



CHAIRMAN'S STATEMENT



DEAR SHAREHOLDERS,

I am happy to announce that, in 2019, we reached a new chapter in the historical development of our Company. We approved our new strategy to 2025, which sets the course to further strengthen PhosAgro's position as an industry leader in both operational and financial terms, and from the point of view of non-financial activities. Furthermore, the past year saw us celebrate record numbers across a range of indicators and make important changes at the level of the Board of Directions and corporate governance framework. In addition, we made a major contribution to food safety and human health around the globe.

PHOSAGRO'S RESPONSE TO COVID-19

After the end of the reporting period, the COVID-19 virus has become a global pandemic that is still developing as I write this letter. I want to commend the rapid response and leadership of PhosAgro's management in this situation. PhosAgro was one of the first companies in Russia to start introducing measures to combat the spread of the virus among its employees, and the Company has moved heaven and earth



to supply everything from protective equipment, medical supplies, testing kits and other essentials to the communities where it operates. By acting early and decisively, I am hopeful that PhosAgro management has taken important steps that will minimise the potential impact of COVID-19 on its operations.

In parallel to taking care of key stakeholders in local communities, PhosAgro is cooperating with Russian and international organisations, including the Russian Union of Industrialists and Entrepreneurs, the Russian Fertilizer Producer Association and the International Fertilizer Association to help ensure a coordinated response across Russian and global industry. This kind of cooperation is key to keeping supply chains running, especially for the crop nutrients that are essential to support continued food production worldwide.

The Board and I commend the actions taken by the entire PhosAgro team in response to this situation, and we hope that the benefits will be felt by all of the company's stakeholders.

NEW STRATEGIC PRIORITIES

The strategy to 2025, approved by the Board in spring of 2019, seeks to further consolidate PhosAgro's position as a producer of ecologically friendly, phosphate-based fertilizers boasting some of the lowest cash costs in the industry, as well as to step up the Company's production capacities, and ensure the long-term sustainability of the Company's business processes across the entire world. Both the Board of Directors and I are convinced that this strategy will fuel PhosAgro's future growth. We believe it will create significant value for our shareholders, as well as other stakeholders, from employees to farmers using our fertilizers.

The strategy to 2025 assumes that the expansion of the production capacities, including production of fertilizers and feed phosphates, will grow by around a quarter, in comparison with 2018, reaching 11.7 mt. The Company will continue to increase sales of fertilizers in the strategic Russian market, reaching 3.7 mt. In Europe, sales will rise from 1.9 mt in 2018 to 3.1 mt in 2025 driven by PhosAgro's competitive strengths of environmentally safe fertilizers in the context of EU's tightening cadmium regulations on fertilizers. Investments in capacity maintenance, development and upgrades will total nearly USD 3 bn by 2025. The investments in our three key projects alone are expected to result in an EBITDA growth of approximately USD 200 m, boost FCF, and further increase our self-sufficiency in feedstock.

CORPORATE GOVERNANCE IMPROVEMENTS

PhosAgro's corporate governance improvement strategy seeks to ensure that the interests of all our key stakeholders are represented. Since it became a public company, PhosAgro has adhered to high corporate governance and information transparency standards. The Company always ensures that the majority of directors on the Board are independent,



and, in the reporting year, we have taken a number of important steps to continue this policy. These changes have affected me personally, as I was elected to the position of the Chairman. It is a great honour for me to be elected to this position of responsibility, and I am proud to build on the work already done by the Board, and keep the pace set by my predecessor, Sven Ombudstvedt. The creation of the Sustainable Development Committee, headed by Irina Bokova, former Director-General of UNESCO, has been another important decision. In view of the Company's role in supporting food security and its general commitments, this decision is both appropriate and timely.

