# IMPORTANT NOTICE

**IMPORTANT: You must read the following disclaimer before continuing.** The following disclaimer applies to the attached prospectus (the "**Prospectus**") and you are advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Prospectus. In accessing the attached Prospectus you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from the Issuer, the Guarantor, EuroChem, the Joint Bookrunners or the Co-Managers (each as defined below) as a result of such access. The attached Prospectus is intended for the addressee only.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES DESCRIBED IN THE ATTACHED PROSPECTUS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES DESCRIBED IN THE ATTACHED PROSPECTUS MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES; DIRECTLY OR INDIRECTLY, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THE ATTACHED PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED PROSPECTUS.

**Confirmation of your Representation**: In order to be eligible to view the attached Prospectus or make an investment decision with respect to the securities described in the attached Prospectus, investors must comply with the following provisions. You have been sent the attached Prospectus on the basis that you have confirmed to Citigroup Global Markets Limited, J.P. Morgan Securities plc, Sberbank CIB (UK) Limited, Société Générale, Unicredit Bank AG and VTB Capital plc (the "**Joint Bookrunners**"), PJSC Sovcombank (the "**Senior Co-Manager**") and Sova Capital Limited (the "**Co-Manager**" and, together with the Senior Co-Manager, the "**Co-Managers**"), being the senders of the attached Prospectus, that:

(a) you (and each investor that you represent) are either: (A) not investing in the Rule 144A Note and the electronic mail address that you have given to us and to which this electronic transmission has been sent is not located in the United States; or (B) a "qualified institutional buyer" (as such term is defined in Rule 144A under the Securities Act) (a "**QIB**");

(b) you consent to delivery of the attached Prospectus by electronic transmission;

(c) you are a prospective purchaser of the notes referred to in the attached Prospectus (the "**Notes**") and you are a relevant person (as defined below) if in the United Kingdom;

(d) you will not transmit the attached Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of a Joint Bookrunner or a Co-Manager; and

(e) you acknowledge that the attached Prospectus do not constitute an offer of or an invitation to subscribe for or purchase any of the Notes.

By accepting this electronic transmission and accessing the attached Prospectus, you shall be deemed to have made the above representation and that you consent to delivery of such Prospectus by electronic transmission.

This document is only addressed to and directed at persons in member states of the European Economic Area that have implemented the Directive 2003/71/EC, as amended (the "**Prospective Directive**") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive ("**Qualified Investors**"). In addition, the Prospectus is directed solely at (i) persons outside the United Kingdom, (ii) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the "**Order**"), (iii) high net worth entities, or (iv) any other persons to whom an invitation or inducement to engage in investment activities may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons in (i)-(iv) above being "**relevant persons**"). Any investment activity to which this communication relates will only be available to and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this communication.

The attached Prospectus or information contained therein is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. Information contained in the attached Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the "**Russian QIs**"), and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Notes have not been and will not be registered in Russia and are not intended for "placement" or "circulation" in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

The attached Prospectus has been delivered to you on the basis that you are a person into whose possession the attached Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

The attached Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of EuroChem Finance Designated Activity Company (the "**Issuer**"), EuroChem Group AG, Mineral and Chemical Company EuroChem, Joint Stock Company, the Joint Bookrunners or the Co-Managers, or any person who controls them, or any director, officer, employee or agent of any of them, or their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the attached Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Bookrunners and the Co-Managers.

You are reminded that no representation or warranty, expressed or implied, is made or given by or on behalf of the Joint Bookrunners or the Co-Managers, nor any person who controls the Joint Bookrunners or the Co-Managers or any director, officer, employee or agent of any of them, or their respective affiliates as to the accuracy, completeness or fairness of the information or opinions contained in the attached Prospectus and such persons do not accept responsibility or liability for any such information or opinions.

Neither this electronic transmission nor the attached Prospectus constitute or contains any offer to sell or invitation to subscribe or make commitments for or in respect of any securities in any jurisdiction where such an offer or invitation would be unlawful. If a jurisdiction requires that the offering of the Notes be made by a licensed broker or dealer, and the Joint Bookrunners or the Co-Managers or any affiliate of the Joint Bookrunners or the Co-Managers is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Joint Bookrunners, the Co-Managers or such affiliate on behalf of the Issuer in such jurisdiction.

# EUROCHEM FINANCE DESIGNATED ACTIVITY COMPANY

**(incorporated under the laws of Ireland)**

**as issuer of**

**U.S$700,000,000 5.50 per cent. notes due 2024**

**Unconditionally, irrevocably and fully guaranteed on a joint and several basis by**

**Mineral and Chemical Company EuroChem, Joint Stock Company and EuroChem Group AG**

**Issue Price: 100 per cent.**

EuroChem Finance Designated Activity Company is a designated activity company incorporated under the laws of Ireland, having its registered office at 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland, and registered under number 604189 (the "**Issuer**"). The Issuer is issuing an aggregate principal amount of U.S.$700,000,000 5.50 per cent. Guaranteed Notes due 2024 (the "**Notes**"). The Notes will be unconditionally, irrevocably and fully guaranteed (the "**Guarantees**") by EuroChem Group AG (the "**Parent**" and a "**Guarantor**") and Mineral and Chemical Company EuroChem, Joint Stock Company ("**EuroChem**" and also a "**Guarantor**" and, together with the Parent, the "**Guarantors**"). The Notes are constituted by, are subject to, and have the benefit of, a trust deed to be dated 13 March 2019 (as may be amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and Citibank, N.A., London Branch as trustee (the "**Trustee**") for the benefit of the Noteholders (as defined in the "*Terms and Conditions of the Notes*").

Interest on the Notes will be payable semi-annually in arrear on 13 March and 13 September in each year (each an "**Interest Payment Date**"), commencing on 13 September 2019.

The Notes mature on 13 March 2024 (the "**Maturity Date**") but may be redeemed before then at the option of the Issuer, in whole but not in part, at any time, but on one occasion only, on giving not less than 25 and not more than 60 days irrevocable notice, at a price equal to the principal amount thereof, plus the Make Whole Premium (as defined in "*Terms and Conditions of the Notes*" herein) plus any accrued and unpaid interest and additional amounts (if any) to (but excluding) the date of redemption. See "*Terms and Conditions of the Notes—Redemption and Purchase—Make-Whole*". The Issuer may also redeem the Notes, in whole or in part, at their principal amount together with any accrued and unpaid interest and additional amounts (if any), if the Issuer (or, if the Guarantees are called, a Guarantor) has or will become obliged to pay certain additional amounts and otherwise as described under "Terms and Conditions of the Notes—Redemption and Purchase—Redemption for tax reasons". The Notes are also subject to redemption, in whole or in part, at their principal amount, together with any accrued and unpaid interest and additional amounts (if any), at the option of the Issuer at any time on or after the date three months prior to the Maturity Date. See "*Terms and Conditions of the Notes—Optional Redemption at Par*".

This prospectus (the "**Prospectus**") has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Notes to be admitted to the official list (the "**Official List**") and trading on its regulated market. There is no assurance that a trading market in the Notes will develop or be maintained.

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

The Notes will be in registered form. The Notes may be held and transferred, and will be offered and sold, in the principal amount of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof, in each case without interest coupons attached. The Notes that are offered and sold outside the United States of America (the "**United States**" or "**U.S.**") in reliance on Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"), will be represented by interests in a global registered note (the "**Regulation S Global Note**") deposited with a common depositary (the "**Common Depositary**") for, and registered in the name of, a nominee of, Euroclear Bank SA/NV ("**Euroclear**") or Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") on or about the Closing Date. The Notes which are offered and sold in the United States to qualified institutional buyers ("**QIBs**"), as defined in Rule 144A under the Securities Act ("**Rule 144A**"), in reliance on the exemption from registration provided by Rule 144A will be represented by interests in a global registered note (the "**Rule 144A Global Note**" and, together with the Regulation S Global Certificate, the "**Global Certificates**") deposited with a custodian for, and registered in the name of, a nominee of The Depository Trust Company ("**DTC**") on or about the Closing Date. Interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their respective participants. Individual notes in definitive form (the "**Definitive Certificates**") evidencing holdings of Notes will only be available in certain limited circumstances. See "*Summary of the Provisions Relating to the Notes in Global Form*".

**AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 9 OF THIS PROSPECTUS BEFORE INVESTING IN THE NOTES.**

**THE NOTES AND THE GUARANTEES (TOGETHER, THE "SECURITIES") HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, EXCEPT PURSUANT TO CERTAIN EXEMPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES. THE NOTES MAY BE OFFERED AND SOLD (I) WITHIN THE UNITED STATES TO QIBs IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (THE "RULE 144A NOTES") AND (II) IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S (THE "REGULATION S NOTES"). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE RULE 144A NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF THE NOTES AND DISTRIBUTION OF THIS PROSPECTUS, SEE "*SUBSCRIPTION AND SALE*" AND "*TRANSFER RESTRICTIONS*".**

The Notes are expected to be rated "BB" by Fitch Ratings Ltd ("**Fitch**") and "Ba3" by Moody's Investors Service, Inc. ("**Moody's**"). Fitch is established in the European Community and registered under Regulation (EC) No. 1060/2009 on credit rating agencies (the "**CRA Regulation**"). The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (http://www.esma/europa.eu/popup2/php?id=7692). Moody's is not established in the European Union, has not applied for registration under the CRA Regulation and is not included in the list of registered credit rating agencies published on the website of European Securities and Markets Authority. A rating is a not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Issuer will use the proceeds received from the issue and sale of the Notes to finance the purchase of the U.S.$500,000,000 3.95 per cent. Guaranteed Notes due 2021 issued by the Issuer (the "**2021 Notes**") and the U.S.$500,000,000 3.80 per cent. loan participation notes due 2020 issued by EuroChem Global Investments Designated Activity Company (the "**2020 Notes**") tendered and accepted for purchase in accordance with the terms and conditions of the tender offer launched by the Issuer on 21 February 2019, pursuant to a tender offer memorandum dated the same date (the "**Tender Offer**") that is expected to be settled on or about 15 March 2019.

***Global Coordinators and Bookrunners***

**CITIGROUP** | **J.P. MORGAN**

***Joint Bookrunners***

**Sberbank CIB** | **SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING** | **UNICREDIT BANK** | **VTB Capital**

***Senior Co-Manager*** | ***Co-Manager***

**Sovcombank** | **SOVA Capital**

**The date of this Prospectus is 11 March 2019**

This prospectus (the "**Prospectus**") comprises a prospectus for the purposes of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**") and has been prepared for the purpose of giving information with regard to the Issuer, EuroChem, as well as the Parent and its consolidated subsidiaries taken as a whole (the "**Group**"), the Guarantees and the Notes which, according to the particular nature of the Issuer, EuroChem, the Parent, the Group, the Guarantees and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, EuroChem, the Parent and the Group. Each of the Issuer, EuroChem and the Parent accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer, EuroChem and the Parent (each of which having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer, the Parent and EuroChem, having taken all reasonable care to ensure that such is the case, confirm that (i) this Prospectus contains all information with respect to the Issuer, EuroChem, the Parent and its consolidated subsidiaries taken as a whole, the Guarantees and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus relating to the Issuer, EuroChem, the Parent and the Group are true and accurate and are not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus with regard to the Issuer, EuroChem, the Parent and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) to the best knowledge of the Issuer, the Parent and EuroChem, there are no other facts with respect to the Issuer, EuroChem, the Group, the Parent, the Guarantees or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by the Issuer, EuroChem and the Parent to ascertain such facts and to verify the accuracy of all such information and statements. The Issuer, EuroChem and the Parent accept responsibility accordingly.

No representation or warranty, express or implied, is made by the Joint Bookrunners or the Co-Managers named under "*Subscription and Sale*" (the "**Joint Bookrunners**" and the "**Co-Managers**"), the Trustee or any of their respective affiliates or any person acting on their behalf as to the accuracy or completeness of the information contained in this Prospectus. Each person receiving this Prospectus acknowledges that such person has not relied on any Joint Bookrunner, Co-Manager or the Trustee or any person affiliated with any Joint Bookrunner, Co-Manager or the Trustee, in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer, EuroChem, the Parent and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment. This Prospectus may only be used for the purpose for which they have been published.

To the fullest extent permitted by law, the Joint Bookrunners and the Co-Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement made, or purported to be made, by the Joint Bookrunners or the Co-Managers or on their behalf in connection with the Issuer, EuroChem, the Parent or the issue and offering of the Notes. The Joint Bookrunners and the Co-Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which they might otherwise have in respect of this Prospectus or any such statement.

Certain information and data contained in this Prospectus relating to the Russian and global fertiliser sector and the competitors of the Group (which may include estimates and approximations) was derived from publicly available information, including press releases and filings under various regulatory and securities laws. The sources of such information and data include, *inter alia*, the International Fertiliser Association, the United States Department of Agriculture and the Food and Agricultural Organisation of the United Nations, as defined herein. In addition, EuroChem and the Issuer have derived some of the information contained in this Prospectus from official data published by Russian government agencies, such as the Central Bank of the Russian Federation (the "**CBR**"). The official data published by Russian federal, regional and local governments is substantially less complete or researched than data published by governmental agencies of Western countries. Official statistics may also be compiled on different bases than those used in Western countries. Any discussion of matters relating to the Russian Federation in this Prospectus may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable. See "*Risk Factors — Risks Related to Russia — There can be no assurance as to the completeness, reliability or accuracy of official data and statistics in this Prospectus*". Each of EuroChem, the Parent and the Issuer accepts responsibility that such publicly available information and data has been accurately reproduced and as far as EuroChem, the Parent and the Issuer are aware and are able to ascertain, no facts have been omitted which would render such information inaccurate or misleading. However, EuroChem, the Parent and the Issuer have relied on the accuracy of such publicly available information and data without carrying out an independent verification.

The Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, EuroChem, the Group, the Parent, the Joint Bookrunners or the Co-Managers to subscribe or purchase any Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. In particular, this Prospectus is only being distributed to and is only directed at (i) persons outside the United Kingdom, (ii) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the "**Order**"), (iii) all persons falling within Article 49(2)(a) of the Order, or (iv) any other persons to whom an invitation or inducement to engage in investment activities may otherwise be communicated without contravention of Section 21 of the Financial Services and Markets Act 2000 (all such persons in (i)-(iv) above being "**relevant persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Persons into whose possession this Prospectus comes are required by the Issuer, EuroChem, the Parent, the Joint Bookrunners and the Co-Managers to inform themselves about and to observe any such restrictions. Any consents or approvals that are needed in order to purchase any Notes must be obtained. EuroChem, the Issuer, the Parent, the Joint Bookrunners and the Co-Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. None of the Issuer, EuroChem, the Parent, the Trustee, the Group, the Joint Bookrunners or the Co-Managers or any of the respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Such investors should consult their legal advisers regarding such matters. The Securities have not been and will not be registered under the Securities Act. The Notes may not be offered or sold within the United States except pursuant to an exemption from, in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States in reliance on Regulation S and within the United States to QIBs in reliance on the exemption from registration under the Securities Act provided by Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provision of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Prospectus, see "*Subscription and Sale*" and "*Transfer Restrictions*".

The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense in the United States.

The information provided in this Prospectus is not an offer or an invitation to make offers, to sell, exchange or otherwise transfer the Notes in the Russian Federation or to, or for the benefit of, any Russian person or entity. This Prospectus does not constitute an advertisement or offering of any securities in the Russian Federation. The Notes have not been and will not be registered in the Russian Federation or admitted to placement or public circulation in the Russian Federation. The information set forth in this Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" in terms of Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended ("**Russian QIS**"). This Prospectus must not be distributed into or circulated in the Russian Federation to any persons who are not Russian QIS unless and to the extent they are otherwise allowed to access such information under Russian Law. No person should at any time carry out any activities in breach of the restrictions set out in "*Subscription and Sale – Russian Federation*".

None of the Issuer, EuroChem or the Parent intends to provide any post-issuance transaction information regarding the Notes or the Guarantees. No person is authorised to provide any information or to make any representation not contained in this Prospectus, and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, EuroChem, the Parent, the Group, the Trustee, the Joint Bookrunners or the Co-Managers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Without limitation to the generality of the foregoing, the contents of EuroChem's, the Parent's or any other member of the Group's website, in addition to any other websites referred to in this Prospectus, as at the date hereof or as at any other date do not form any part of this Prospectus (and, in particular, are not incorporated by reference herein).

Any investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Notes.

This document has been filed with and approved by the Central Bank. The Prospectus approved by the Central Bank will be filed with the Irish Companies Registration Office in accordance with Regulation 38(l)(b) of the Prospectus Regulations.

All references herein to "**Russia**" are to the Russian Federation, all references to "**Ireland**" are to Ireland (exclusive of Northern Ireland) and all references to a "**Member State**" are to a Member State of the European Economic Area.

