–** |
| Letters of credit | **4,917** | **4,980** | **3,351** | **1,522** | **2** | **105** | **–** | **–** |
| Interest payable | **903** | **903** | **903** | **–** | **–** | **–** | **–** | **–** |
| Secured finance leases | **5,899** | **6,752** | **2,760** | **1,574** | **1,259** | **754** | **270** | **135** |
| Loan participation notes | **36,400** | **39,758** | **1,523** | **1,518** | **36,717** | **–** | **–** | **–** |
| Trade and other payables | **9,620** | **9,620** | **9,620** | **–** | **–** | **–** | **–** | **–** |
| Financial guarantees issued for associates and related parties | **1,795** | **1,795** | **2** | **1** | **30** | **1,762** | **–** | **–** |
| | **145,927** | **160,464** | **44,133** | **28,682** | **55,214** | **12,954** | **4,871** | **14,610** |

| RUB Million | Carrying value | Contractual cash flows | 0–1 year | 1–2 yrs | 2–3 yrs | 3–4 yrs | 4–5 yrs | > 5 yrs |
|---|---|---|---|---|---|---|---|---|
| | 31 December 2014 | | | | | | | |
| Unsecured bank loans | 85,534 | 91,329 | 30,946 | 27,847 | 19,699 | 6,932 | 1,578 | 4,327 |
| Unsecured loans from associates | 242 | 243 | 243 | – | – | – | – | – |
| Unsecured loans from other companies | 571 | 607 | 11 | 11 | 11 | 574 | – | – |
| Unsecured loans from related parties | 46 | 50 | 50 | – | – | – | – | – |
| Letters of credit | 3,548 | 3,781 | 1,083 | 2,444 | 254 | – | – | – |
| Interest payable | 555 | 555 | 555 | – | – | – | – | – |
| Secured finance leases | 5,262 | 6,350 | 1,724 | 1,581 | 1,234 | 925 | 569 | 317 |
| Loan participation notes | 28,066 | 32,200 | 1,166 | 1,169 | 1,166 | 28,699 | – | – |
| Trade and other payables | 9,625 | 9,625 | 9,625 | – | – | – | – | – |
| Financial guarantees issued for associates and related parties | 2,058 | 2,058 | – | 5 | 1 | 49 | 2,003 | – |
| | 135,507 | 146,798 | 45,403 | 33,057 | 22,365 | 37,179 | 4,150 | 4,644 |

### (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.

# Notes to the Consolidated Financial Statements for 2015
continued

## 30 Commitments
The Group has entered into contracts to purchase plant and equipment for RUB 35,854 million (31 December 2014: RUB 28,766 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

| | **2015 RUB million** | 2014 RUB million |
|---|---|---|
| Sales of goods and services | **5,382** | 1,589 |
| Interest income | **114** | 31 |
| Purchases of goods and services | **(492)** | (225) |

### (ii) Balances with associates

| | **31 December 2015 RUB million** | 31 December 2014 RUB million |
|---|---|---|
| Trade and other receivables | **595** | 156 |
| Short–term loans issued, at amortised cost | **68** | – |
| Trade and other payables | **(22)** | (19) |
| Short–term loans received | **–** | (242) |

### (iii) Financial guarantees
The Group issued financial guarantees to banks on behalf of associates amounting to RUB 1,661 million (31 December 2014: RUB 1,880 million).

## 32 Related party transactions (continued)

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

#### (i) Transactions with other related parties

| | 2015 RUB million | 2014 RUB million |
|---|---|---|
| Sales of goods and services | **965** | 340 |
| Interest income | **36** | 4 |
| Purchases of goods and services | **(919)** | (83) |

#### (ii) Balances with other related parties

| | 31 December 2015 RUB million | 31 December 2014 RUB million |
|---|---|---|
| Long–term loans issued, at amortised cost | **862** | 466 |
| Trade and other receivables | **5** | 81 |
| Short–term loans issued, at amortised cost | **–** | 7 |
| Trade and other payables | **(358)** | (21) |
| Short–term loans received | **(29)** | (46) |
| Dividends payable to shareholders of the Parent | **–** | (2,590) |

#### (iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of related parties amounting to RUB 134 million (31 December 2014: RUB 178 million).

### (c) Key management remuneration

The remuneration of the Board of Directors and 13 members of key management personnel amounted to RUB 535 million (2014: RUB 394 million).