The Company successfully completed its large-scale investment cycle and has reaped the rewards: record high operational and financial result once again indicate the effectiveness of the management team's decisions. The Company also gained the opportunity to provide a high return on investment for PhosAgro investors. In Autumn 2019, the Board approved a new dividend policy, which, in line with best practices, takes into account the Company's investment needs for future growth and pays attention to existing social and charitable commitments in the regions it operates in, and on the whole.

In 2019, PhosAgro continued to streamline its corporate structure.

In particular, Apatit was restructured by merging it with Metachem and PhosAgro-Trans. The Volkhov branch of Apatit was established at Metachem's site and subdivisions of PhosAgro-Trans became part of the logistical units of Apatit. These transformations are aimed at further improving management efficiency and optimising business processes, thereby strengthening PhosAgro's competitive position as a vertically integrated company. In addition, the management of Apatit, the Company's largest subsidiary, has been optimised. Its management board has been dissolved, and it has improved transparency and reduced the time it takes to make important operational decisions.

The Company's commitment to best corporate governance practices is also demonstrated by the fact that the Board of Directors annually assesses compliance with the principles set out in the Corporate Governance Code by the Bank of Russia on 10 April 2014. For more information on the implementation of these principles in 2019, see Appendix No. 1 of this report. It was reviewed and approved by the Board of Directors as a standalone report. For the criteria of corporate governance quality, which for some reason were not met or not fully met, the Board made a separate

assessment. In the reporting year, we further analysed the extent to which the Company has implemented the recommendations of the UK Corporate Governance Code approved by the Financial Reporting Council in July 2018. This analysis allowed the Board to conclude that, the Company's current corporate governance structure fully meets the Company's today's needs and secures our shareholders' capability to exercise their rights.

FOCUS ON SUSTAINABLE DEVELOPMENT

The past year has been a confirmation of the increasingly careful attention consumers and state bodies from countries all across the world pay to the quality and safety of food products. PhosAgro's products are used in more than 100 countries. For us, joining the UN Global Compact and taking the decision to actively contribute to the achievement of the 10 UN Sustainable Development Goals was therefore a logical step.

Cadmium regulation is an important issue regarding the quality and safety of food products. During discussions in 2019, a number of strategic decisions were made in this area. The EU resolved to restrict the amount of cadmium in phosphate fertilizers continent-wide. This move was supported by the UN, which recommends that all countries follow the EU's example. The policy will come into force in 2022. These initiatives will stimulate mineral fertilizer producers from countries, where phosphate ore is low-quality and not eco-friendly, to use the feedstock purification technology. People both in the EU, and in the world as a whole will benefit from these restrictions. The high quality apatite-nepheline ore we use in fertilizer production will definitely help PhosAgro occupy an increasingly prominent position in the global market.



The Company continued to tighten its partnerships with several international organisations, such as UNESCO, IUPAC and FAO. We have made progress on many joint programmes and projects, such as Green Chemistry for Life, a global soil partnership with the FAO. Another example is the sustainable soil management project IUPAC Summer School on Green Chemistry. These projects will be the cornerstone for future generations to make significant contributions to solving the most pressing global issues – food security, healthy lifestyles and people’s well-being.

Last but not least, PhosAgro has become one of the main drivers behind the creation of the Green Standard. This initiative is expected to stimulate the production of eco-friendly Russian crops. The Company plans to make the Green Standard the universally recognised global standard. The Green Standard puts Russia at the forefront of a growing global movement advocating for eco-friendly food and global agricultural security to achieve the UN Sustainable Development Goals.

As Chairman of the Board, I can say that we are very proud of the Company’s performance and its potential to create value for all of our stakeholders in the coming years. I believe that our results in 2019 prove that we are on the right track, and that our successful teamwork will help deliver impressive results going forward. Following a detailed review of the Company’s business and its financial position, taking into account the Company’s Strategy to 2025, the inherent risks in the industry and the steps taken by the Company to manage these risks, the Board of Directors has every reason to believe that the Company will, without any reservations, be able to continue its operations and meet all its obligations as they become due until at least 2025.

Xavier R. Rolet

Chairman of the Board of Directors