IN CONNECTION WITH THE ISSUE OF THE NOTES, CITIGROUP GLOBAL MARKETS LIMITED (THE "**STABILISING MANAGER**"*)* (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN AT ANY TIME AFTER ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE NOTES AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE CLOSING DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

**NOTICE TO EUROPEAN ECONOMIC AREA RESIDENTS**

THE NOTES ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA ("**EEA**"). FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR

MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF MIFID II; OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2002/92/EC (AS AMENDED, THE "**IMD**"), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II. CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (AS AMENDED, THE "**PRIIPS REGULATION**") FOR OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

**NOTICE TO U.S. INVESTORS**

EACH PROSPECTIVE PURCHASER OF RULE 144A NOTES OR BENEFICIAL INTERESTS THEREIN, BY ACCEPTING DELIVERY OF THIS PROSPECTUS, SHALL BE DEEMED TO HAVE ACKNOWLEDGED AND AGREED THAT SUCH PROSPECTUS IS PERSONAL TO IT AND DOES NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON OR TO THE PUBLIC GENERALLY TO SUBSCRIBE FOR OR OTHERWISE ACQUIRE SUCH NOTES OTHER THAN PURSUANT TO RULE 144A. DISTRIBUTION OF THIS PROSPECTUS, OR DISCLOSURE OF ANY OF ITS CONTENTS TO ANY PERSON OTHER THAN SUCH OFFEREE AND THOSE PERSONS, IF ANY, RETAINED TO ADVISE IT WITH RESPECT THERETO IS UNAUTHORISED AND ANY DISCLOSURE OF ANY OF ITS CONTENTS, WITHOUT THE PRIOR WRITTEN CONSENT OF THE ISSUER, IS PROHIBITED. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, EXCEPT AS REASONABLY NECESSARY TO COMPLY WITH APPLICABLE SECURITIES LAWS, INVESTORS (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF THE INVESTORS) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE U.S. FEDERAL TAX TREATMENT AND U.S. FEDERAL TAX STRUCTURE OF THE OFFERING AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE INVESTORS RELATING TO SUCH U.S. FEDERAL TAX TREATMENT AND U.S. FEDERAL TAX STRUCTURE (AS SUCH TERMS ARE DEFINED FOR PURPOSES OF SECTIONS 6011, 6111 AND 6112 OF THE U.S. INTERNAL REVENUE CODE AND THE TREASURY REGULATIONS PROMULGATED THEREUNDER).

**NOTICE TO RUSSIAN INVESTORS**

THIS PROSPECTUS OR INFORMATION CONTAINED THEREIN IS NOT AN OFFER, OR AN INVITATION TO MAKE OFFERS, TO SELL, EXCHANGE OR OTHERWISE TRANSFER SECURITIES IN THE RUSSIAN FEDERATION TO OR FOR THE BENEFIT OF ANY RUSSIAN PERSON OR ENTITY AND DOES NOT CONSTITUTE AN ADVERTISEMENT OR OFFERING OF SECURITIES IN THE RUSSIAN FEDERATION WITHIN THE MEANING OF RUSSIAN SECURITIES LAWS. INFORMATION CONTAINED IN THIS PROSPECTUS IS NOT INTENDED FOR ANY PERSONS IN THE RUSSIAN FEDERATION WHO ARE NOT "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 51.2 OF THE FEDERAL LAW NO. 39-FZ "ON THE SECURITIES MARKET" DATED 22 APRIL 1996, AS AMENDED (THE "**RUSSIAN QIS**") AND MUST NOT BE DISTRIBUTED OR CIRCULATED INTO RUSSIA OR MADE AVAILABLE IN RUSSIA TO ANY PERSONS WHO ARE NOT RUSSIAN QIS, UNLESS AND TO THE EXTENT THEY ARE OTHERWISE PERMITTED TO ACCESS SUCH INFORMATION UNDER RUSSIAN LAW.

**NOTICE TO INVESTORS IN SINGAPORE**

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus or any other document or material in connection with the offer and sale, or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be distributed, nor may the Notes be offered or sold or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in

Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

**Singapore SFA Product Classification**: In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## ADDITIONAL INFORMATION

None of the Issuer, EuroChem or the Parent is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). For so long as either the Issuer, EuroChem or the Parent is not a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer, EuroChem or the Parent, as the case may be, will, upon request, furnish to each holder or beneficial owner of Notes that are "restricted securities" (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon request of such holder, beneficial owner, prospective purchaser or Trustee, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

## FORWARD-LOOKING STATEMENTS

Some statements in this Prospectus, as well as written and oral statements that EuroChem, the Parent and their respective officers make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning the Group's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. EuroChem and the Parent use the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and other similar expressions to identify forward-looking statements. These forward-looking statements are contained in "*Risk Factors*", "*Overview of the Fertiliser Industry*", "*Operating and Financial Review*", "*Description of Business*" and other sections of this Prospectus. EuroChem and the Parent have based these forward- looking statements on the current views of its management with respect to future events and financial performance. These views reflect the best judgment of the management of EuroChem and the Parent but involve uncertainties and are subject to certain risks, the occurrence of which could cause actual results to differ materially from those EuroChem and the Parent predicts in its forward-looking statements and from its past results, performance or achievements.

Although EuroChem and the Parent believe that the estimates and the projections reflected in its forward-looking statements are reasonable, if one or more risks or uncertainties were to materialise or occur, including those which EuroChem and the Parent have identified in this Prospectus, or if any underlying assumptions prove to be incomplete or inaccurate, its results of operations may vary from those it expected, estimated or projected.

Forward-looking statements that may be made by EuroChem and the Parent from time to time (but that are not included in this document) may also include projections or expectations of interest income, net interest income, operating income (or loss), net profit (or loss) (including on a per share basis), dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements. These factors include:

- inflation, interest rate fluctuations and exchange rate fluctuations in currencies of countries where the Group conducts its operations;
- prices for securities issued by emerging market companies, including Russian entities;
- the health of economy in countries where the Group operates, including Russia, as well as of fertiliser sector in these jurisdictions;
- the cyclical nature of the fertiliser sector and fluctuations in the demand and pricing of the Group's products;
- the effects of, and changes in, the policy of the federal or local governments of countries where the Group operates;
- the effects of competition in the geographic and business areas in which the Group conducts its operations;
- the effects of changes in laws, regulations and taxation or accounting standards or practices in the jurisdictions where the Group operates;
- the Group's ability to maintain or increase market share for its products and services and control expenses;
- the management of the rapid growth of the Group's business and assets;
- the Group's ability to obtain financing to meet its capital expenditure needs and business requirements;
- unplanned events or accidents affecting the Group's operations or facilities;
- acquisitions or divestitures;
- technological changes; and
- the Group's success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When reviewing forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as at the date on which they are made. Accordingly, but subject to the requirements of the Central Bank, EuroChem and the Parent are not obliged to, and do not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to EuroChem or the Parent, or persons acting on either EuroChem's or the Parent's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place reliance on these forward-looking statements.

## DOCUMENTS INCORPORATED BY REFERENCE

The audited financial statements of the Issuer for the year ended 31 December 2017 together with the audit report thereon, have been filed with Euronext Dublin and shall be deemed to be incorporated in, and to form part of, this Prospectus. The financial statements for the year ended 31 December 2017 may be obtained from the website of Euronext Dublin at:

https://www.ise.ie/debt_documents/EuroChem%20Finance%20DAC%20-%202017%20Financial%20Statements%20(Signed%20060318)_8ed9940c-5ce2-4376-8e44-491c134e3394.pdf

**CONTENTS**

# OVERVIEW

*This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Prospectus, including the more detailed information regarding the Group's business and the financial statements and related notes included elsewhere in this Prospectus. Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements". Prospective purchasers of the Notes should also carefully consider the information set forth under "Risk Factors".*

## Overview of the Group

The Group is a leading vertically integrated nitrogen and phosphate fertiliser producer. The Group produces nitrogen mineral fertilisers (including urea, ammonia, ammonium nitrate ("**AN**"), urea ammonium nitrate ("**UAN**"), calcium ammonium nitrate ("**CAN**")), phosphate mineral fertilisers (including monoammonium phosphate ("**MAP**"), diammonium phosphate ("**DAP**") and feed phosphates), as well as a growing number of complex products (a variety of nitrogen phosphate ("**NP**") and nitrogen-phosphorus-potassium ("**NPK**") grades), organic synthesis products, iron ore, apatite and baddeleyite concentrates. In 2018, the Group began test production of potassium chloride in the Usolskiy Potash Project and the VolgaKaliy Potash Project. The Group is also Russia's only producer of urea ammonium sulphate ("**UAS**"), melamine, acetic acid and baddeleyite concentrate. The Group's nitrogen production facilities are located in the Stavropol Krai in Southern Russia, the Tula Oblast in Central Russia and Antwerp in Belgium. The Group's phosphate mines and production facilities are located in the Murmansk Oblast in Northern Russia, the Leningrad Oblast in Northwestern Russia, the Krasnodar Krai in Southern Russia, as well as in Lithuania, China and Kazakhstan. The Group finalises the development of its potash deposits in the Volgograd Oblast in Southern Russia (the VolgaKaliy Potash Project) and in the Perm Krai near the Ural Mountains in Russia (the Usolskiy Potash Project) (the "**Potash Projects**"). The Group also has a licence to develop natural gas and gas condensate fields in the Astrakhan Oblast and Saratov oblast in Southern Russia and in Kazakhstan.

The Group operates a vertically integrated business model with advanced, cost-efficient and flexible production capacity, based on high-quality reserves and supported by logistics and distribution assets that provide distinct cost advantages.

The Group's reserve base includes natural gas, oil, gas condensate, apatite ore, iron ore and potash. The Group's combined reserves and resources of baddeleyite-apatite-magnetite ore ("**BAMO**"), low ferruginous apatite ore ("**LFAO**"), apatite-staffelite ore and apatite-baddeleyite tailings were measured by IMC Montan as at October 2009 in accordance with the JORC Code and consisted of 595 million tonnes of proved and probable reserves and 593 million tonnes of measured and indicated resources. As at 31 December 2018, the Group's phosphate rock reserves in Kazakhstan were 512.8 million tonnes of resources of categories A+B+C1. The Group's reserves and resources of potash ore were measured by IMC Montan as at September 2009 (the VolgaKaliy Potash Project) and October 2009 (the Usolskiy Potash Project) in accordance with the JORC Code and consisted of 912 million tonnes of proved and probable reserves, 2,050 million of measured and indicated resources tonnes and 590 million tonnes of inferred resources. In June 2014, the Group also acquired a mining licence in respect of the Belopashinskiy potassium deposit, providing additional 598 million tonnes of approved by the State Reserves Committee of the Federal Agency for Subsoil Use ("**Rosnedra**") reserves in accordance with Russian Classification approved in 2018 for its Usolskiy Potash Project. As at 31 December 2018, in accordance with Russian Classification, the Group's potassium deposit reserves of potash (sylvinite) in its Usolskiy Potash Project comprised 2,178 million tonnes of reserves approved by the State Reserves Committee of Rosnedra and the Gremyachinskoe potassium deposit reserves of potash ore comprised 1.6 billion tonnes of reserves approved by the State Reserves Committee of Rosnedra. As at 31 December 2018, the Group extracted approximately 112 million tonnes of magnetite-apatite ore and approximately 8 million tonnes of apatite-staffelite ore, in each case in accordance with the Russian classification. Further, in 2017 and 2018, the Group extracted 1.5 million tonnes of potash ore and 1.3 million tonnes of phosphate rock in Kazakhstan.

The Group's production plants located in Russia, Belgium, Lithuania, Kazakhstan and China produce more than 100 commodity and premium products, including an extensive mix of nitrogen, phosphates and complex fertilisers, and recently added potash, as well as acids, industrial gases, de-icing agents, organic synthesis products and mineral raw materials. These geographically and technically diversified assets and their associated product mix allow the Group to respond rapidly to changing market demand, offering competitive advantages in global markets. The manufacturing processes also allow the Group to create other products such as melamine and merchant-grade synthetic acetic acid.

As at 31 December 2018, the Group had a combined annual production capacity of approximately 11.8 million tonnes of nitrogen mineral fertilisers and organic synthesis products, 5.7 million tonnes of phosphate and complex mineral fertilisers (in the calculation of annual production capacity of certain nitrogen products, such as CAN and ammonium nitrate fertiliser (or granular ammonium nitrate ("**GAN**")), phosphates, such as MAP and DAP, as well as complex mineral fertilisers, the Group uses actual production volumes, rather than production capacity, for certain of the Group's plants, because production capacity at its multi-product production facilities cannot be measured due to the capability of such facilities to produce a number of different products on the same production line) and 2.6 million tonnes of apatite concentrate. As a co-product of its apatite mining operations, as at 31 December 2018, the Group had an annual production capacity of approximately 6.2 million tonnes of iron ore concentrate and 7.7 thousand tonnes of baddeleyite concentrate. For the year ended 31 December 2018, the Group produced 12.4 million tonnes of nitrogen mineral fertilisers and organic synthesis products (ammonia, urea, AN, CAN, UAN, GAN, melamine, methanol and acetic acid); 5.3 million tonnes of phosphate mineral fertilisers (MAP, DAP and feed phosphates) and complex fertilisers; and 8.4 million tonnes of raw material feedstock, including apatite concentrate, iron ore and baddeleyite concentrates. In 2018, the Group produced at its Usolskiy Potash Project approximately 250 thousand tonnes of potassium chloride. The Group's greenfield Potash Projects in Russia are expected to reach total annual maximum production capacity of 4.3 million tonnes for VolgaKaliy Potash Project and 4.0 million tonnes for Usolskiy Potash Project. The EuroChem NorthWest ammonia plant is anticipated to reach its design capacity of 2,700 metric tonnes per day in 2019.

The Group primarily sells its fertilisers outside Russia through its trading entities in the United States, Switzerland and Brazil and its EuroChem Agro distribution platform covering Europe and Turkey as well as through regional distributors in the United States, Mexico, Brazil, Argentina, China and an agency in Singapore. The Group also has storage facilities in Russia, the Commonwealth of Independent States (the "**CIS**"), Europe, North America and Mexico. The Group's fertiliser products are sold to more than 10 thousand customers in over 100 countries. The principal markets for the Group's fertiliser products outside Russia are Europe, Asia, Latin America, North America and the rest of the CIS. The Group primarily sells iron ore concentrate to wholesalers and ultimate customers in Russia and Asia.

As part of its business model, the Group supports wholesalers, distributors and cooperatives across Europe, South East Asia and the Americas through its distribution platform. In addition to providing advisory services to local farmers and promoting the efficient use of fertilisers to increase yields, in particular through testing and open seminars, the Group also offers related agricultural and agrochemical services and products such as blending, agronomic advisory, seeds, crop protection items and soil analysis services. The Group's distribution platform also allows it to receive feedback on its products directly from the end-users and to market nitrogen, phosphates, potash and complex fertilisers with a focus on major customers in agriculture and special crops such as fruits, vegetables and grapes. The Group's distribution assets are located in the United States, Germany, Spain, Bulgaria, Hungary, Serbia, Italy, Greece, Mexico, France, Turkey, Singapore, China, Brazil and Argentina and sell to wholesalers, distributors, retailers, cooperatives and end-users in more than 65 countries.

The Group's logistics infrastructure supports the Group's vertically integrated business model. As at 31 December 2018, the Group had rolling stock comprising approximately 6 thousand rail cars and 47 locomotives. The Group also operates dedicated rail service and repair centres, as well as wholly-owned transhipment terminals in the ports of Tuapse (Black Sea, dry mineral fertilisers) and Murmansk (Barents Sea, iron ore, iron pellets, apatite and dry mineral fertilisers) in Russia, and Sillamae (Baltic Sea, liquid cargo such as methanol and complex fertilisers) in Estonia, and benefits from direct jetty access in the port of Antwerp in Belgium. The Group occasionally operates bulker vessels on a time-charter basis. The Group also plans to increase its cargo and shipment capacity by constructing a 5.0 million tonnes annual capacity bulk terminal in the Baltic Sea port of Ust-Luga (launch is planned in 2022) in Russia to support increasing production volumes of the Usolskiy Potash Project. The Group has also commenced a project to build an ammonia transhipment terminal in Sillamae (Estonia), one of the key objectives of which is the transhipment of ammonia produced by EuroChem NorthWest for further transportation to EuroChem Antwerpen and potentially for other export sales. The launch of the ammonia terminal is expected in the fourth quarter of 2019.

For the year ended 31 December 2018, the Group had sales of U.S.$5,577.5 million, EBITDA of U.S.$1,516.9 million, net profit of U.S.$538.4 million and EBITDA margin, which represents EBITDA divided by sales, of 27.2 per cent. For the year ended 31 December 2017, the Group had sales of U.S.$4,865.7 million, EBITDA of U.S.$1,130.4 million, net profit of U.S.$453.4 million and EBITDA margin of 23.2 per cent. For the year ended 31 December 2016, the Group had sales of U.S.$4,375.1 million, EBITDA of U.S.$1,132.9 million, net profit of U.S.$708.0 million and EBITDA margin of 25.9 per cent.

**Key Strengths**

The Group's principal competitive strengths and advantages include:

- significant market share;
- cost-efficient production and access to low-cost raw material feedstock;
- vertical integration providing raw material price stability;
- global footprint and excellent proximity to customers;
- developed logistics infrastructure;
- broad value-added product offering;
- unique products in certain geographical areas;
- prudent financial policy;
- dynamic and experienced management team; and
- international corporate governance model.

**Strategy**

The Group's strategic objective is to be in the global top three leading mineral fertiliser producers in the world in terms of production, sales and profitability. In order to achieve this objective, the Group has been implementing a strategy that includes the following key elements:

- improving efficiency and cost leadership through vertical integration;
- starting own potash production;
- developing value-added product range and further improving product quality; and

- expanding the distribution network and increasing proximity to customers.

**Risk Factors**

An investment in the Notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment with respect to the Notes, see "*Risk Factors*" and "*Forward-Looking Statements*". Prospective investors in the Notes should carefully consider the risks and other information contained in this Prospectus prior to making any investment decision with respect to the Notes. Prospective investors should note that the risks described in this Prospectus are not the only risks the Group faces. EuroChem and the Issuer have described only the risks they consider to be material. However, there may be additional risks that they currently consider immaterial or of which they are currently unaware.

