



CEO'S STATEMENT



DEAR SHAREHOLDERS,

PhosAgro is on track with its steady growth, unlocking its potential developed during our last investment cycle, and continuously improves production efficiency across all of its facilities. Vertical integration allows for a high level of self-sufficiency in terms of our key feedstock. As a result, PhosAgro has secured its status as one of the worldwide industry leaders. This has made us feel comfortable and confident during a period when many industry players were struggling to cope with low fertilizer prices on the global market. 2019 saw exceptional results across several areas: sustainable development, corporate governance, advances in strategic initiatives, solid operational and financial results. This impressive progress has allowed PhosAgro to pay dividends of RUB 24.9 bn.

SUSTAINABLE DEVELOPMENT: OUR STRATEGIC PRIORITY

As worldwide attention is increasingly focused on the quality of food products, overall health of the planet, joint efforts to solve global challenges, and endeavours to bring about a sustainable future, the Company's approach to the sustainability principles is becoming more consistent and structured. In this regard, 2019 was, without exaggeration, a breakthrough year for PhosAgro. The Company not only strengthened its expertise in this field, but also made significant progress towards solving global challenges and creating prosperity for future generations. At the beginning of the year, the Company approved its strategy to 2025, focusing on sustainable

development as a key priority. Long-term goals are aligned with the strategy and harmonised with the interests of a wide range of stakeholders concerning HSE and community-related matters. The Board of Directors established the Sustainable Development Committee. This Committee will be chaired by Irina Bokova, the former Director-General of UNESCO. The appointment of a leader boasting such experience and expertise will help build up the Company's sustainability and corporate governance capabilities.

As one of the world's leading mineral fertilizer producers, we recognise our responsibility to contribute to solving the most pressing issues facing both current and future generations, such as global food security. The logical next step for us was to join the UN Global Compact and contribute to the achievement of the 10 UN Sustainable Development Goals.

In recent years, the Company has made consistent efforts to put the issue of environmental pollution by heavy metals, in particular cadmium, on the global agenda, and we succeeded. Last



year, we achieved an important milestone – regulation of mineral fertilizers containing a high level of cadmium or other harmful impurities. In May 2019, the EU resolved to restrict the amount of cadmium in phosphate fertilizers continent-wide. This historic move was supported by the UN, which recommends that all countries follow the EU's example. The policy will come into force in 2022. The long-term consequences of this decision will echo throughout the world, and represent a considerable contribution to ensuring the health of current and future generations. PhosAgro, whose products meet the strictest ecological safety requirements, welcomes these decisions. The Company will continue to improve its product offering and share knowledge and experience with partners from other countries, who are involved in the global food production chain and committed to the sustainable and holistic development of our world.

In addition, the Company is one of the key players developing and promoting the Green Standard in Russia. Eco-friendly agricultural products, which will include organic crops, food and mineral fertilizers, will subsequently be exported to international markets, providing high-quality food to the whole world.

RECORD HIGH OPERATIONAL AND FINANCIAL RESULTS

Driven by the strategy to 2020, the Company has consistently demonstrated record operational results in the challenging market environment. These results translate into strong financial performance and growing dividends for our shareholders.

In terms of production, we have hit all of our targets: we increased output, cut costs and made further progress in improving our self-sufficiency in key raw materials.

In 2019, fertilizer output stood at more than 9.5 mt, precisely in line with the Company's guidance. This a record figure for the Company. Our flexible sales policy helped us increase shipments to our core markets in 2019. Sales in the Russia and the CIS rose by over 10%, exceeding 3 mt, while in Europe they expanded by 28% to over 2.6 mt. As a result, these markets accounted for more than 32% and 28% of our supplies, respectively.