# Notes to the Consolidated Financial Statements for 2015
continued

## 33 Acqusition of subsidiaries

### Consolidation of Phosint Group

In November 2015, the Group increased the ownership share from 49% to 95% in PhosInt Limited which has control ownership in PhosAsset GmbH and PhosAgro Trading SA. Phosint Limited acquired its own shares from the previous controlling shareholder for the nominal value of USD 400 thousand (RUB 27 million), which remained outstanding as at the reporting date. As a result, the Group decreased the investments in associates by RUB 14,047 million. The financial effect of this transaction is an increase in retained earnings by RUB 28 million. As of the date of consolidation Phosint Group held primarily machinery, USD–denominated equity and debt instruments, loans issued and cash.

Management believes that there is no material difference between the book value and the fair value of the net assets of the acquired companies. The provisionally determined fair value of the identifiable assets and liabilities of PhosInt Group at the date of consolidation is as follows:

| | RUB million |
|---|---|
| Property, plant and equipment | 747 |
| Investments in debt securities, at amortised cost | 1,154 |
| Financial assets available–for–sale, at fair value | 1,528 |
| Loans issued to third parties, at amortised cost | 145 |
| Trade and other receivables | 960 |
| Cash and cash equivalents | 10,178 |
| Loans and borrowings | (481) |
| Trade and other payables | (129) |
| Net identifiable assets and liabilities | 14,102 |
| Less consideration payable | (27) |
| Less fair value of the investment in associate at the date of consolidation | (14,047) |
| Result from consolidation | 28 |
| | |
| Cash and cash equivalents acquired | 10,178 |
| Net cash inflow | 10,178 |

## 34 Significant subsidiaries

| Subsidiary | Country of incorporation | **31 December 2015 Effective ownership (rounded)** | 31 December 2014 Effective ownership (rounded) |
|---|---|---|---|
| Apatit, JSC (including Balakovo branch) | Russia | **100%** | 100% |
| PhosAgro–Cherepovets, JSC | Russia | **100%** | 100% |
| Metachem, CJSC | Russia | **100%** | 100% |
| NIUIF, OJSC | 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% |
| Phosint Limited | Cyprus | **95%** | 49% |
| PhosAgro Trading SA | Switzerland | **97.6%** | 74% |

## 35 Events subsequent to the reporting date

In February 2016, dividends in the amount of RUB 8,159 million, approved by a meeting of shareholders in January 2016, were fully paid to shareholders.

In March 2016, the Board of Directors proposed paying a dividend of RUB 57 per ordinary share. The total amount of proposed dividends was RUB 7,382 million.

# Shareholder information

### Share capital
PhosAgro's authorized capital as of December 31 2015 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 Mocow Exchange under the symbol PHOR (ISIN: RU000A0JRKT8).

Global Depositary receipts (three GDRs represent one share) are traded on 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.

### Shareholding structure
Shareholder structure of PhosAgro as of 31 December 2015

| | Number of shares | Share, % |
|---|---|---|
| Dubhe Holdings Limited | 12,317,370 | 9.51 |
| Fornido Holding Limited | 12,157,625 | 9.39 |
| Adorabella Limited | 9,361,435 | 7.23 |
| Dubberson Holdings Limited | 8,639,705 | 6.67 |
| Owl Nebula Enterprises Limited | 9,271,395 | 7.16 |
| Miles Ahead Management Limited | 8,037,357 | 6.21 |
| Chlodwig Enterprises Limited | 7,722,380 | 5.96 |
| Carranita Holdings Limited | 4,028,519 | 3.11 |
| Vindemiatrix Trading Limited | 3,726,814 | 2.88 |
| Vladimir Litvinenko | 18,823,850 | 14.54 |
| Evgenia Guryeva | 6,235,960 | 4.82 |
| Igor Antoshin | 2,489,540 | 1.92 |
| Other shareholders | 26,688,050 | 20.61 |
| **Total** | **129,500,000** | **100.00** |

### Other ownership information as of 31 December 2015
Based on information available to the Company the shares of Fornido Holding Limited, Dubhe Holdings Limited, Chlodwig Enterprises Limited, Adorabella Limited, Miles Ahead Management Limited and Owl Nebula Enterprises Limited are ultimately held on trust where the economic beneficiaries are Mr. Andrey Guryev and members of his family. Based on information available to the Company Mr. Igor Antoshin has the right to indirectly control 100% of the votes on the voting shares of Dubberson Holdings Limited, Carranita Holdings Limited, and Vindemiatrix Trading Limited.