## OFFERING STRUCTURE

### Overview of the Offering

| | |
|---|---|
| The Notes | Issue of U.S.$700,000,000 5.50 per cent. Guaranteed Notes due 2024 |
| Issuer | EuroChem Finance Designated Activity Company, a designated activity company incorporated under the laws of Ireland whose registered office is at 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland. |
| Guarantors | Joint Stock Company "Mineral and Chemical Company "EuroChem", a company organised as a joint-stock company established under the laws of the Russian Federation whose registered office is at 53, building 6, Dubininskaya street, Moscow 115054, Russia.<br><br>EuroChem Group AG, a company organised as a corporation established under the laws of Switzerland whose registered office is at 37 Baarerstrasse, 6300 Zug, Switzerland. |
| Global Coordinators and Bookrunners | Citigroup Global Markets Limited and J.P. Morgan Securities plc |
| Joint Bookrunners | Citigroup Global Markets Limited, J.P. Morgan Securities plc, Sberbank CIB (UK) Limited, Société Générale, Unicredit Bank AG and VTB Capital plc |
| Senior Co-Manager | PJSC Sovcombank |
| Co-Manager | Sova Capital Limited |
| Trustee | Citibank, N.A., London Branch |
| Principal Paying Agent and Transfer Agent | Citibank, N.A., London Branch |
| Registrar | Citigroup Global Markets Europe AG. A copy of the register of the Notes shall be kept at the registered office of the Issuer. |
| Closing Date | 13 March 2019 |
| Issue Price | 100 per cent. of the principal amount of the Notes |
| Maturity date | 13 March 2024 |
| Interest | Interest on the Notes will be payable semi-annually in arrear on each Interest Payment Date (being 13 March and 13 September in each year commencing on 13 September 2019 and ending on the Maturity Date). |
| Risk Factors | An investment in the Notes involves a high degree of risk. See "*Risk Factors*". |
| Use of proceeds | The Issuer will use the proceeds received from the issue and sale of the Notes to finance the purchase of the 2020 Notes and the 2021 Notes tendered and accepted for purchase in accordance with the terms and conditions of the Tender Offer in the principal amount of U.S.$375,872,000 and U.S.$371,954,000, |

respectively, that is expected to be settled on or about 15 March 2019. See "*Use of Proceeds*"

| | |
|---|---|
| Status of the Notes and Guarantees .................................... | The Notes constitute direct, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* and rateably without any preference among themselves. The Guarantees constitute direct, unsubordinated and unsecured obligations of each Guarantor. The Issuer and each Guarantor shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantees, respectively, rank in right of payment at least *pari passu* with the claims of all their other present and future unsecured creditors, save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application or any other mandatory provisions of applicable law. |
| Form and Initial Delivery of Notes............................................ | The Notes will be issued in fully registered form in the denominations of U.S.$200,000 and higher integral multiples of U.S.$1,000. Notes which are offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Regulation S Global Note deposited with, and registered in the name of, a nominee for the common depository for Euroclear or Clearstream, Luxembourg on or about the Closing Date. Notes which are offered and sold in the United States to U.S. persons that are QIBs in reliance on Rule 144A will be represented by interests in the Rule 144A Global Note deposited with a custodian for, and registered in the name of DTC on or about the Closing Date. The Global Notes will only be exchangeable for Definitive Certificates in the limited circumstances described under "*Summary of the Provisions Relating to the Notes in Global Form*". |
| Optional redemption for tax reasons .......................................... | Subject to the Conditions and as further described in "*Terms and Conditions of the Notes*" herein, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 25 nor more than 60 calendar days' notice to the Noteholders (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption and additional amounts (if any) but otherwise without premium or penalty, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it (or if the Guarantees were called, a Guarantor) has or will become obliged to pay certain additional amounts as provided or referred to in Condition 8.1 as a result of the application of, or any amendments to, or change in, the laws and regulations of the Russian Federation, Ireland, Switzerland or, as the case may be, the applicable jurisdiction for any of the Issuer or the Guarantors if different from the aforementioned, or of any constituent part or political sub-division thereof or any authority having power to tax therein (including as a result of a judgment of a court of competent jurisdiction or a change in, or clarification of, the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Closing Date and (ii) such obligation cannot be avoided by the |

Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it.

| | |
|---|---|
| Make-whole call option................. | The Issuer may, at its option, redeem the Notes, in whole but not in part, at any time, but on one occasion only, on giving not less than 25 and not more than 60 days irrevocable notice, at a price equal to the principal amount thereof, plus the Make Whole Premium (as defined in "*Terms and Conditions of the Notes*" herein) plus any accrued and unpaid interest and additional amounts, if any, up to but excluding the date of redemption. See "*Terms and Conditions of the Notes—Redemption and Purchase—Make-Whole*". |
| Optional Redemption at Par........... | The Issuer may, at any time on or after the date three months prior to the Maturity Date, on giving not less than 25 nor more than 60 days' irrevocable notice to the Noteholders, redeem the Notes in whole but not in part, at the principal amount thereof, together with interest accrued and unpaid and additional amounts (if any) to but excluding the Par Optional Prepayment Date (as defined in "*Terms and Conditions*" of the Notes herein). See "*Terms and Conditions of the Notes—Redemption and Purchase—Optional Redemption at Par*". |
| Amendments/Waiver..................... | As long as any of the Notes remain outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Guarantees, except as otherwise expressly provided in the Trust Deed or the Guarantees. |
| Negative pledge and other Covenants ..................................... | Condition 4 of "*Terms and Conditions of the Notes*" herein contains, *inter alia*, a negative pledge in relation to the creation of Liens (as defined in the "*Terms and Conditions of the Notes*" herein) by the Issuer, the Guarantors and the Issuer's or the Guarantors' Subsidiaries (as defined in the "*Terms and Conditions of the Notes*" herein) and covenants limiting, *inter alia*, mergers and disposals by the Issuer and the Guarantors, transactions between the Issuer, each Guarantor and their Subsidiaries and financial covenants by each of the Issuer and the Guarantors. In addition, the Notes contain a non-petition provision relating to the Issuer. See "*Terms and Conditions of the Notes*". |
| Events of Default........................... | If an Event of Default (as defined in the "*Terms and Conditions of the Notes*" herein) shall have occurred and be continuing, the Trustee may, subject as provided in the Trust Deed, declare the Notes immediately due and payable with, or for the benefit of any Affiliate (as defined in the "*Terms and Conditions of the Notes*" herein). See "*Terms and Conditions of the Notes*". |
| Rating ........................................... | The Notes are expected to be rated "BB" by Fitch and "Ba3" by Moody's.<br><br>Credit ratings assigned to the Notes do not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the |

| | |
|---|---|
| | assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes, the Issuer or any Guarantor could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating. |
| Withholding Tax ........................... | All payments in respect of interest and principal on the Notes or under the Guarantees will be made free and clear of, and without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of the Russian Federation, Switzerland or Ireland, save as required by law. If any such taxes, duties, assessments or governmental charges are payable, the Issuer or, as the case may be, the relevant Guarantor, shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such deduction or withholding been required. See ‘‘*Terms and Conditions of the Notes*”. |
| Listing and Trading ....................... | Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on its regulated market. |
| Selling Restrictions........................ | The Notes have not been, and will not be, registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be offered and sold (i) within the United States to QIBs in reliance on the exemption from registration provided by Rule 144A; and (ii) in offshore transactions in reliance on Regulation S.<br><br>The Notes may be sold in other jurisdictions (including the United Kingdom, Russia and Ireland) only in compliance with applicable laws and regulations. See “*Subscription and Sale*”. |
| Governing Law ............................. | The Notes, the Trust Deed and the Guarantees and any non-contractual obligations arising out of or in connection with them, shall be governed by, and construed in accordance with, English law. |
| Security Codes .............................. | Regulation S ISIN: XS1961080501<br><br>Regulation S Common Code: 196108050<br><br>Regulation S FSIN: EUROCHEM FINANC/EUR NT 20240313 RES<br><br>Regulation S CFI: DYFXXR<br><br>Rule 144A ISIN: US29873VAB09<br><br>Rule 144A Common Code: 196179887<br><br>Rule 144A CUSIP: 29873V AB0<br><br>Rule 144A FSIN: EUROCHEM FIN DE/GTD NT 20240313 GTI |

| | |
|---|---|
| | Rule 144A CFI: DBFGGR |
| Legal Entity Identifier .................... | 635400IELZVGRWMGIN72 |

## RISK FACTORS

*An investment in the Notes involves a high degree of risk. Potential investors should carefully consider the following risks described below, as well as other information contained in this Prospectus before making any investment decision. Any of the following risks, individually or together, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, in which case, the trading price of the Notes could decline and investors could lose part or all of their investment.*

*The Group has described the risks and uncertainties that its management believes are material, but these risks and uncertainties may not be the only ones the Group faces. Additional risks and uncertainties, including those the Group currently is not aware of or sees as immaterial, could also have a material adverse effect on the Group's business, financial condition, results of operations and prospects, which could result in a decline in the value of the Notes.*

### Risks Related to the Group's Business and the Fertiliser Industry

#### *The global and domestic fertiliser industries are highly competitive and the Group may not be able to compete successfully*

The Group is subject to intense price competition around the world. Fertilisers are, to a significant extent, global commodities, with little or no product differentiation, and customers make their purchasing decisions principally on the basis of delivered price and, to a lesser extent, on customer service and product quality. The Group competes with a number of producers globally, including state-owned and government-subsidised entities. Some of these competitors have greater resources and are less dependent on earnings from fertiliser sales than the Group, which makes them less vulnerable to industry downturns and better positioned to pursue new expansion and development opportunities. Some of the Group's traditional competitors (in the global markets, Yara (Norway), Nutrien (Canada), The Mosaic Company (the United States), CF Industries (the United States), OCI N.V. (the Netherlands), OCP (Morocco), as well as other producers in Europe, North America, North Africa, the Middle East and Asia, and, in the Russian and the CIS markets, PhosAgro, Acron, UralChem and Minudobreniya (Rossosh)) also benefit from control over or access to raw material reserves, functional locations near major suppliers or consumers, market reputation and long-standing trade relationships with global market participants.

The Group's competitive position could be adversely affected should additional consolidation occur in the fertiliser industry. Consolidation of the market players can potentially benefit the Group through an increase of supply concentration in the over-supplied market conditions. However, such consolidation may also increase the resources of the Group's competitors to a level where such companies or alliances could significantly influence prices and/or product demand and lead to the Group's inability to compete successfully, resulting in the loss of customers, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Furthermore, new mineral fertiliser production capacity is being installed in various parts of the world. The increase in production capacity globally is likely to increase competition in the over-supplied nitrogen fertilisers market. The construction and launch of new production facilities in Saudi Arabia, North and Sub-Saharan Africa, China, South East Asia and North America may affect the supply and demand balance in the phosphate fertilisers market and significantly decrease the market share of regions where producers have higher production cost. This increase in capacity could also apply downward pressure on global fertiliser prices, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The fertiliser industry is cyclical in nature and is affected by global economic conditions, which results in fluctuations in demand for and prices of the Group's products***

The Group operates in a cyclical industry and historically demand for and prices of the Group's products have fluctuated significantly in response to changes in market conditions. Demand is, among other things, affected by agricultural product prices, weather conditions, population growth, changes in dietary habits, planted acreage and fertiliser application rates. Supply is affected by available capacity and operating rates, raw material costs, government policies and global trade. Periods of high demand, high capacity utilisation and increasing profit margins tend to result in new plant investment and increased production, causing supply to exceed demand and prices and capacity utilisation to decline. Reduced prices restrict investment, initiating a new cycle. During periods of industry oversupply, the Group's results of operations tend to be adversely affected as the price at which it sells its products typically declines, resulting in reduced profit margins, lower production volumes, and possible plant downtime and closures. Accordingly, the cyclical nature of the fertiliser industry has had, and may in the future have, a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The fertiliser industry is also affected by global economic conditions. For example, during the global economic downturn that commenced in the second half of 2008, the global fertiliser markets faced a significant decrease in prices for these products resulting from a slowdown in the industries consuming these products, such as the agricultural industry, which were experiencing declines in demand for their products, lack of credit (for example, the agricultural industry depends heavily on credit financing, which became significantly less available during the global economic downturn) and excess inventories. This decline in prices led to a substantial decrease in the Group's sales in 2009. In addition, increased volatility of the majority of emerging markets currencies against U.S. dollar following the economic downturn led to higher effective purchase costs to local customers, which further restricted demand for fertiliser products. Future falls in global prices, should they occur, could have a material adverse effect on demand for and prices of the Group's products.

In 2016 and 2017, average prices for most fertilisers began to recover following a decrease in 2013 through 2016. However, the increase was moderate due to the oversupply in the fertilisers market caused by increased competition and stagnation of the global cost curve due to insignificant growth in fertiliser feedstock costs combined with devaluations of local currencies in certain countries with significant production (such as India, Brazil, Russia, Ukraine and Canada). Fertiliser price trends varied significantly for different products. For example, overall growth in urea quotations in 2018 was offset by a drop in AN indications worldwide due to oversupply as higher stocks carried over in 2017-2018 in Brazil and an emergence of Turkey as a new AN exporter (following the introduction of a ban on local AN usage in 2016). As a result, "at f.o.b. Black Sea" average prices for prilled urea increased by 11.1 per cent. in 2017 compared to 2016, and further by 13.9 per cent. in 2018 compared to 2017. Over the same periods, prices on AN increased by 15.4 per cent. in 2017 compared to 2016, and then decreased by 2.3 per cent. in 2018 compared to 2017.

According to Russian Association of Mineral Fertiliser Producers, the structure of agricultural consumption of fertilisers in the Russian market is characterised by the domination of commodity products (AN, MAP and NPK share/consumption in Russia is estimated at the level of approximately 80 per cent. of the total fertiliser consumption (based on physical weight)). Following Russia's accession to the World Trade Organisation (the "**WTO**") in 2012, the prices for fertilisers sold within Russia changed as a result of the removal of price caps that existed prior to the accession. Transition to the new pricing system has made the Russian market comparable to and in some periods more profitable than exports.

Global nitrogen fertiliser prices were influenced by the general price trends for oil prices (which in 2018 fluctuated significantly, decreasing below US$65 per barrel and rising above US$75 per barrel) were impacted by the expected introduction of sanctions against Iran, which exports 4 million tonnes or urea worldwide. As a result, fertiliser prices have generally increased in the last three years, although for certain products prices trended downwards. These factors resulted in the overall increase in the Group's sales from U.S.$4,375.1 million for the year ended 31 December 2016 to U.S.$4,865.7 million for the year ended 31 December 2017 and further to U.S.$5,577.5 million in the year ended 31 December 2018. There can be no assurance, however, that market conditions will not deteriorate and global fertiliser prices will not decline in the future.

Any decline in demand for and prices of the Group's products driven by the global economic conditions could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Changes in government policies could have a material adverse effect on demand for and prices of the Group's products***

Government policies significantly affect fertiliser demand and prices. Government policies that have an effect on fertilisers include:

- policies and commodity support programmes that provide subsidies to farmers for the purpose of purchasing fertilisers;
- export duties on fertilisers;
- import duties and other trade barriers (including trade bans);
- government policies affecting prices of raw materials used in fertiliser production; and
- other policies such as those restricting the number of hectares that may be planted, requiring a particular type of crops to be grown and limiting the use of fertilisers in certain areas or for certain types of agricultural products.

In a number of markets, the Group benefits from government policies that support the agricultural industry. As a result of such policies (which often include direct or indirect fertiliser purchase subsidies), farmers and growers are often able to spend more on fertiliser purchases than in the absence of such policies. For example, the United States government provides subsidies for growing crops that can be used as biofuel. In addition, the United States government abolished tariffs on ethanol, which has led to an increase in corn production and a corresponding increase in the demand for fertilisers. Russia also has a state support programme for the agricultural industry, providing for allotments from the Russian federal budget and regional budgets aimed at modernising the Russian agricultural industry and improving living standards of the Russian rural population. The Group's management believes that the programme provides farmers and growers with funds for fertiliser purchases, as well as direct and indirect fertiliser purchase subsidies.

Furthermore, in response to the sanctions imposed by the United States, the European Union and a number of other jurisdictions and authorities on a number of Russian officials, individuals and companies on the basis of the perceived actions of Russia in Ukraine, the Russian government introduced import restrictions with regard to certain agricultural products originating from countries that imposed sanctions on Russia. See "*—Risks Relating to Russia and Other Countries of Operation – The current political and economic crisis in Ukraine and other events that led to the sanctions imposed by the U.S., the EU, Switzerland and Ukraine targeting Russia may have a material adverse effect on the Group*". The Group's management believes that the import restrictions introduced by Russia in response to the Ukraine-related sanctions together with the significant depreciation of the Rouble have facilitated growth in the Russian agricultural sector, and, consequently, higher domestic demand for fertilisers, which incentivised Russian fertiliser producers to enhance their manufacturing and sales efforts (for example, by growing their distribution networks) and resulted in increased competition in the domestic market. For example, in 2018, according to the Group's estimates (based on the Russian Association of Mineral Fertiliser Producers data), the annual fertiliser supply in Russia reached 8.1 million tonnes, which represents a 9.3 per cent. increase compared to 2017; and in 2017 the annual fertiliser supply in the domestic market reached 7.4 million tonnes, which represents a 10.6 per cent. increase compared to 2016.

Government policies which are currently beneficial for the Group in the countries where it operates could change in a manner adverse to the Group's business for a number of reasons, including:

- a change in the government;
- in the markets where the Group does not have local fertiliser production, a move towards more protectionist policies, including the imposition of trade barriers, to help local fertiliser producers;
- regulatory actions driven by the current geopolitical instability (see "— *Risks Relating to Russia and Other Countries of Operation – The current political and economic crisis in Ukraine and other events that led to the sanctions imposed by the U.S., the EU, Switzerland and Ukraine targeting Russia may have a material adverse effect on the Group*");
- a change in government policy adverse to the interests of Russia fertiliser producers perceived as connected with Russia;
- regulatory policies or measures designed to prefer other fertiliser products, increase competition in the fertiliser industry; and
- policies incentivising fertiliser consumers to rotate suppliers more frequently or maintain larger inventories of fertilisers.