Company revenue grew by 6.3%, totalling USD 3.8 bn. EBITDA rose by 0.9% to reach USD 1.2 bln with an impressive EBITDA margin of 30.5%. The robust production capacity enabled by the strategy to 2020 allows the Company to generate sustainable and high cash flow. This gives us the ability to invest in development projects, reduce debt and pay generous dividends to shareholders. In the past year, the Annual General Meeting approved a new dividend policy, allocating more than 75% of FCF to dividends. This step enhances the investment case of PhosAgro, resulting in a more diverse portfolio of investors and facilitating future market cap growth. Over the past year, we have also taken steps to strengthen the Company's financial position, with net debt to EBITDA ratio decreasing to 1.7x by the end of the year. The revision of PhosAgro's credit rating outlook to 'stable' is an important confirmation of the Company's impressive performance. Currently, the Company has investment-grade credit ratings from the three rating agencies, with the stable outlook.



VERTICAL INTEGRATION AND LOW PRODUCTION COSTS

Vertical integration is one of the most important competitive advantages we possess. The Company, as one of the leading global low-cost fertilizer producers, continues to explore new ways to leverage its strengths. Over the reporting year, we managed to increase the output of key raw materials and semi-finished products. Alongside this, we managed to improve self-sufficiency in key feedstock, bringing it to almost 90% for sulphuric acid and ammonia. Today, few of the industry's global players can boast the same level of vertical integration as PhosAgro. Despite the challenging market environment, where market prices for some mineral fertilizers were approaching production costs, the Company continued to stick to its targets and plans.

We successfully completed our previous large-scale investment cycle in 2019: we put on stream three major projects to increase our self-sufficiency in feedstock. These facilities were launched at the Cherepovets site. The 135 ktpa nitric acid plant became operational in the Q4 2019. By the end of 2020, we will be able to see a 25% growth in this type of feedstock. The next facility to be launched, a 300 ktpa new ammonium sulphate production line, will also contribute to our self-sufficiency. Previously, the Company had purchased all feedstock on the market. These new facilities meet 60% of our needs for this raw material. We can now feel comfortable in the market and reduce the purchasing price of the remaining volume. The third project, a 1.1 mt sulphuric acid production line, is intended to replace the volumes currently purchased from third parties. We also increased our self-sufficiency in nitric acid and benefited from additional energy and environmental effects, as we use steam from this facility.

OUTLOOK

It is already obvious that 2020 will be a stress test for individual industries and the global economy as a whole. In these turbulent times, we need to engage in a dialogue, creating joint efforts to find effective solutions to these global challenges. Trading relationships and entrepreneurship have intertwined our world more than ever. Leading Russian companies, particularly PhosAgro, have the necessary capabilities, expertise and experience to bring about a more holistic and sustainable world.

I would like to extend my gratitude to all of our stakeholders, first of all, employees and contractors, who have contributed to delivering both the 2025 strategy targets, and the impressive 2019 results. I am convinced that we will go from strength to strength over the coming year.

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



COVID-19: THE IMPACT OF THE CORONAVIRUS PANDEMIC ON THE GLOBAL FERTILIZER INDUSTRY

On 11 March 2020, the WHO announced the outbreak of coronavirus disease (COVID-19) a pandemic.

- The COVID-19 pandemic leads to increased uncertainty in most countries: market demand is extremely volatile due to a slowdown in business activity, while quarantine at ports of fertilizer loading and discharge and border closures are disrupting supply chains.
- Fertilizer producer shares fell by 20–50% y-o-y as investors flee to less volatile assets.
- Economists are reviewing economic growth forecasts, and most of them expect a downturn and in some cases even a global recession, including in the US, in 2020.
- Fertilizer demand was resilient at the start of the pandemic, but there are many risks to factor in as uncertainties keep mounting, which will have an adverse impact in the short run.
- In many countries, fertilizers are on the list of strategic commodities, whose supplies are prioritised during the quarantine period. It helps maintain an overall balanced fertilizer market.
- The situation is changing daily and it is impossible to predict what comes next, even in the short term. In this turbulent environment, the Company closely monitors changes in the fertilizer and related markets for agricultural products, feedstock, energy, freight, etc. to make sure that all optimal response scenarios have been taken into account.