### Dividends

#### Dividends accrued

| | Date of adoption of decision on dividend payment | Record date GDR (RUB) (RUB, mln) Record date | Amount of dividend per ordinary share/ GDR (RUB) | Amount of accrued dividends (RUB, mln) |
|---|---|---|---|---|
| Dividends for 3Q 2015. Source: Unallocated net income as of 31.12.2014 | 15/01/2016 | 26/01/2016 | 63/21 | 8,158.5 |
| Dividends for 2Q 2015. Source: Unallocated net income as of 31.12.2014 | 06/10/2015 | 17/10/2015 | 57/19 | 7,381.5 |
| Dividends for 1Q 2015. Source: Unallocated net income as of 31.12.2014 | 14/07/2015 | 25/07/2015 | 48/16 | 6,216.0 |
| Final dividends for 2014. Source: Unallocated net income as of 31.12.2014 | 08/06/2015 | 19/06/2015 | 15/5 | 1,942.5 |

Dividends accrued in 2015 were paid in full. On 22 March 2016, PhosAgro's Board of Directors recommended a final 2015 dividend of RUB 57 per share (RUB 19 per depositary receipt), or RUB 7.4 bln in total. If approved by the Annual General Meeting of Shareholders (the "AGM"), this will bring PhosAgro's payout ratio to 52% of net profit adjusted for the unrealised foreign exchange loss, demonstrating our commitment to the Company's dividend policy and to upholding the promises made to shareholders during the IPO and SPO.

### Dividend taxation

In 2015, 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.

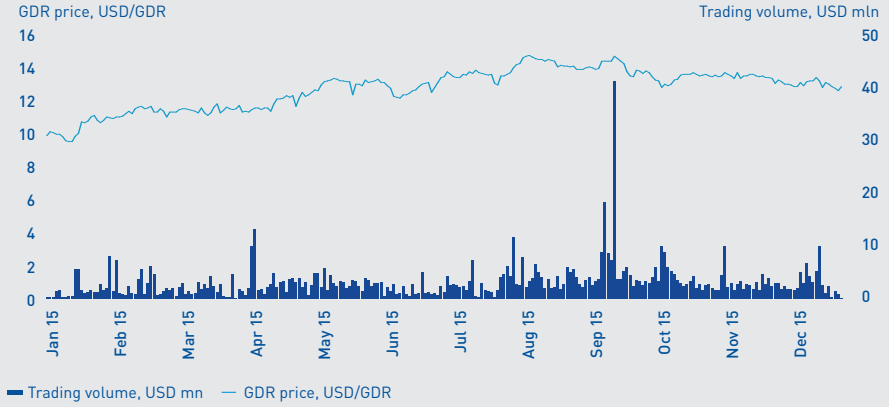
Due to changes in Russian Federation law relating to the payment of dividends that came into effect on 1 January 2015, existing or potential PhosAgro shareholders and holders of the Company's GDRs are advised to consult their tax advisers for tax implications with regards to dividend payments.

### Information disclosure

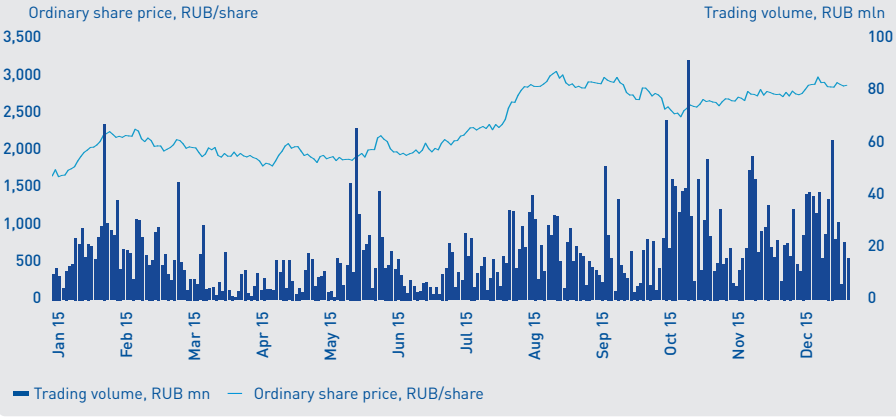
PhosAgro strictly follows the requirements imposed by Russian securities regulations, as well as rules for the companies traded on the LSE, in its information disclosure and filings. The Company publicly discloses all required information to shareholders and investors in a timely manner through authorised newswires and the corporate website www.phosagro.com.