A change in government policy due to these or other factors could result in a decrease in demand for and prices of fertilisers, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. See "— *An increase in existing trade barriers or the imposition of new trade barriers on the Group's exports from Russia could cause a significant decrease in the demand for the Group's products in certain markets*".

***An increase in existing trade barriers or the imposition of new trade barriers on the Group's products could cause a significant decrease in the demand for the Group's products in the affected markets***

The Group's products manufactured in Russia are subject to various trade barriers, such as anti-dumping duties and tariffs in Europe and other markets. As at 31 December 2018, based on the Group's management production reports, approximately 72 per cent. of the Group's fertiliser production capacity was located within Russia. These trade barriers affect the demand for the Group's products by effectively increasing the prices for those products compared to domestically available products. For example, in 2014, following the request of local fertiliser producers, the Ukrainian authorities introduced anti-dumping duties for ammonium nitrate supplied by Russian producers. The Group's product portfolio enabled it to continue sales to Ukrainian customers due to the availability of similar nitrate based products in the Group's product range, the export of which was not affected by the anti-dumping duties, thus maintaining the Group's market share and increasing sales in Ukraine despite the introduced anti-dumping duty. In May 2017, Ukrainian authorities implemented further anti-dumping measures relating to the import of nitrogen fertilisers from the Russian Federation. Pursuant to these measures, an anti-dumping duty of 31.84 per cent. was applied to urea and UAN products imported from Russia. Starting from October 2017, certain Group companies in Russia and Ukraine became subject to temporary suspension of foreign economic activities by authorities in Ukraine. In December 2017, the Ukrainian authorities imposed a complete ban on the import of granular ammonium nitrate (GAN), calcium ammonium nitrate (CAN) and ammonium sulphate (AS) of Russian origin effective from 1 March 2018 to the end of 2019 (subject to annual extension). In March 2018, the Ukrainian authorities also adopted a regulation imposing revised levels of an antidumping duty of 42.96 per cent. on imports of nitrate containing fertilisers with the nitrogen content exceeding 28 per cent. (i.e. AN, CAN, NPK). As a result, the Group had to take appropriate measures to allocate its products to alternative markets. In May 2018, the Group disposed of its distribution assets in Ukraine. There can be no assurance that any changes in the anti-dumping duties regime or an introduction of any similar measures in any jurisdiction will not have an adverse effect on the Group's operations in the future.

In June 2016, Turkey imposed restrictions on imports of AN, CAN and potassium nitrates (although, in 2017, restrictions on CAN were lifted). Because Turkey has traditionally been a large consumer of nitrates (its AN imports in 2015 exceeded 360 thousand tonnes according to International Fertiliser Association ("**IFA**")), such restrictions had an effect on Turkey's product mix, which resulted in Turkey becoming an exporter of AN in the global market competing with the Group's products. In the EU, following review in 2016 of alleged dumping practices in connection with AN imports from Russia, the European Commission concluded that Russian AN imports did not violate EU anti-dumping regulations and decided to terminate its investigation with a decision to effect no changes to anti-dumping duties against AN from Russia (currently set at EUR 41.42-47.07 per tonne). These duties effectively block the Group's products from the European market, and thus adversely affect the Group's sales. As part of another investigation, the EU Parliament and Council reached a preliminary resolution to limit the level of cadmium in phosphate fertilisers to 60 mg/kg $P_2O_5$. Although this measure is subject to the approval by MEPs and member states, should the new regulation come into force, it could have an adverse effect on the Group's sales of phosphate fertilisers with high cadmium content. The Chinese fertiliser industry continues to be adversely affected by the government's environmental regulations implemented at the end of 2016, which resulted in the closing or temporary suspension of operations of a number of environmentally unfriendly nitrogen and phosphate manufacturing facilities in China, reducing the average utilisation rate of Chinese urea production capacity to 50 per cent. In March 2017, the Chinese government revised its "zero growth fertiliser application" policy originally introduced in 2015 aiming to replace approximately 20 per cent. of chemical fertilisers used in China with organic fertilisers by 2020 in order to raise the organic content in soil. Such measures could negatively impact the demand for the Group's products in China. The Chinese Ministry of Finance removed almost all remaining export tariffs with effect from 1 January 2019, including, among others, those on SOP, NOP and NPK, which is likely to lead to higher exports of these products from China and, as a result, lead to higher competition in the global market.

An increase in existing trade barriers, or the imposition of new trade barriers, could cause a significant decrease in the supply by the Group of its products made in Russia to its principal export markets, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***A decline in demand for and prices of fertilisers due to developments affecting the agricultural industries in the Group's major markets could have a material adverse effect on the Group's business***

Between 2013 and 2016, adverse changes in the conditions of the agricultural industries in the Group's major markets have had, and may in the future have, a material adverse effect on the Group's business. The majority of fertiliser products are ultimately sold to growers; therefore, the Group's results of operations are significantly affected by trends and other factors that influence the agricultural market generally. Among others, the risks described below have affected, and could in the future affect, the agricultural markets.

*Adverse weather conditions*. The agricultural industry is heavily influenced by weather. Significant deviations from the usual weather patterns of a given region, variations in local climates or major weather-related disasters could reduce demand for the Group's fertilisers, particularly in the short term, if agricultural products or the land on which they grow are damaged or if such deviations, variations or disasters reduce the incomes of growers and thus their ability to purchase the Group's products. Adverse weather conditions could result in delays or intermittent disruptions during the planting and growing seasons, which may, in turn, cause agricultural customers to use different forms of fertiliser, because fertilisers may only be applied at specific times. Similarly, adverse weather conditions following harvest may delay or eliminate opportunities to apply fertiliser in the autumn, which is when fertilisers are typically applied in many areas. Weather can also affect crop yields, lowering the income of growers impairing their ability to purchase fertilisers.

*Adverse governmental agricultural policies.* Any changes in subsidies to growers or in other state support programmes may inhibit the growth of, or cause a decline in, the demand for fertiliser products. International treaties and agreements, including those made by the WTO, may also result in reductions in subsidies for agricultural products or in other adverse changes to state support programmes. Furthermore, governmental policies may regulate the amount of land that can be used for growing crops, the mix of crops planted or crop prices, any of which could have a material adverse effect on the demand for the Group's products. See "— *Changes in government policies could have a material adverse effect on demand for and prices of the Group's products*" above.

*Use of substitute products.* Replacement of fertiliser application with other products or techniques aimed at improving crop yield could result in a decline in fertiliser demand and prices. For example, genetically modified organisms ("**GMOs**"), which are organisms whose genetic material has been altered by genetic engineering, can be used to grow agricultural products that require less fertiliser application.

A decline or change in agricultural production in one or more of the Group's major markets due to these or other factors could result in decreased demand for and prices of the Group's fertilisers, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group is subject to mining risks***

The Group's mining operations are subject to the hazards and risks normally associated with the exploration and extraction of natural resources, any of which could result in material damage to, or the destruction of, mineral properties or production facilities, personal injury or death, environmental and natural resource damage, delays in mining operations and possible legal liability, any of which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. In particular, hazards or risks associated with the Group's open-pit mining operations include, without limitations:

- accidents associated with rock blasting operations and construction activities;
- collapses of mine walls in open pits or underground rooms;
- accidents associated with the operation of large mining and transportation equipment;
- falling of personnel into ore passes; and
- weather and other natural phenomena such as floods and seismic activity.

Hazards or risks associated with the Group's underground mine operations include, without limitations:

- cave-ins, ground falls or water inflows;
- collapses of shaft walls or mine structure;
- unusual or unexpected geological conditions including but not limited to such items as unknown faults, trapped gas pockets; and
- other accidents associated with drilling, blasting (open pit or underground) and removing and processing materials from underground mines.

In light of the Group's development of the Potash Projects through underground mining, following the partial commissioning of the Potash Projects and commencement of test production in 2018, the Group's exposure to underground mining operations has increased.

Any of these hazards could delay the commissioning of a mine, stop extraction and affect production, increase production costs and result in injury to, or death of, employees, contractors or other persons, damage to property and thus create liability for the Group. For example, in 2015, the cage shaft at VolgaKaliy Potash Project suffered a manageable water inflow as a result of a failure to discover certain unusual geological conditions not known or considered at the designing stage. Following the initial event, the Group developed an alternative plan to continue with mine development by utilising the other two skip shafts for the duties of skipping ore, lowering workers and equipment (cage) and horizontal development of the mine. This alternative development plan was pursued while the intensive grouting programme was implemented at the bottom of the cage shaft. Although the incident is not expected to significantly delay the continued implementation of the project, there can be no assurance that other similar incidents will not have a material adverse effect on this or the Group's other development projects. See "*Description of Business — Production — Mining Division — Potash Projects*".

Between 1 January 2016 and 31 December 2018, the Group experienced 154 work-related injuries, involving 118 employees and 36 contractors, including two incidents with employees in 2016 (one incident), 2017 (one incident) and 2018 (no incidents) and seven incidents with contractors in 2016 (one incident), 2017 (four incidents) and 2018 (two incidents), respectively that resulted in fatalities.

The occurrence of these events could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group is subject to numerous environmental, health and safety ("EHS") laws and regulations, including potential environmental liabilities, which may require it to make substantial expenditure or engage in clean-up and other activities***

The Group's operations and properties are subject to numerous national, regional and municipal EHS laws and regulations, including those related to health and safety as well as to emissions to air, water ways and soil; solid waste management; handling of hazardous substances; and land remediation. EHS laws and regulations are essentially complex and tend to become more stringent over the time. The scope, extent and speed of this change may vary substantially in different jurisdictions. Violation of these laws and regulations can result in substantial penalties, court orders to install pollution-control equipment, civil and criminal sanctions, permit revocations and unplanned facility shutdowns.

As a result, although the Group endeavours, and has implemented policies to ensure, its compliance with EHS laws and regulations, the Group has not always been and may not always be in compliance with all EHS laws and regulations. Additionally, future EHS laws and regulations, more vigorous enforcement of current laws and regulations, whether caused by violations of EHS laws and regulations by the Group or other chemical fertiliser companies or otherwise, and the EHS laws and regulations of jurisdictions outside of Russia in which the Group operates, including the EU, or to which the Group exports its products, may require the Group to make substantial expenditure, and its costs to comply with, or any liabilities under, these laws and regulations could have a material adverse effect on its business, financial condition, results of operations and prospects.

In particular, under the current EU, Russian and Kazakhstan environmental legislation, the Group must make payments for emissions into air and water ways, as well as for waste disposals that are within specified limits and to make increased payments for the emissions and waste disposals in excess of these limits. In particular, the Group is subject to the Russian environmental legislation that divides all production waste into five classes, depending on the hazardousness of the waste. Payments for waste-disposals, especially where large-volume wastes ("**LVW**") are concerned, may vary materially depending on the class of the waste. Due to the vague criteria of the waste classification, no assurance can be given that the LVW produced by the Group's operations will not be reclassified by the regulators as more hazardous waste. Such reclassification, as well as any changes in the existing regulations or their enforcement to increase emission-related payments could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The EHS legislation in Russia, China and Kazakhstan, where the Group has its main production facilities, is generally less stringently enforced than in the EU or the United States. Nonetheless, Russia's and Kazakhstan's EHS agencies have become more proactive in recent years in carrying out their regulatory functions. In addition, more stringent standards are being introduced and the enforcement is being increased.

Non-compliance with the EHS laws and regulations could result in actual costs and liabilities for which the Group has not provided or budgeted. Moreover, in the course of, or as a result of, EHS investigations, regulatory authorities could issue orders to reduce or cease production at facilities that have violated EHS standards, which could lead to a prolonged suspension of production. If production at one or more of the Group's facilities were to be partially or wholly interrupted as a result, it could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group may also become involved in claims, lawsuits and administrative proceedings relating to environmental matters ("**Environmental Claims**"). An adverse outcome of such Environmental Claims could include the imposition of civil or criminal liability on the Group or its officers.

***Accidents involving the Group's production facilities and/or products could cause severe damage or injury to human health, property, and the environment***

Because the fertilisers production involves handling of chemicals and other hazardous substances, the Group's business inherently faces risks of spills, explosions, fires, releases of hazardous substances into the environment and other accidents. The Group may become liable to employees and third parties for damages, including personal injury and property damage, resulting from these accidents. Moreover, certain environmental laws applicable to the Group impose strict liability, without regard to fault, for clean-up costs on persons who have disposed of or released hazardous substances into the environment. Given the nature of the Group's business, it has incurred, and may continue to incur in the future, environmental clean-up costs at its current or former facilities, adjacent or nearby third-party facilities or offsite disposal locations. Pollution risks and related clean-up costs are often difficult to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable. The costs associated with future clean-up activities may be significant, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group's Russian operations are dependent on a limited number of suppliers for electricity and natural gas and may be adversely affected by increases in energy prices or supply interruptions***

The Group's Russian operations depend on access to low cost natural gas and electricity. If any interruptions in electricity supply or failures in electricity grids were to occur, operations at some of the Group's production facilities could be interrupted or even suspended. The Group is dependent on third-party suppliers, including PJSC Rosneft Oil Company ("**Rosneft**"), which supplies natural gas to JSC Novomoskovskiy Azot ("**Novomoskovskiy Azot**"), the subsidiaries of PJSC "Gazprom" ("**Gazprom**"), PJSC Novatek ("**Novatek**") and, to a lesser extent, on the Saint-Petersburg International Mercantile Exchange (SPIMEX) at spot prices. Any discontinuation of access to low cost natural gas (due to Gazprom's dominant position in Russia), for example, limited pipeline access or for other reasons) and/or electricity, as well as disruptions in natural gas or electricity supply could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

For the year ended 31 December 2018, energy costs accounted for 5.4 per cent. of the Group's cost of sales. The two largest components of the Group's energy related expenses are electricity and natural gas. If the Group is required to pay higher prices for electricity in the future or is otherwise unable to reduce its energy costs, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The production of nitrogen fertilisers, which represents a substantial segment of the Group's business, is dependent on supplies of significant amounts of natural gas. For the year ended 31 December 2018, based on the Group's management production reports, the cost of natural gas supplies represented approximately 74 per cent. of the production costs of ammonia and approximately 52 per cent. and approximately 51 per cent. of the production costs of urea and UAN, respectively. In Russia, prices for gas sold by certain entities (such as, for example, Gazprom) are regulated by the Federal Anti-monopoly Service of the Russian Federation (the "**FAS**"). Although gas prices increased in the last few years, gas prices in Russia generally remain lower than in the European Union or the United States. However, this difference in gas prices may decrease in the future, thus, eliminating the Group's gas-related cost advantage.

Any interruption in the supply of energy and natural gas, increases in, or inability to achieve a decrease in, energy or natural gas costs could adversely affect the Group's future output and profitability, particularly if it is unable to pass on higher costs to its customers, thus affecting the Group's profitability. This could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group's capital expenditure programme is subject to various risks and uncertainties***

The Group's capital expenditure programme is subject to a variety of potential challenges and uncertainties, including delays in completion, cost overruns and/or defects in design or construction, any of which may require additional investments. The Group's capital expenditure programme may also be affected by changes in economic and market conditions, the worsening of which could result in a decrease in the economic viability of any given capital expenditure project. In addition, the Group relies to a significant degree on third-party contractors for the implementation of its mining and construction projects, such as Renaissance Heavy Industries LLC, US-30 and Maire Tecnimont S.p.A. If these third-party contractors fail to provide their services for any reasons, the Group could incur higher costs and expenses and experience construction delays.

For example, the Group's third-party general contractors (LLC Tecnimont Russia and Tecnimont SPA, which are a part of the Maire Tecnimont Group ("**Tecnimont**"), for the construction of the Group's ammonia production plant in Kingisepp, Russia), were unable to achieve a provisional acceptance of the plant by the contractually stipulated deadline of 25 August 2018. EuroChem Group AG, a sponsor of the project, entered into a Bonus Deed with Tecnimont to allocate additional financial resources to the work performed by the Tecnimont's subcontractor. If Tecnimont fails to achieve a provisional acceptance of the plant by 13 March 2019, the Group is likely to experience delays in the commissioning of the Kingisepp plant, face the possibility of engaging in a legal dispute with Tecnimont and incur additional expenses with respect to the project.

There can be no assurance that the Group will successfully implement its capital expenditure programme, either on time or on budget. If any or all major projects that constitute the Group's capital expenditure programme are not implemented according to schedule, or at all, the existing constraints that limit production volumes or those that can limit future growth will remain, the efficiency gains from modernising the existing production facilities and constructing the new facilities will not be achieved and any growth prospects based on the assumption that these projects are completed will not materialise, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's mining capital expenditure projects are subject to the completion of planned development on time and according to budget, and are dependent on the effective support of the Group's personnel, systems, procedures and controls. Mining equipment required for the mining capital expenditure projects may not be available in a timely manner due to high demand, insufficient supply or other reasons. There may also be a shortage of suitably qualified personnel for the implementation of the Group's mining capital expenditure projects. The occurrence of any such impediments to the successful completion of the Group's capital expenditure projects may result in delays in the completion of these projects, which could result in reduced extraction volumes at the Group's mines, which in turn could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group requires a significant amount of funding for its capital expenditure programme***

Fertiliser and other chemicals production, research and development and mining related activities are capital-intensive businesses. Since 2005, the Group has implemented a programme for the development of its Potash segment comprising of the Gremyachinskoe (Volgograd region; test production started in 2018) and Verkhnekamskoe (Perm region; test production started in 2018) potash deposits. In addition, in 2015, the Group commenced the construction of EuroChem Northwest ammonia plant in Kingisepp (Leningrad region), which is expected to be commissioned in 2019. The Group's Usolskiy Potash Project (Verkhnekamskoe potassium deposit) and EuroChem NorthWest projects have been partially financed through U.S.$750 million (repaid in 2018) and EUR557 million project finance facilities, respectively. See "*Operating and Financial Review — Capital Expenditure*". Other than project finance facilities, the Group relies on cash generated from its operations to provide the capital needed for its capital expenditure programme, however, there can be no assurance that the Group will be able to generate adequate cash from operations or that external financing, if necessary, will be available on reasonable terms, or at all. Financing markets have recently been volatile, particularly for Russian issuers, and the availability of funding is influenced both by general economic and market conditions and geopolitical factors, including sanctions. Also see "*Risks Relating to Russia and Other Countries of Operation - The majority of the Group's assets are located in emerging markets, which are subject to greater risks than the more developed markets", "Risks Relating to Russia and Other Countries of Operation - Deterioration of Russia's relations with other countries could negatively affect the Russian economy and those of the nearby regions"*.

In addition, capital investment programmes are subject to a variety of potential challenges and uncertainties, including delays in the completion of projects, cost overruns and defects in design or construction of projects, which may require additional investment. A failure or delay in the implementation of the Group's capital investment programme could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Since 2005, the Group has engaged in a strategic capital expenditure programme to significantly increase production capabilities, expand its product range and enhance the efficiency of production processes. During the years ended 31 December 2018, 2017 and 2016, the Group invested in capital expenditure projects (through contributions to property, plant and equipment, intangible assets and mineral rights) U.S.$1,111.4 million, U.S.$1,489.5 million and U.S.$1,340.4 million, respectively, of which sustaining capital expenditure amounted to U.S.$254.6 million, U.S.$225.6 million and U.S.$192.5 million, respectively. As at 31 December 2018, the Group had contractual commitments for capital expenditure of U.S.$499.1 million, which will represent cash outflows in the next five years according to the contractual terms. However, if the funds allocated by the Group to the capital expenditure projects are insufficient and additional financial resources are unavailable on commercially acceptable terms, the projects already commenced by the Group and new projects planned may be delayed or suspended, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group faces risks related to the development of its potash deposit licence areas***

The Group's VolgaKaliy Potash Project and Usolskiy Potash Project are subject to the completion of scheduled development goals and budgeted capital expenditure, and are dependent on the effective support of the Group's and its contractors' personnel, systems, procedures and controls. As at 31 December 2018, the Group had contributed an aggregate amount of U.S.$4.6 billion to both VolgaKaliy Potash Project and Usolskiy Potash Project. The development of the Potash Projects faces complex and significant risks and challenges in construction and mine development. For example, in 2015, the cage shaft at VolgaKaliy Potash Project suffered manageable water inflow. Following the water inflow event, the Group developed an alternative plan utilising the other two skip shafts while intensive grouting programme was being implemented at the cage shaft. See "*— The Group is subject to mining risks*".

Any further unplanned delays or interruptions in the development of the Group's mining projects, including those caused by unusual or unexpected geological conditions, could have a material adverse effect on the development timeline of the mining projects and could result in further operational delays, cost overruns, or failure to complete the projects.

Limited in-house experience in mining and lack of potash greenfield mine construction know-how in the global market may lead to higher costs due to the need to engage sub-contractors for planning and construction of mines and processing facilities or may lead to the failure to complete the Group's Potash Projects on time, or at all, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***Maintenance and repair work is a significant expense for the Group and may interrupt the Group's production processes***

A substantial part of the Group's production sites were originally commissioned between the 1930s and the 1970s. Partly as a result of age and normal wear and tear, a significant amount of capital expenditure is needed to support the existing production capacity and fund general maintenance and repair work for property, plant and equipment. During the years ended 31 December 2018, 2017 and 2016, maintenance and repair expenses amounted to U.S.$203.4 million, U.S.$213.9 million and U.S.$186.3 million, respectively. Although significant amounts have been spent already, and significant amounts are planned for the future, there can be no assurance that the actual expenditures required will not exceed the Group's projected expenditures, or that the Group will have sufficient financial resources to cover them. See "*Operating and Financial Review — Repairs and Maintenance*".

There can also be no assurance that the Group will not have to divert resources from its planned capital expenditure focused on growth, such as increases in production capacity and segments, to capital expenditure aimed at maintaining existing production capacity and this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. There can also be no assurance that the modernisation and improvement of the Group's facilities will be completed as originally planned or on schedule or that the expected improvements in production and product quality will be fully realised.

Maintenance and repair work can also interrupt the Group's production processes. The Group's production capacity is important to its business, particularly when demand for mineral fertiliser require production at higher levels of capacity. Any such interruptions could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group's substantial indebtedness or the enforcement of certain provisions of its financing arrangements could have a material adverse effect on the Group's operational and financial condition***

As at 31 December 2018, the Group had U.S.$4,243.2 million of borrowings (including bank borrowings and other loans received, project finance facilities and Russian and international bonds issued). Among other things, the Group's indebtedness could potentially

- limit its ability to fund its strategic capital expenditure programme;
- limit its ability to obtain additional financing;
- limit its flexibility in planning for, or reacting to, changes in the markets in which it competes;
- place it at a competitive disadvantage relative to its competitors with less indebtedness;
- render it more vulnerable to general adverse economic and industry conditions; and
- require it to dedicate all or a substantial part of its cash flow to service its debt.

The Group's ability to make payments on its indebtedness depends upon its ability to maintain its operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and other factors, many of which the Group cannot control. If the Group's cash flow generated from operating activities becomes insufficient to service its debt, the Group may be required to take certain actions, including delaying or reducing capital or other expenditure in an attempt to restructure or refinance its indebtedness, selling its investment property or other assets or seeking additional equity capital. The Group may be unable to take any of these actions on favourable terms or in a timely manner.

Furthermore, such actions may not be sufficient to allow the Group to service its debt obligations in full and, in any event, may have a material adverse effect on its business, financial condition, results of operations and prospects. The Group's inability to service its debt through internally generated cash flow or such other sources of liquidity may put it in default of its obligations to its creditors.

In addition, certain of the Group's material loan agreements, project finance facilities and Russian and international bonds include financial covenants, such as in relation to the level of financial indebtedness that can be incurred by the Group. See "*Operating and Financial Review — Indebtedness*". If the Group is unable to comply with these covenants in the future, it could be required to renegotiate the credit facilities, request waivers or replace them in order to prevent a default. There can be no assurance that the Group would be able to take any such action on terms that are acceptable to it, it at all. If the Group is unable to comply with the terms of its debt, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group is exposed to credit risks with respect to collection of trade and other receivables from its customers***

The Group is exposed to certain credit risks with respect to timely payments by its customers for products that the Group provides to them on extended payment terms. As the Group entered new markets (including such emerging markets as Brazil, Argentina, Hungary, Bulgaria and Turkey, among others) its sales, trade receivables continued to grow as well as its credit loss allowance increasing between 2016 and 2018.

While the Group has robust credit policies, if any of the Group's large customers to whom it sell products on extended credit terms face financial difficulties, including, but not limited to, fewer financial resources caused by any economic downturn or fiscal constraints or otherwise, the Group may be unable to receive full or partial payment of uncollected sums or enforce any judgment debts against such customers. In addition, if the Group's customers' financial condition deteriorates, it may need to make greater provisions for receivables.

If the Group fails to collect its past due trade receivables or if there is any event or change in circumstances that renders its trade receivables impaired or uncollectible, its business, financial condition, results of operations and prospects could be materially and adversely affected.

***Foreign currency translation may impact the Group's IFRS financial results and may make it harder to compare the Group's performance year over year***

The Group, like many large multinational companies, faces a mismatch of the currencies in which its revenues, costs, assets and liabilities are denominated. The functional currency of many of the Group's subsidiaries is the Rouble, and for some subsidiaries the functional currency is either Euro or Kazakh Tenge, whereas the presentation currency of the Consolidated Financial Statements is the U.S. dollar. When U.S. dollar appreciates against the Rouble, the U.S. dollar-denominated borrowings of subsidiaries are translated in their functional currency, thus producing a foreign exchange loss at the subsidiary level, which was then reflected in the Group's consolidated financial statements presented in U.S. dollars. At the same time, the subsidiaries' assets and liabilities are translated into U.S. dollars, resulting in a lower carrying value presented in U.S. dollars, with related translation effects reflected in accordance with IFRS in other comprehensive income in the Consolidated

Financial Statements. The Group reported a net financial foreign exchange loss of U.S.$162.1 million and a loss from changes in fair value of foreign exchange and cross currency derivatives entered into for the purpose of hedging financing and investing cash flows of U.S.$136.2 million for the year ended 31 December 2018, a net financial foreign exchange gain of U.S.$0.6 million and a gain from changes in fair value of foreign exchange and cross currency derivatives of U.S.$60.4 million for the year ended 31 December 2017 and a net financial foreign exchange gain of U.S.$148.9 million and a gain from changes in fair value of foreign exchange and cross currency derivatives of U.S. $48.3 million for the year ended 31 December 2016 on the statement of profit and loss *(*see *"Operating and Financial Review — Key Factors Affecting Results of Operations — Currency Fluctuations")*. Such gains and losses are not representative of the actual cash inflows or outflows of the Group.

During most of 2016 the Rouble depreciated against the U.S. dollar and in 2017 the Rouble appreciated against the U.S. dollar, while in 2018 the Rouble again depreciated against the U.S. dollar, compared to previous year. Further fluctuations in the value of the Rouble against the U.S. dollar could have a material adverse effect on the Group's business, results of operations or financial condition. In addition, presentation of currency fluctuations affects the Group's IFRS financial results and may make it more difficult for investors to compare the Group's performance on a year-to-year basis. See also "*Operating and Financial Review — Key Factors Affecting Results of Operations — Currency Fluctuations*".

***The Group faces interest rate risk***

The Group's principal interest rate risk arises from its floating rate long- and short-term borrowings and project finance. As at 31 December 2018, the Group's floating rate outstanding debt was U.S.$1,956.1 million (including project finance), which represented 46.1 per cent. of the Group's total indebtedness (including project finance). In 2018, 2017 and 2016, the Group did not hedge its floating rate indebtedness exposure using financial instruments to mitigate the impact of interest rate fluctuations. As a result, an increase in interest rates would increase the Group's interest payments, which could have a limited adverse effect on the Group's business, financial condition, results of operations and prospects.

***Estimates of the Group's reserves and resources are subject to uncertainties***

The estimates contained in this Prospectus concerning the Group's ore, natural gas and recoverable petroleum reserves and resources are subject to considerable uncertainties. The estimates stated according to the JORC Code are generally based on site visits of representatives of IMC Montan to the Group's mining operations, their review of statistical data, their discussions with the Group's management in 2009 on the current status and future plans of the Group and projected rates of extraction in the future. In particular, preparation of the estimates involves the analysis of the geological conditions and nature of the deposits, the review of historical and current methods of exploration and sampling, the assessment of the suitability and efficiency of the current and planned mining methods, the assessment of the suitability of the existing surface and underground infrastructure and the status and operating availability of the equipment and infrastructure facilities. This Prospectus contains reserves and resources estimates stated in accordance with the JORC Code, taken from official documents certified in compliance with the Russian Classification and the Kazakhstan Classification, all of which permit a number of assumptions to be made. However, as with all mineral deposits and resources, there is no certainty that the levels set out in the reserves reports will actually equal to the realised reserves, which could either exceed or fall below the projected level.

In addition, actual extraction results may also differ significantly from these estimates which can vary dependent on mining techniques and technology, geological characteristics of specific deposits, as well as mining rules and regulations. Furthermore, it may take many years from the exploration phase before extraction becomes feasible. During that time, the economic feasibility of exploiting a discovery may change as a result of changes in the market price of the relevant raw materials or the capital and operating costs of facility. The Group's ability to develop these reserves and resources is also subject to the Group's ability to maintain and renew the licences relating to those reserves and resources. To the extent that the actual reserves and resources are less than those estimated, or cannot be extracted cost effectively, or at all, the Group may incur a significant write-down of such assets and the Group's extraction operations may become disrupted and/or decrease and the Group's extraction costs for these raw materials may increase significantly, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group's reserves and resources are disclosed on a different basis than those disclosed in filings with the U.S. Securities and Exchange Commission in accordance with SEC Industry Guide 7 and include measured or indicated resources, which may never be classified as reserves***

The Group's reserve and resources estimates are disclosed on a different basis than those disclosed in registration statements and other documents filed with the U.S. Securities and Exchange Commission (the "**SEC**"). While the Group's reserves and resources estimates for its Kovdorskiy GOK, JSC ("**Kovdorskiy GOK**") phosphate mine, as well as Gremyachinskoe and Verkhnekamskoe potash deposits are disclosed according to the JORC Code, the Group's reserves and resources estimates for its hydrocarbon deposits in Russia are disclosed under the Russian Classification and for its phosphate ore deposit in Kazakhstan according to the Kazakhstan Classification. The disclosure rules and practices associated with JORC, the Russian and Kazakh reserves systems differ in several significant respects from SEC Industry Guide 7 ("**Guide 7**"), which governs disclosure of mineral reserves in registration statements and reports filed with the SEC. In particular, Guide 7 does not recognise classifications other than proved and probable reserves, and the SEC does not permit mining companies to disclose mineral resources in SEC filings. The reserve and resources estimates included in this Prospectus include measured and indicated resources under the JORC Code, the Russian Classification and the Kazakhstan Classification, which are generally not permitted in disclosure filed with the SEC. Under Guide 7, minerals may not be classified as a "reserve" unless the determination has been made that the minerals could be economically and legally produced or extracted at the time the reserve determination is made. There can be no assurance that all or any part of measured or indicated resources under the JORC Code, the Russian Classification or the Kazakhstan Classification, will ever be classified as reserves. Further, the reserves and resources estimates included in this Prospectus are as at the relevant dates specified and do not reflect production that has occurred at the relevant deposits since such dates.

***The Group faces risks associated with its growth strategy, including with respect to the acquisition opportunities and the successful integration of acquired assets***

The Group continues to grow organically in Russia and worldwide. In addition, the Group may continue to seek to acquire companies and/or other assets in the future. The Group's global marketing strategy is aimed at enlarging its distribution network in order to increase sales of its products (particularly as regards its premium products) directly to end consumers (rather than distributing commoditised products through third-party wholesale traders). In support of these strategic initiatives, the Group seeks to acquire local distributors or establish new distribution facilities in various markets worldwide. In the last several years, the Group acquired a number of businesses in different operating segments, including Fertilizantes Tocantins Ltda ("**Fertilizantes Tocantins**"), a Brazilian fertiliser distributor, and CJSC "Agrosphere", a Russian stevedoring company (subsequently merged into Murmansk Bulkcargo Terminal, LLC in 2017). To further develop its distribution channels in Eastern Europe, the Group established a distribution centre in Hungary in September 2016 and acquired distribution assets in Bulgaria in February 2017. It also engaged in joint ventures, such as phosphate fertilisers producer EuroChem Migao (JV) in China and drilling and geophysical logging operator Thyssen Schachtbau EuroChem Drilling LLC in Russia. It also agreed an equity investment in Agrinos AS, a global biological crop nutrition products producer. In August 2017, the Group acquired 100 per cent. of Emerger Fertilizantes S.A., a privately-owned distributor of premium and standard fertilisers in Argentina. In December 2017, the Group acquired 24.89 per cent. in Azottech, LLC, a company specialised in drilling and blasting operations and located in the Perm region, Russia. In January 2019, the Group increased its shareholding in Azottech, LLC to 74.99 per cent. There can be no assurance that these initiatives will be successful, or that they will not expose the Group to additional risks, including risks related to additional foreign currency exposure and credit risks related to the Group's customers. See, for example, "– *Foreign currency translation may impact the Group's IFRS financial results and may make it harder to compare the Group's performance year over year*".

Managing any such growth, whether organic or through acquisitions, may significantly strain the Group's managerial and operational resources. The Group's operational, administrative and financial resources may be inadequate to sustain the growth that the Group aims to achieve, and any such growth or acquisition may divert the management's attention and adversely affect the Group's operations during the expansion or integration process. As the Group grows, it would need to continue improving its operational and financial systems and managerial controls and procedures. However, there can be no assurance that the Group will be able to manage its growth and acquisitions effectively. Integration of new businesses may be difficult, as the Group's culture may differ from the culture of the businesses it acquires; cost-cutting measures may be required and control over cash flows and expenditures may be difficult to establish. In addition, difficulties may arise in retaining key employees crucial to the success of newly acquired businesses, achieving the financial and strategic goals of acquired businesses, taking advantage of full benefits of acquisitions, identifying the liabilities and other challenges of the acquired businesses. Managing growth and integrating acquisitions will also require close coordination among the Group's personnel.