## Share performance in 2015

### PhosAgro GDR performance on the LSE




### Phosagro ordinary share performance on the Moscow Exchange




| Market transactions (Source: Bloomberg) | LSE (GDR, USD) | Moscow Exchange (shares, RUB) |
|---|---|---|
| High | 14.75 | 2,980 |
| Low | 9.5 | 1,776 |
| Year–end price | 12.85 | 2,821 |
| Trading volume (million pcs.) | 65.4 | 1.9 |

# Glossary

## ABBREVATIONS

**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 = 1000 kg

**ths**
Thousand

**CFR**
Cost and Freight – an Incoterms rule. CFR means that the seller must pay the costs and freight to bring the 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 the goods on board the vessel nominated by the buyer; costs for delivery of the goods on board the vessel are the responsibility of the seller.

**USD**
United States dollars

## ABBREVATIONS

**Ammonia**
A colourless combustible gas with the chemical formula NH3. 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 (AN).

**NP**
(Ammonium nitrate–based fertilizers) Complex ammonium nitrate–based fertilizer with phosphorus content. Liquid complex fertilizers or APP Liquid phosphate– and nitrogenbased fertilizer.

**Apatite**
A group of phosphate minerals (phosphate ore), usually referring to hydroxylapatite, fluorapatite, and chlorapatite with the chemical formula $Ca_5(PO_4)_3(OH,F,Cl)$. 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 (company) that help the Company to evaluate the implementation of plans and make decisions regarding management remuneration.

**$K_2O$**
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 $P_2O_5$ 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 good 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 $H_3PO_4$.

**$P_2O_5$ (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 fertilizers 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 $H_2SO_4$.

**Tailing**
The fluid slurry that is left after treatment and extraction of the economically extracted mineral.

**Trenches**
Lines excavated to a pre–determined 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 highestconcentration 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 economic.

**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)**
IPNI is a global organization with initiatives addressing the world's growing need for food, fuel, fiber and feed.

**Environmental assessment**
A process where the breadth, depth, and type of analysis depend on the proposed project. 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 define 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 OJSC 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 an entire 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 sea–bed. 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, 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**
Russian stock exchanges, MICEX and RTS, 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 define 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

**OJSC PhosAgro**
PhosAgro

**OJSC PhosAgro–Cherepovets/ JSC PhosAgro–Cherepovets**
PhosAgro–Cherepovets

**OJSC Apatit/JSC Apatit**
Apatit

**Balakovo branch of JSC Apatit/**
Balakovo Branch of Apatit or BMF

**CSJC Metachem**
Metachem

**OJSC NIUIF**
NIUIF

**PhosAgro–Trans LLC**
PhosAgro–Trans

**PhosAgro–Region LLC**
PhosAgro–Region

**Mining and Chemical Engineering LLC**
Mining and Chemical Engineering or MCE

**Smart Bulk Terminal LLC**
Smart Bulk Terminal

**Phosagro Asia Pte Ltd**
Phosagro Asia

**Phosint Trading Limited**
Phosint Trading

The information on mineral resources presented in this Report has been produced in accordance with the Subsoil Law, the Orders of the Ministry of Natural Resources and Environment of the Russian Federation No. 40 "On the Adoption of a Classification System for Mineral Reserves" dated 7 March 1997 and No. 278 "On the Adoption of a Classification System for Reserves and Inferred Resources in Deposits of Solid Minerals" dated 11 December 2011 and the Decree of the Ministry of Natural Resources and Environment of the Russian Federation No. 37–r "On the Adoption of Methodological Guidelines for the Application of the lassification System for Reserves and Inferred Resources in Deposits of Solid Minerals" dated 5 June 2007.

The information in this Report relating to mineral resources as at 1 January 2015 is based on information compiled by the Geology Service Department of Apatit and authorised by Mr. Sergey Glubokiy, Chief Geologist of Apatit.

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