If the Group is unable to manage its growth and expansion effectively, this could make the Group unable to achieve the intended objectives of an acquisition or investment, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group relies heavily on the Russian railroad network, and faces risks associated with the cost and availability of reliable rail transportation for its products and raw materials***

Railway transportation is the Group's principal means of transporting raw materials from third-party suppliers and Group companies to the Group's production facilities and, for transporting the Group's products to its customers, as well as to Russian ports and ports located in Estonia, Latvia and Lithuania for onward transportation overseas. Moreover, the Group's production facilities are located at considerable distances from most of the destination markets and ports. As a result, despite the fact that the Group operates its own rolling stock and a fleet of locomotives, the Group's operations heavily depend on the Russian railway system, railways of neighbouring countries and particularly on the rail freight network operated by OJSC Russian Railways ("**Russian Railways**"). Russian Railways is a state-owned monopoly company handling a significant majority of all railway freight in Russia. The Russian Government sets rail tariffs for freight services provided by the Russian Railways (which also serves as an important pricing benchmark for the rest of the market) and may further increase these tariffs as it has done in the past. In 2016, average railway tariffs for freight were increased by 10 per cent. With effect from 1 January 2017, average railway tariffs for freight increased by 6 per cent. In 2018, average railway tariffs for freight increased by 3.6 per cent. Past and future increases in railway tariffs for freight have resulted and will continue to result in significant increases in the Group's transportation costs. In the past, the Group has been able to pass to its customers most of the increases in railway transportation costs associated with the delivery of the Group's products to its domestic customers, however, there can be no assurance that the Group will be able to do so in the future. The Group is usually unable to pass to its customers increases in railway transportation costs associated with the delivery of raw materials to or between Group companies and the delivery of the Group's products to ports for onward transportation overseas to the Group's export customers. If railway transportation costs in Russia continue to rise without a matching increase in the Group's product prices, the Group's profit margins would decrease, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

While the Group owns and operates approximately 6 thousand rail cars and 47 locomotives, it also uses the Russian Railways' railway network (using the Russian Railways for provision of carriage services). Any material and prolonged disruption in the Russian Railways' railway network operations (whether due to operational or other reasons) could result in a disruption of the supply of the Group's raw materials and products and increased costs for the Group, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***Equipment failures or production curtailments or shutdowns could have a material adverse effect on production***

The Group's operations may be affected by equipment failures, including the risk of extraordinary losses due to unanticipated events, such as fires, explosions and adverse weather conditions. The manufacturing processes utilised by the Group rely on critical pieces of equipment, which may, on occasion, break down (or otherwise be out of service, for example, due to scheduled or unscheduled maintenance or repairs), which could result in prolonged suspension of relevant production operations and cause a reduction in production. Any interruption in production capacity may require significant and unanticipated capital expenditure to affect repairs, which could have a material adverse effect on the Group's profitability and cash flows. Although the Group has comprehensive property and business interruption insurance based on the replacement value of the assets, the recoveries that may be obtained in the future may not fully offset the lost revenues or increased costs resulting from operational disruption. A sustained disruption could also result in a loss of customers. For example, in 2016 the use of outdated equipment led to an explosion at the second line of methanol processing facility at Novomoskovskiy Azot. The explosion did not cause any casualties or material methanol production or supply interruption for the Group. As a result of the incident and due to the fact that this methanol production line was immaterial for the Group's business, the management decided to demolish the methanol facility. Any or all of these occurrences could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group is not insured against all potential losses and liabilities and could be materially adversely affected by the occurrence of certain uninsured events***

The Group's operations are subject to the risks inherent in the manufacturing, transportation, storage and distribution of hazardous chemical substances. These risks include explosions, fires, severe weather and natural disasters, train derailments, collisions, vessel groundings and other transportation and maritime incidents, leaks and ruptures involving storage tanks and pipelines, spills, discharges and releases of toxic or hazardous substances or gases, deliberate sabotage and terrorist incidents, mechanical failures, unscheduled downtime and other risks. Some of these hazards can cause bodily injury and loss of life, severe damage to or destruction of property and equipment and environmental damage, and they may result in suspension of operations and the imposition of civil or criminal penalties and liabilities. The Group has insurance coverage similar to that maintained by its industry peers and generally maintains all mandatory insurance and certain voluntary insurance. See "*Description of Business — Insurance*". Notwithstanding the insurance coverage that the Group carries, the occurrence of an event that causes losses in excess of limits specified under the relevant policy or is subject to material deductibles, or losses arising from events not covered by insurance policies, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group faces the risk of product liability claims and associated adverse publicity***

The processing of raw materials supplied by third parties and the production and sale of fertilisers, feed phosphates and other products of the Group entail an inherent risk of product liability claims and associated adverse publicity. Raw materials used by the Group may contain contaminants that may be inadvertently redistributed by the Group. These contaminants may, in certain cases, result in damage to property (including crops and livestock), and cause illness, injury or death. Distribution of contaminated products may lead to product liability claims asserted against the Group and/or require product recalls. There can be no assurance that such claims will not be asserted against the Group in the future, or that such recalls will not be necessary. The Group currently has a General Liability Insurance Programme covering, *inter alia*, product liability and third-party liability. However, if a product liability claim is filed, even if it is not successful or is not fully pursued, the negative publicity surrounding it could have a material adverse effect on the Group's reputation, its business, financial condition, results of operations and prospects.

***Acts of terrorism could have a material adverse effect on the Group's business***

As is the case with other companies with major industrial assets, the Group's plants, warehouses and ancillary facilities may be targets of terrorism. Many of these plants and facilities store significant quantities of ammonia and other hazardous substances. Any damage to infrastructure facilities, such as electricity generation, transmission and distribution facilities, or injury to employees, who could be direct targets or indirect casualties of an act of terrorism, may affect the Group's operations. Any disruption of the Group's ability to produce or distribute its products could result in a significant decrease in revenues and significant additional costs to replace, repair or insure its assets, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

In addition, due to concerns relating to terrorism or the potential use of certain fertilisers, acids and other chemical substances as explosives or poisonous materials, local, state and federal governments could implement new regulations restricting the operations of the Group's plants, warehouses, sale and other facilities or the transportation and use of fertilisers and other chemicals. These regulations could result in higher operating costs or limitations on the sale of the Group's products and could result in significant unanticipated costs and/or decrease in revenues or profitability, each of which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group may fail to fulfil the terms of its licences, permits, certificates or other authorisations, or fail to renew them on expiry, or there may be changes in licence requirements***

The Group's business depends on the continuing validity of its licences (including in respect of subsoil licences and associated licensing agreements), permits (including in respect of construction and maintenance), certificates and other authorisations (collectively, "**Licences**"), the issuance to it of new Licences and its compliance with the terms of its Licences.

With respect to mining, the Group's licences include subsoil licences for the Group's mining operations at Kovdorskiy GOK, Usolskiy Potash Project (Verkhnekamskoe potash deposit and Belopashinskiy potash deposit), VolgaKaliy Potash Project (Gremyachinskoe potash deposit as well Darganovskiy, Ravniniy, and East-Gremyachinskoe), EuroChem-Fertilizers LLP ("**EuroChem-Fertilizers**") mining operations (Araltobe, Kesik-Tobe and Gimmelfarbskoe phosphate rock deposits), Eurochem-Saratovkaliy (six licences for exploration and mining development), as well as the hydrocarbon licences for EuroChem-ONGK, Kamenkovskaya Oil and Gas Company (Kazakhstan) and Astrakhan Oil and Gas Company. Licences, together with the relevant pieces of applicable Russian and Kazakh legislation, contain various requirements that must be complied with in order to remain valid.

The competent licensing authorities exercise considerable discretion in monitoring licensees' compliance with the terms of Licences and in the timing of Licence issuance and renewal. Compliance with the requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Moreover, the acts and instructions of the licensing authorities and procedures by which Licences are issued are often inconsistent.

The licensing process may also be influenced by publicity, political pressure or other external factors that the Group is unable to control. In the case of subsoil licences, unsuccessful applicants may bring direct claims against the issuing authorities alleging that a given licence was issued in violation of applicable law or regulation. If successful, such claims may result in the revocation or invalidation of the affected licence. Accordingly, the Licences that the Group requires may be invalidated or may not be renewed in a timely manner and may involve restrictive or onerous conditions.

As part of its obligations under licensing regulations and the terms of its Licences, the Group is also required to comply with numerous industrial standards, maintain production levels, recruit qualified personnel, maintain necessary equipment and a system of quality control, monitor the Group's operations, maintain all appropriate filings and, upon request, submit appropriate information to licensing authorities that oversee its activities. In most cases, a Licence may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the Licence such as commencing subsoil production at the relevant site by a particular date. However, the Ministry of Natural Resources and Environment of the Russian Federation has not issued any interpretive guidance on the meaning of "significant" or "material" in this context. Court decisions on the meaning of these terms have been inconsistent and, under Russia's civil law system, are not binding as precedents for future cases. These uncertainties result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of licencees. As a result, while the Group seeks to comply with the terms of its Licences and believes that it is currently in compliance with the Licences in all material respects, there can be no assurance that its Licences will not be suspended or terminated if the licensing authorities in Russia, Lithuania (in relation to Lifosa), Belgium (in relation to EuroChem Antwerpen) and Kazakhstan (in relation to EuroChem-Fertilizers and Kamenkovskaya Oil and Gas Company) discover or otherwise allege a material violation of the terms of the Licences by the Group, in which case, the Group may be required to suspend its operations or to incur substantial costs in eliminating or remedying the violation, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Any or all of these factors could affect the Group's ability to obtain, maintain or renew necessary Licences. If the Group fails to comply with the requirements of applicable laws of Russia, Lithuania (in relation to Lifosa), Belgium (in relation to EuroChem Antwerpen) or Kazakhstan (in relation to EuroChem-Fertilizers), fails to meet the terms of its Licences, is unable to obtain, maintain or renew necessary Licences, or is only able to obtain or renew them with new material restrictions, it may have to cease conducting its business as it does now or otherwise alter its operations, and it could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Further, there can be no assurance that new local, state or federal licence requirements will not be introduced or that any given Licence will be deemed sufficient by the competent governmental authorities for the conduct of the Group's operations, nor can there be any assurance that the Group will be able to obtain the necessary Licences in the desired timeframe, or at all.

***The Group's subsidiaries in Russia are in many cases the largest employers in their respective regions, and as a result the Group may be limited in its ability to manage the size of its workforce***

The Group's subsidiaries are in many instances a significant or the largest employers in the towns in which they operate, such as Kovdorskiy GOK in the municipalities of Kovdor, Nevinnomysskiy Azot, OJSC ("**Nevinnomysskiy Azot**") in Nevinnomyssk and Phosphorite Industrial Group, LLC ("**Phosphorit**") in Kingisepp. The Group's ability to manage the headcount of its employees may be subject to political and social considerations, as well as regulatory restrictions relating to labour law. If the Group is unable to manage efficiently the size of its workforce, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Loss of the Group's senior management could have a material adverse effect on the Group's competitive position and future prospects***

The Group's ability to maintain its competitive position and to implement the Group's strategy is dependent to a large degree on the services of the Group's senior management team. The Group depends on its existing senior management for the implementation of the Group's strategy and management of day-to-day activities. In addition, the business and governmental connections of members of senior management are important to the Group's business. There can be no assurance that current senior management will continue to remain employed with the Group in the future. See "*Management and Directors—Overview of the governance structure of the Parent—CEO and the Management Board*".

In addition, competition in Russia for personnel with relevant expertise is intense due to the relatively small number of qualified individuals, which could have a material adverse effect on the Group's ability to retain existing senior management and attract additional qualified senior management. Therefore, the loss of, or the deterioration in the performance of, the Group's existing senior management or the Group's inability to attract, retain and motivate additional senior management personnel could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group's business may be affected by shortages of skilled labour or labour disputes***

Competition for skilled labour is intense in the Russian fertiliser industry. The demand for skilled engineers, technicians, chemical experts, mining and construction workers, and operators of specialised equipment continues to increase, reflecting the significant demand from other industries and public infrastructure projects. Further increases in demand for skilled labour are likely to lead to increases in labour costs, which may impact the Group's business.

A significant proportion of the Group's employees are members of trade unions. Large union representation subjects the Group's businesses to the threat of interruptions through strikes, lock-outs or delays in renegotiations of labour contracts. In addition, labour strikes or other disruptions due to labour disputes at companies acting as contractors for the Group could have a material adverse effect on the Group. There can be no assurance that such industrial actions will not occur. Any significant work slowdowns, stoppages or other labour-related developments could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group's operations in the EU may be subject to higher costs and greater regulation than its competitors with operations only outside the EU***

Many of the competitive advantages that the Group enjoys in Russia (such as lower gas prices) are not available to the Group in the EU to the same extent, if at all. Energy prices within EU countries are higher than prices in Russia. Should these continue to increase in the future, this could have a material adverse effect on the profitability of the Group's Western European operations.

In addition, operating in the EU increases environmental liabilities, labour costs and other expenditure compared to operating (such as, for example, with respect to $CO_2$ emissions) in the CIS. There can be no assurance that the EU will not impose new environmental regulations or that national environmental laws will not change in the future, in ways requiring the Group's Western European operations to adopt and implement more stringent and/or costly environmental and labour standards in the future. This could have a material adverse effect on the Group's operations within the EU.

***If the Group fails to adequately protect its intellectual property rights or faces a claim of intellectual property infringement by a third party, it could lose its property rights or be liable for significant damages, which could have a material adverse effect on the Group's business***

The Group relies primarily on a combination of patents, registered trademarks, licensing agreements and restrictions on disclosure to protect the Group's intellectual property. Despite this, there can be no assurance that a third party will not copy or otherwise obtain and use the Group's developed techniques, products, processes, brand names or other intellectual property without authorisation. Russia and Kazakhstan generally offer less intellectual property protection than some more developed market economies such as the EU or the United States. If the Group is unable to protect its proprietary rights against infringement or misappropriation, it could have a material adverse effect on its future financial results and the ability to develop the Group's business. In addition, the Group may need to engage in litigation in order to enforce the Group's intellectual property rights in the future or to determine the validity and scope of the rights of others. Any such litigation could result in substantial costs and diversion of management's time and other resources, either of which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***Deficiencies or ambiguities in privatisation and/or bankruptcy legislation could be exploited to challenge the Group's ownership of certain of the Group's production facilities***

The Group's business includes a number of privatised companies and assets acquired through bankruptcy proceedings, and it may seek to acquire additional companies that have been privatised or that have undergone bankruptcy proceedings. As privatisation legislation has been vague, internally inconsistent and in conflict with other laws, privatisations are generally vulnerable to legal challenge. In July 2005, the Russian statute of limitations for challenging privatisation transactions was reduced from ten to three years. It is, however, still unclear whether Russian courts will apply this shortened statute of limitation consistently. If the Group's privatised title to any of its assets is challenged and the Group is unable to defend against such challenge, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Certain of the Group's substantial assets, including manufacturing facilities of Phosphorit and EuroChem-Belorechenskie Minudobrenia, LLC ("**EuroChem-BMU**"), were acquired by the Group through a bankruptcy auction process. The regulations relating to Russian insolvency proceedings are complex and sometimes difficult to comply with. If any of such acquisitions were challenged as having been improperly conducted and EuroChem were unable to successfully defend its acquisition, this could lead to a loss of the Group's title to such assets, which would have a material adverse effect on its business, financial condition, results of operations and prospects.

**Risks Relating to Russia and Other Countries of Operation**

The majority of the Group's production assets are located in Russia, which is an emerging market. Investors in emerging markets should be aware that these markets are subject to greater risk than the more developed markets, including in some cases significant economic, political, social and legal risks. Investors should also note that emerging economies, such as Russia, are subject to rapid change and that the information set forth herein may become outdated relatively quickly.

***The majority of the Group's assets are located in emerging markets, which are subject to greater risks than the more developed markets***

As is the case for other large multinational companies, the Group sells its products throughout the world and produces them in many countries, which exposes it to a variety of risks associated with being a global business. The Group has production facilities in Russia, where a substantial number of its fixed assets are located, Kazakhstan, Lithuania, Belgium and China. Because a substantial part of the Group's assets are located in Russia, the Group has significant exposure to risks relating to the country. The Group's operations in other emerging markets, predominantly, sales and distribution operations, expose it to similar risks that are common to most emerging markets. Some of the emerging market countries, including Brazil, Greece, Hungary, Mexico and Turkey, in which the Group conducts operations through its distribution subsidiaries, have experienced and continue to experience political and social instability. Generally, investments in securities issued by companies operating in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. In particular, investors should be aware that emerging markets such as Russia and Kazakhstan are subject to greater risk than more developed markets, including significant political, economic and legal risks. Prospective investors should also note that emerging economies are subject to rapid change and that some or all of the information set out in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market tends to adversely affect prices in debt and equity markets of all emerging markets, as investors move their money to more stable, developed markets. In case of a global economic downturn, financial problems caused by the global economic slowdown and an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in emerging markets, resulting in an outflow of capital and an adverse effect on these economies. Similarly, decisions by central banks of developed economies, such as the U.S. Federal Reserve System, to increase their lending rates may have a negative impact on emerging markets, prompting investors to sell their assets in emerging countries to invest in such developed countries' securities and assets. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide whether, in light of those risks, their investment is appropriate.

As with any investment, there exists the risk of adverse political or regulatory developments, including, but not limited to, nationalisation, appropriation without fair compensation, terrorism, war or currency restrictions, which could have a material adverse effect on the Group's business, financial condition, results of operations and future prospects. This risk is compounded in certain countries where political instability has been an inherent part of the country's development.

***Political instability could adversely affect the Group's operations***

The Group sells its products throughout the world and produces them in a number of countries. The Group has production facilities in Russia, Kazakhstan, Lithuania, Belgium and China. There are a number of risks associated with operating in some of these countries, particularly in Russia, where most of the Group's fixed assets are located.

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial branches of government, which negatively impacted Russia's business and investment climate. Although the political situation in Russia has stabilised since 2000, future political instability could result in a worsening overall economic situation, including capital flight and a slowdown of investment and business activity. Any change in the Government or the Government's programme of reform in Russia or lack of consensus between the President, the Prime Minister, the Government, Russia's Parliament and powerful economic groups could lead to political instability and a deterioration in Russia's investment climate that might limit the ability of the Group to obtain financing in the international capital markets or otherwise have a material adverse effect on its business, financial condition, results of operations and prospects.

In addition, in the past, Russian authorities have prosecuted some Russian companies, their senior managers and their shareholders on tax evasion and related charges. In some cases, the result of such prosecutions has been the imposition of prison sentences for individuals and/or significant claims for unpaid taxes with respect to companies such as Yukos, TNK BP, Vimpelcom, Bashneft (acquired by Rosneft in 2016) and JSC Severstal ("**Severstal**"). Some analysts contend that such prosecutions demonstrate a willingness to reverse key political and economic reforms of the 1990s. Other analysts, however, believe that these prosecutions are isolated events that relate to the specific individuals and companies involved and do not signal any deviations from broader political and economic reforms or a wider programme of asset redistribution. Political, social and other conflicts create an uncertain operating environment that hinders the Group's long-term planning ability and could adversely affect the value of the Group's investments in Russia.

Future political instability could result in a worsening of the overall economic situation, including increased capital flight and a slowdown of investment and business activity. Future shifts in governmental policy and regulation in Russia also could lead to political instability and disrupt or reverse political, economic and regulatory reforms, which could have a material adverse effect on the value of investments relating to Russia and the Notes in particular, as well as on the Group's business, its ability to obtain financing in the international markets and its financial condition or prospects. Emerging markets such as Russia are also subject to heightened volatility resulting from political conflicts. Any recurrence of political instability or significant or recurring terrorist attacks may lead to a deterioration in Russia's investment climate and trading volatility, which could materially adversely affect the Group's ability to raise equity or debt capital in the international markets, as well as its business, financial condition, results of operations or prospects.

***Economic instability could adversely affect the value of the Group's investments***

The Group's results of operations are affected by economic conditions in general, and by state of economy in countries where the Group operates in particular. Most of the Group's production assets are located in Russia, the economy of which is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Over the last two decades, the Russian economy has experienced at various times:

- government intervention in the economy that has increased state-owned enterprise and reduced the ability of private enterprise to compete;
- significant volatility in gross domestic product;
- high inflation;
- volatility in prices of natural resources;
- persistently large black and grey-market economy;
- a volatile currency;
- a weak banking system and failures of a number of private banks, with periods of limited liquidity for Russian enterprises;
- high interest rates and unstable credit conditions;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- widespread tax evasion;
- high levels of capital flight;
- high levels of bureaucratic corruption and the penetration of organised crime into the economy;
- a weakly diversified economy, which depends significantly on global prices for raw materials;
- a major deterioration of and a lack of investment in physical infrastructure; and
- low personal income levels of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In the past few years, the Russian economy has been characterised by volatility in the debt and equity markets, which experienced significant declines in the second half of 2008, the second half of 2011, and again in 2014 through 2016. Between 2008 and 2016, the high degree of volatility and/or technical difficulties caused temporary suspensions of trading multiple times on the principal Russian securities exchanges, the Moscow Interbank Currency Exchange and Russian Trading System (which have since combined their operations as Open Joint Stock Company “Moscow Exchange MICEX-RTS”). The Russian economy has also been characterised by significant reductions in foreign investment and sharp decreases in gross domestic product (“**GDP**”). For example, in 2009, Russian GDP declined by 7.8 per cent. in real terms and, in 2015, by 3.7 per cent. according to Russian Federal State Statistics Service (“**Rosstat**”). In February 2017, the Russian Ministry of Economic Development reported that GDP decreased by 0.2 per cent. in 2016. In 2017, Russian GDP increased by 1.5 per cent. and remained at the same level for the nine months ended 30 September 2018.

Since Russia produces and exports large quantities of crude oil, natural gas, petroleum products and other commodities, the Russian economy is particularly vulnerable to fluctuations in oil and gas prices as well as other commodities prices, which historically have been subject to significant volatility over time, as illustrated by the recent decline in crude oil prices in 2014 and 2015. Russian banks, and the Russian economy generally, were adversely affected then by the global financial crisis, falling into a recession in 2015, which continued in 2016 (according to the Russian Ministry of Economic

Development and the International Finance Corporation). In an effort to mitigate the effects of the 2008 financial crisis, the Russian government implemented certain measures to assist with recovery of the Russian economy. However, there can be no assurance that such measures will be effective in the future at times of economic decline or instability.

Over the last decade, global markets have shown increased volatility due to continued macroeconomic challenges. Sovereign debt concerns in the Eurozone (in particular, with respect to Greece) and the UK referendum vote to leave the European Union have contributed to market volatility worldwide, creating uncertainties over the long-term Eurozone economic outlook, including mounting government deficits and continuing high levels of unemployment. The Russian economy remains vulnerable to further external shocks. Events occurring in one geographic or financial market sometimes result in an entire region or class of investments being disfavoured by international investors. Russia has been adversely affected by this in the past, and it is possible that the market for Russian investment, including the Notes, will be similarly affected in the future by negative economic or financial developments in other countries. There can be no assurance that recent economic volatility, or a future economic crisis, will not negatively affect investors’ confidence in the Russian markets or economy or in the ability of Russian companies to raise capital in the international markets, any of which, in turn, could have a material adverse effect on the Russian economy and the Group’s business, financial condition and results of operations.

Any deterioration of general economic conditions in Russia could have a material adverse effect on the Group’s business, financial condition, results of operations and credit ratings.

***Deterioration of Russia’s relations with other countries could negatively affect the Russian economy and those of the nearby regions.***

Over the past several years, Russia has been involved in conflicts, both economic and military, involving neighbouring and non-neighbouring states. This has resulted in the deterioration of Russia’s relations with other members of the international community, including the United States and various countries in Europe. Many of these jurisdictions are home to the financial institutions and corporations that are significant investors in Russia and whose investment strategies and decisions have been and may continue to be affected by such conflicts and by worsening relations between Russia and these states.

For example, relations between Ukraine and Russia, have at times been strained and resulted in military conflict. In February and March 2014, hostilities in eastern Ukraine broke out, and a referendum in Crimea was held, in both cases allegedly involving Russian military intervention. On 21 March 2014, President Putin signed legislation to recognise Crimea’s accession to, and its status as part of, Russia. Since then, there has been continuing military confrontation in eastern Ukraine, which the current Ukrainian government asserts is sustained by Russian military assistance. These events in Ukraine and Crimea have prompted condemnation by certain members of the international community and have been strongly opposed by the EU and the United States, with a resulting imposition of economic sanctions and otherwise material negative impact on their relationships with Russia. Also, Russia’s involvement in the armed conflict in Syria and its support of the government of Syria’s President Bashar al-Assad have further contributed to tensions with the U.S. and the EU (and certain other countries), which have considered the imposition of additional sanctions on Russia. Russian authorities have also been accused of using prohibited nerve agents in connection with attempted assassinations in the UK, as well as of activities that interfered with the conduct of the presidential elections in the U.S., with both events leading to impositions, and threats of further imposition, of additional sanctions. Russia’s relations with the U.S., UK, and a number of other European countries, have generally deteriorated during the past several years.

The emergence of new or escalated tensions between Russia and neighbouring states or other states could further negatively affect the Russian economy. This, in turn, may result in a general lack of confidence among international investors in the region’s economic and political stability and in Russian investments generally. Such lack of confidence may result in reduced liquidity, increased trading volatility and significant declines in the price of listed securities of companies with significant operations in Russia, and in the Group's inability to raise debt or equity capital in the international capital markets, which may affect its ability to achieve the level of growth to which it aspires and could otherwise have a material adverse effect on the Group's business, financial condition or results of operations.

***The current political and economic crisis in Ukraine and other events that led to the sanctions imposed by the U.S., the EU, Switzerland and Ukraine targeting Russia may have a material adverse effect on the Group***

Among other reasons, the Ukraine crisis, which began in late 2013 and remains ongoing, has caused a significant deterioration in Russia's relations with a number of countries based on their determination that the Russian Federation had violated Ukrainian sovereignty and territorial integrity by asserting governmental authority over Crimea in March 2014, and that Russia had undermined democratic processes and institutions and destabilised the situation in Ukraine.

Specifically, the United States, the European Union, Switzerland (where the Group conducts operations) and Ukraine, as well as other countries such as Australia, Canada and Norway, amongst others, have passed a variety of economic sanctions targeting certain Russian persons and Russian businesses. Among other things, these sanctions prohibit U.S. persons from engaging in transactions with persons and entities on the Specially Designated Nationals ("**SDNs**") List, while EU persons are prohibited from directly or indirectly providing funds or other economic resources to EU-designated persons. The assets of these designated persons and entities in the EU and United States are subject to asset freezes. In addition, designated individuals can be subject to travel bans. To date, a number of Russian government officials, businessmen and companies have been so designated.

The United States and EU have also implemented sectoral sanctions targeting certain sectors of the Russian economy, including Russia's oil and gas sector, banking institutions and defence companies (some of which are also on the SDN list). Sectoral sanctions relating to Russian oil and gas companies prohibit the provision of new debt financing (other than financing with short-term maturity of no more than 60 days under U.S. sanctions and no more than 30 days under EU sanctions) for sectorally sanctioned entities, including Rosneft, Gazprom Neft, Transneft and (under U.S. sanctions) Novatek, and their subsidiaries (under U.S. sanctions, any entity owned 50 per cent. or greater by one or more such sectorally sanctioned entities is also subject to the same sanctions as the parent), and engaging in transactions involving, or otherwise dealing in, such debt. In addition, U.S. sectoral sanctions prohibit the sale, export or re-export, or other provision of goods, services (except financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects that have the potential to produce oil anywhere in the world in which a Russian sectorally sanctioned entity holds 33 per cent. or more interest, including, among others, Rosneft, Gazprom Neft, Lukoil, and Surgutneftegas and their subsidiaries. U.S. export controls also prohibit exports of a broad range of U.S.-origin equipment and technology for use by any person in Russia or offshore Russia in oil exploration or production from deepwater, Arctic offshore, or shale resources. Similar EU sanctions impose prior authorisation requirements on exports of certain listed energy-related equipment and technology to entities in Russia or in any other country if such equipment is for use in Russia, and for the provision of technical assistance, brokering services, or financial assistance relating to such exports. Such authorisation will be denied if reasonable grounds exist to determine that the equipment or technology is destined for deep water oil exploration and production, arctic oil exploration or production and shale oil projects in Russia.

Sectoral sanctions targeting Russia's banking sector have been applied against some of Russia's largest banks (including VTB and Sberbank). Pursuant to these sectoral sanctions, EU and U.S. persons are prohibited from extending such banks or any company owned (50 per cent. or greater) by them or acting on their behalf, debt financing with a maturity exceeding 14 days (under U.S. sanctions) and 30 days (under EU sanctions) or dealing in their new equity issuances (under U.S. sanctions) or new transferable securities or money-market instruments (under EU sanctions) and providing related services.

Other sectoral sanctions target Russian military defence entities, dual use technologies and entities doing business in Crimea. All of these sectoral sanctions have had an adverse effect on the sanctioned entities and, expanding over time, also adversely affected the Russian economy in general, which in turn could have an adverse effect on the Group's operations.

In August 2017, the United States enacted the Countering America's Adversaries Through Sanctions Act ("**CAATSA**"). CAATSA, among other things, codified and expanded the sanctions previously imposed on Russian interests by the US sanctions regulators and authorised the Secretary of the Treasury to expand sectoral sanctions to state-owned companies operating in, for example, the railway sector of the Russian economy. In addition, CAATSA requires the U.S. President, subject to the ability to claim a national interest waiver, to impose certain secondary sanctions that were discretionary under the existing U.S. sanctions legislation (including, but not limited to, secondary sanctions for investing in or supporting special Russian crude oil projects and the facilitation of transactions on behalf of Russian SDNs); allows the U.S. President to introduce secondary sanctions on foreign persons (including those that invest in the construction or servicing of Russian energy export pipelines); and requires the U.S. President, subject to the ability to claim a national interest waiver, to impose asset-blocking and travel sanctions, including certain secondary sanctions, on any person who knowingly engages in significant activities that undermine the cybersecurity of any person or government, including a democratic institution, on behalf of the Russian government. If implemented, these sanctions may have a material adverse effect on the Russian financial markets and investment climate and the Russian economy generally.

CAATSA also requires the U.S. administration to submit various reports to the U.S. Congress, including a list of senior foreign political figures and oligarchs with ties to Russia (the "**Section 241 Report**"). Mr. Andrey Melnichenko, the beneficiary of the structures holding a 90 per cent. indirect interest in the Group, was included in the Section 241 Report dated 29 January 2018. Although inclusion of any person (or any family members of an individual categorised as such a person) affiliated with the Group, including Mr. Andrey Melnichenko, in the Section 241 Report does not automatically lead to the imposition of sanctions on such person or the Group, there is a risk that such sanctions could be imposed and the trading price of the Notes could be adversely affected.

The United States has already added a number of Russian individuals and companies to the SDN List, and additional sanctions may follow. On 6 April 2018, the U.S. Department of the Treasury's Office of Foreign Assets Control added 38 Russian businessmen, officials and entities to the SDN List. These new sanctions have had, and may continue to have, a significant impact on business dealings with the respective SDNs and the entities in which these SDNs have interests. Further, the sanctions may herald a new course of implementation and interpretation of U.S. sanctions targeting Russia due to the nature of the targets, the scope of prohibitions and the potentially unpredictable ramifications. It is currently unclear how long these sanctions will remain in place and whether further sanctions will be imposed.

In August 2018, under the Chemical and Biological Weapons Control and Warfare Elimination Act (the "**CBW Act**"), the U.S. Department of State introduced additional sanctions in response to Russia's alleged involvement in the poisoning of former Russian intelligence officer Sergei Skripal and his daughter Yulia in Salisbury, UK, in March 2018. The restrictions provided for a total ban on the supply of electronic devices and other dual-use products to Russia and set forth a 90-day deadline for Russia to provide assurances to the U.S. that it was no longer using chemical or biological weapons, would not do so in the future and would be willing to allow onsite inspections by observers from international organisations, failing which a second round of sanctions could be triggered. In November 2018, the U.S. Department of State declared its intention to impose such additional sanctions following Russia's alleged failure to provide the respective assurances. As at the date of this Prospectus, the scope and date of introduction of the second round of sanctions under the CBW Act remain unclear. If imposed, such sanctions may have an adverse impact on the Russian economy in general and thus may negatively affect the Group's operations. In October 2018, the EU also adopted a new sanctions regime to address the use and proliferation of chemical weapons, enabling the EU to impose travel bans and asset freezes on persons involved in the development and use of chemical weapons. In January 2019, the EU added the first 10 persons to the new sanctions list, including two persons allegedly involved in the Salisbury attacks.

Other governments have also imposed similar sanctions against Russian individuals and entities. In particular, Ukraine designated the following persons as sanctioned persons under Ukrainian law: (i) EuroChem, (ii) EuroChem Trading Rus, (iii) Nevinnomysskiy Azot, (iv) Novomoskovskiy Azot and (v) Mr. Andrey Melnichenko, freezing their assets located in Ukraine, restricting their ability to conduct business in Ukraine and prohibiting Ukrainian persons from engaging in dealings with them. In May 2018, the Group sold 100 per cent. stake in two subsidiaries within the Sales division, located in Ukraine, to third parties. In 2014, in response to the sanctions imposed on Russia by the U.S., EU and other countries, the Russian government prohibited the importation of certain goods and raw materials (including perishable goods such as meat, fish, dairy products, fruits and vegetables, amongst others) from the countries that had imposed sanctions. This set of Russian measures, known as the "counter-sanctions", was imposed pursuant to the Russian President's Order No. 560 "*On the Implication of Certain Economic Measures for the Purposes of Enhancing Security of the Russian Federation*" dated 6 August 2014 (as amended on 29 July 2015) and extending the initial duration of the counter-sanctions regime until 31 August 2017 (initial duration extended until 31 December 2019). Further, Russian Law "On Special Economic Measures" grants the President of Russia, acting only upon recommendation of the Russian Security Council, authority to both (i) impose restrictions or prohibit dealings with foreign states and/or foreign citizens and (ii) impose obligations to perform specific activities in furtherance of adopted economic measures. Whilst the Group does not believe that any of the counter-sanctions measures implemented to date have had any adverse effect on the Group's business, if Russia were to adopt further counter-sanctions measures or adopt any of the restrictive economic measures contemplated by the Law "On Special Economic Measures" with respect to the countries within which the Group currently operates or plans to operate in the future, it could adversely affect the Group's business.

Neither the Group's shareholders nor any individual or entity within the Group have been designated by either the United States or the EU as a specific target of their respective sanctions. Some entities within the Group are EU and U.S. persons and are therefore required to comply with EU and U.S. sanctions, respectively. None of the proceeds of the issue of the Notes will, to the extent permitted by applicable law, be used directly or indirectly to fund activities or persons that are subject to sanctions introduced by the U.S. and the EU. In the ordinary course of business, the Group has settlement accounts with Gazprombank and VTB, and transacts with Sberbank with regard to a number of banking products such as loans, credit lines, letters of credit, project finance and investment banking services. All transactions with these financial institutions are reviewed for sanctions compliance purposes. The majority of the Group's transactions with these banks are Rouble transfers limited to the Russian Federation, and thus are not in violation of any applicable sanctions. The Group also has a long-term gas supply agreement with Rosneft, which is also in compliance with current applicable sanctions.

Other Group entities that are neither U.S. nor EU persons conduct their business in compliance with U.S. and EU sanctions to the extent they are applicable. However, the Group cannot assure that compliance issues under applicable U.S. and/or EU regulations, measures or similar laws and regulations will not arise with respect to the Group or its personnel in the future. Non-compliance with U.S. or EU sanctions could result in, among other things, the inability of the relevant Group entities to contract with the U.S. and/or EU governments or their agencies, designations on relevant sanctions lists, civil or criminal liability of such entities and/or their personnel under U.S. and/or EU law, the imposition of significant fines and negative publicity and reputational damage. In addition, should the Group's dealings with sanctioned counterparties become prohibited by U.S. or EU sanctions, the Group's ability to transact with U.S. or EU persons could be affected, even though such dealings may comply with applicable law. As a result, the ability of members of the Group to raise funding from international financial institutions or the international capital markets may be restricted.

The sanctions imposed by the U.S. and the EU targeting Russia so far have had an adverse effect on the Russian economy, to which the Group is exposed significantly, prompting revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access international capital markets. The governments of the United States and certain EU member states, as well as certain EU officials, have indicated that they may consider additional sanctions in the future.

Further confrontation in Ukraine, in Syria or elsewhere and any escalation of related tensions between Russia and the U.S., the EU and/or Ukraine, the imposition of further sanctions, or continued uncertainty regarding their scope, could have a prolonged adverse impact on the Russian economy, global economic conditions and the Group's operations. This impact could be more severe and more wide-reaching than that experienced to date. In particular, should the U.S. or the EU expand their respective sanctions to include existing or future clients, suppliers or other counterparties of the Group, such an expansion could result in the Group's dealings with designated persons, if any, being materially adversely impacted, the suspension or potential curtailment of business operations between the Group and the designated persons could occur, and substantial legal and other compliance costs and risks on the Group's business operations could emerge. All of the above could have a material adverse impact on the Group's business, financial condition, results of operations or prospects.

Although the Group has no reason to believe that it (or any of its members) or its shareholders may be targeted by the U.S. or EU sanctions, if sanctions targeting the Russian fertilisers sector generally or the Group specifically are imposed, such sanctions will likely have a material adverse impact on the Group in a number of ways. In addition, the Group might become unable to deal with persons or entities bound by the relevant sanctions, including financial institutions and rating agencies, transact in U.S. dollars, raise funds from investors, or access international capital markets generally, use international settlement, clearing and/or information exchange systems, and/or the Group's existing funds might be blocked. In these circumstances, the Group could well be unable to effect payments to discharge any of its obligations under the Notes or Guarantees, which would constitute an event of default thereunder. In addition, investors in possession or control of the Notes, who are subject to the jurisdiction of any relevant sanctions regimes may be required to block those Notes and may be restricted in their ability to sell, transfer or otherwise deal in or receive distributions with respect to the Notes, which could make such Notes partially or completely illiquid and have a material adverse effect on their market value.

***Social risks and corruption could adversely affect the value of investments in Russia***

Emerging markets such as Russia are prone to social risks and increased lawlessness, including significant criminal activity. High levels of official corruption reportedly exist in certain locations where the Group conducts its business, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of government officials or certain individuals. Additionally, published reports indicate that a significant number of Russian media regularly publish biased articles in return for payment. In 2014, the Group was informed by its counterparty, a publicly-traded global producer of nitrogen-based fertilisers, that two senior managers of EuroChem, who were responsible for sales, had received concealed commission payments from such counterparty's trading subsidiary. Following an internal investigation, EuroChem identified a number of third-party trading companies that had been involved in similar payments to the Group's former managers primarily for preferential treatment in dealings with such trading companies. The Group has engaged international experts to ascertain losses caused to the Group. Based on their estimates, the managers' conduct has had no material adverse effect on the Group's business. Nevertheless, the Group has instituted a number of legal proceedings in various jurisdictions against the relevant former managers, their relatives involved in the scheme and companies under their control, as well as certain parties involved in effecting such payments. Corruption and other illegal activities could disrupt the Group's ability to conduct its business effectively, and claims that the Group was involved in corruption or illegal activities could generate negative publicity, either of which could harm the Group's business and financial position.

In addition, weakening economic conditions and turmoil in the financial markets in Russia may result in high unemployment or the failure of state or private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the cost of living and rising inflation. These conditions have led in the past to labour and social unrest that may reoccur in the future. Such labour and social unrest may have widespread political, social and economic consequences, such as increased support for a further consolidation of centralised authority and/or increased nationalism, with support for renationalisation of property or restrictions on foreign involvement in the Russian economy, and increased tension between the Russian government and its people. Any of these consequences could have a material adverse effect on confidence in Russia’s social environment and the value of investments in Russia and could disrupt normal business operations, any of which could materially adversely affect the Group’s business and financial condition.

***The Group may be affected by the relative underdevelopment of the physical infrastructure in emerging economies***

The physical infrastructure in emerging economies, including rail and road networks, airports, power generation and transmission, communication systems and building stock, is underdeveloped and has not been adequately funded and maintained. The poor condition or further deterioration of the physical infrastructure in the Russian Federation, Kazakhstan, China or any other country where the Group distributes its products may harm the national economy, disrupt access to communications, increase the cost of doing business or disrupt business operations, any or all of which could have a material adverse effect on the Group’s business, financial condition, results of operations and prospects.

***If Russia were to return to heavy and sustained inflation, the Group's results could be adversely affected***

During the period 2013-2018, the year-end consumer price index in Russia measured by Rosstat was 6.5 per cent. in 2013, 11.4 per cent. in 2014, 12.9 per cent. in 2015, 5.4 per cent. in 2016, 2.5 per cent. in 2017 and 4.3 per cent. in 2018. Although currently inflation remains at a low level, a return to heavy and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and the erosion of consumer confidence. Any of these events could lead to decreased demand for the Group's services and have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Russian banking system remains underdeveloped***

The regulation of Russia’s banking and financial systems is still developing, and Russian laws relating to banks and bank accounts are subject to varying interpretations and inconsistent application. There are currently a limited number of creditworthy Russian banks, most of which are headquartered in Moscow. Although the CBR has the mandate and authority to suspend banking licenses of insolvent banks, many insolvent banks still operate. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind internationally accepted norms. It has been reported that some banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. The imposition of more stringent regulations or interpretations could lead to weakened capital adequacy and the insolvency of some banks.

The serious deficiencies in the Russian banking sector, combined with the reported deterioration in the credit portfolios of Russian banks and the impact of current U.S. and EU sanctions imposed on Russia, may result in the banking sector being more susceptible to a worldwide credit market downturn and/or economic slowdown. In the autumn of 2008, the global financial crisis resulted in decreased liquidity in the Russian credit market and weakened the Russian financial system, as the majority of Russian banks experienced difficulties with funding on domestic and international markets, and interest rates increased significantly. Some of the banks were unable to service their obligations and were sold to larger banks. The lack of liquidity and the economic slowdown have raised the possibility of Russian corporate defaults and led to bank failures and downgrades of

Russian banks by credit rating agencies. More bank failures and rating downgrades may result in a crisis throughout the Russian banking sector. An extended banking crisis or the bankruptcy of a large number of Russian banks could have a material adverse effect on the Group's business and its ability to complete banking transactions in Russia.

The Group partially relies on debt financing from Russian banks. Accordingly, if a prolonged or serious banking crisis were to occur in Russia, its ability to access this source of financing may be limited, which in turn, could have a material adverse effect on the Group's business, results of operations or financial condition.

***There can be no assurance as to the completeness, reliability or accuracy of official data and statistics in this Prospectus***

The official data published by the Russian federal, regional and local government agencies are substantially less complete or reliable than those of some of the more developed countries of North America and Europe. Official statistics may also be produced on different bases than those used in those countries. The Group relies on and refers to information from various third-party sources and its own internal estimates. The Group believes that these sources and estimates are reliable, but it has not independently verified them and, to the extent that such sources or estimates are based on official data released by Russian federal, regional and local government agencies, they may be subject to the same uncertainty as the official data on which they are based. Any discussion of matters relating to Russia in this Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

**Risks Relating to the Legal Systems and Legislation**

***The on-going development in the legislation of countries in which the Group operates creates an uncertain environment for investment and for business activity***

Russia continues to develop the legal framework required for the proper functioning of a market economy. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the Constitution of the Russian Federation, by the Civil Code of the Russian Federation (the "**Civil Code**"), by other federal laws and by decrees, orders and regulations issued by the Russian President, the Russian government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap and contradict one another. The recent nature of much Russian legislation and the rapid evolution of the Russian legal system may cast doubt on the enforceability and underlying constitutionality of certain laws and result in ambiguities, inconsistencies and abnormalities. The following risks relating to the Russian legal system create uncertainties with respect to the legal and business decisions that the Group makes, many of which risks do not exist to the same extent in many countries with more developed market economies:

- inconsistencies among federal laws, the Russian constitution, decrees, orders and regulations issued by the President, the government, federal ministries and regulatory authorities and among regional and local laws, rules and regulations;
- a lack of judicial independence from political, social and commercial forces;
- alleged corruption within the judiciary and governmental authorities;
- limited judicial and administrative guidance on interpreting laws, including in relation to the binding effect of judicial precedents;
- the relative inexperience of judges and courts generally in interpreting legislation in accordance with principles established under new statutes, particularly in certain areas of business and corporate law, such as international financial transactions;

- substantial gaps in the regulatory structure due to the delay or absence of implementing regulations for certain legislation;
- governmental attempts to invalidate court decisions by backdating or retroactively applying relevant legislative changes;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions;
- understaffing and underfunding of Russian court systems;
- limited public availability of many court decisions;
- difficulties in enforcing both Russian and non-Russian court orders and international arbitration awards; and
- poorly developed bankruptcy procedures that are subject to abuse.

All of these factors make judicial decisions in Russia unpredictable and effective redress uncertain. Several fundamental Russian laws have only become effective within the past five to ten years. The recent nature of much of Russian law, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments put the enforceability and underlying constitutionality of certain laws in doubt and result in ambiguities and inconsistencies in their enforcement and interpretation. In addition, Russian legislation sometimes leaves substantial gaps in the regulatory infrastructure. These characteristics give rise to investment risks that do not exist in countries with more developed legal systems. Any of these weaknesses could affect the Group's ability to enforce its legal rights in Russia, including its rights under contracts, or to defend against claims made against the Group by others.

Moreover, it is uncertain whether the Group would be able to enforce its rights in disputes with any of its contractual counterparties. In addition, judgments rendered by a court in any jurisdiction outside Russia will be recognised by courts in Russia only if (i) an international treaty providing for the recognition and enforcement of judgments in civil cases exists between Russia and the country where the judgment is rendered, and/or (ii) a Russian federal law providing for the recognition and enforcement of foreign court judgment is adopted. No such federal law has been passed and no such treaty exists between Russia and many foreign countries, including the United Kingdom.

In the absence of established court practice, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce a foreign court judgment. Consequently, judgments against Russian subsidiaries of the Group and their officers or directors predicated upon the civil liability provisions of foreign securities laws may not be enforced against such subsidiaries of Group and such persons in the courts of Russia without re-examination of the issues in Russia whether they are brought in original actions or in actions to enforce judgments. Moreover, a Russian court may refuse or limit enforcement of a foreign judgment, *inter alia*, on public policy grounds. Additionally, court claims are often used to further political aims. The Group may be subject to these claims and may not be able to receive a fair hearing.

All of these weaknesses could have a material adverse effect on the Group's ability to enforce its rights or to defend itself against claims by others. These weaknesses could also hinder the Group's long-term planning efforts and create uncertainty, both of which could prevent the Group from effectively and efficiently running its business, which, in turn, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***Legislation to protect against nationalisation and expropriation may not be enforced in the event of a nationalisation or expropriation of the Group's assets***

Although the Russian Government has enacted legislation to protect property against expropriation and nationalisation and to provide for fair compensation to be paid if such events were to occur, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of state budgetary resources, the lack of an independent judicial system and sufficient mechanisms to enforce judgments, and corruption among Russian state officials. The concept of property rights is not well developed in Russia and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, the Group may not be able to obtain proper redress in the courts, and may not receive adequate compensation if, in the future, the Russian Government decides to nationalise or expropriate some or all of the Group's assets. While management considers that the Group's assets should not be subject to nationalisation or expropriation, any expropriation or nationalisation of any of the Group's assets without fair compensation may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***Unlawful or arbitrary government action in Russia could have a material adverse effect on the Group's business***

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes illegally. Moreover, the state also has the power in certain circumstances, by regulation or act, to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary state actions have included withdrawal of licences, sudden and unexpected tax audits, tax claims, criminal prosecutions and civil actions. Federal and local government entities have also used immaterial defects in matters relating to financing documentation as pretexts for court claims and other demands to invalidate such activities and/or to void transactions, often for political purposes. Unlawful or arbitrary state action, if directed at the Group's operations, could have a material adverse effect on its business, financial condition, results of operations and prospects.

***Russian bankruptcy law may be subject to inconsistent judicial application and, thus, there can be no assurance as to how claims by the Trustee on behalf of the Noteholders against EuroChem would be resolved in the event of EuroChem's bankruptcy***

Russian bankruptcy laws often differ from comparable laws in the United States and Western European countries and may be subject to varying interpretations. There is little precedent to predict how claims on behalf of the Noteholders or the Issuer against EuroChem would be resolved in the case of EuroChem's bankruptcy. In addition, under Russian law, EuroChem's obligations under the relevant guarantee would be subordinated in the event of its insolvency to the following obligations: claims related to the administration of insolvency proceedings, including salaries of personnel involved in insolvency proceedings, utility bills, legal expenses and other payments; claims statutorily preferred (including claims in tort for personal injury or death, claims under employment contracts and other social benefits and copyright claims); and secured claims. Any residual claims of secured creditors that remain unsatisfied after the sale of such collateral rank *pari passu* with claims of unsecured creditors.

***Russian courts may force a Russian legal entity into liquidation on the basis of non-compliance with certain formal requirements of Russian law.***

Certain provisions of Russian law may allow a Russian court to order the liquidation of a Russian legal entity on the basis of its non-compliance with certain formal requirements during formation of such entity or during its operation or reorganisation. In certain cases, a Russian legal entity may be liquidated by the registering state authority even without any court decision, provided that no objections to liquidation have been filed by the shareholders, creditors and other interested persons. Although no actions seeking liquidation of the Group's subsidiaries have been brought, the Group cannot guarantee that such actions will not be brought in the future.

***Findings or failure to comply with existing laws or regulations or the directives of government inspections, or unlawful or arbitrary government action, could result in substantial additional compliance costs or various sanctions, which could materially adversely affect the Group's business, financial condition or results of operations.***

The Group's operations and properties are subject to regulation by various Russian government entities and agencies. There can be no assurance that, in the future, the Group will not be subject to arbitrary domestic sanctions in connection with its operations. Russian authorities have the right to, and frequently do, conduct periodic inspections of the Group's operations and properties throughout the year. Any such future inspections may result in findings that the Group has violated laws, decrees or regulations, and the Group may be unable to refute such conclusions or remedy the violations in a timely manner or at all. Findings that the Group has failed to comply with existing laws or regulations or directives resulting from government inspections may result in the imposition of fines or penalties, or more severe sanctions, including the requirement that the Group cease certain of its business activities or criminal and administrative penalties applicable to the Group or its officers. Any such decisions, requirements or sanctions, or any increase in the governmental regulation of the Group's operations, could increase the Group's costs and materially adversely affect its business, financial condition or results of operations.

***If deficiencies or ambiguities in Russian legislation are successfully exploited to challenge the Group's ownership of its subsidiaries, the Group could lose such ownership interest.***

Under Russian law, transfers of shares and other ownership interests may be invalidated on various grounds, including, among others, that a transferor does not have the right to dispose of such shares or interests or that the transfer violates rules governing interested-party or other transactions. As a result, actual or alleged legal defects in prior transfers of interests in the Group's subsidiaries could affect the Group's title to interests in them.

Although no actions challenging any transfers of equity interests in the Group's subsidiaries have been brought to date, the Group cannot guarantee that such actions will not be brought in the future. Furthermore, notwithstanding the fact that the statute of limitations for challenging transactions under current Russian law is three years, there can be no assurance that a longer statute of limitations will not be retrospectively implemented. In the event that any transactions underlying the ownership of the Group's subsidiaries are successfully challenged, the Group could lose all or part of its ownership interest in these companies, which would materially adversely affect its business, financial condition and results of operations.

**Risks Relating to the Russian Taxation System**

***The Russian taxation system is relatively underdeveloped***

The Russian Government is continually reforming the tax system by redrafting parts of the Tax Code of the Russian Federation (the "**Russian Tax Code**"). Since 1 January 2009, the corporate profits tax rate has been 20 per cent. For individuals who are tax residents in the Russian Federation the current personal income tax rate applicable to the most types of income is 13 per cent. Since 1 January 2019, the general rate of VAT has been increased to 20 per cent.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. In accordance with the Constitution of the Russian Federation, laws that introduce new taxes or worsen a taxpayer's position cannot be applied retrospectively. Nonetheless, there have been several instances when such laws have been introduced and applied retrospectively.

There is a possibility that the Russian Federation could impose arbitrary or onerous taxes and penalties in the future. For instance, legislatures of the Russian Federation regions are currently empowered to provide wide-ranging incentives such as reduced income tax rates for business units operating within a region's territory. However, the federal government of the Russian Federation has recently initiated legislative amendments aimed at reducing region-level authority to stipulate such preferential taxation. Thus, a reduction of the corporate profits tax rate at the regional level will be available solely for targeted types of taxpayers, defined at the federal level. The present reduced regional profits tax rates will remain in effect until 1 January 2023 (at the latest). These conditions complicate tax planning and related business decisions. The consequent uncertainties could also expose the Group to significant fines and penalties and potentially severe enforcement measures despite the Group's best efforts at compliance, and could result in a greater than expected tax burden. This, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Generally, taxpayers are subject to tax audit for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit was taken. In certain circumstances, repeated tax audits (i.e. audits with respect to the same taxes and the same periods) are possible. Generally, the statute of limitations for a tax offence is three years after the date on which the tax offence was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). Nevertheless, according to the Russian Tax Code and based on current judicial interpretation, there may be cases where the statute of limitations for tax offences may extend beyond three years.

Tax audits or inspections may result in additional costs to the Group, in particular if the relevant tax authorities conclude that the Group did not satisfy its tax obligations in any given year. Such audits or inspections may also impose additional burdens on the Group by diverting the attention of management.

In October 2006, the Plenum of the Supreme Arbitrazh Court of the Russian Federation issued a resolution concerning judicial practice with respect to unjustified tax benefits. In this context, a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction in the tax base, the receipt of a tax deduction or tax concession or the application of a lower tax rate or the receipt of a right to a refund (offset) or reimbursement of tax. The resolution provides that where the true economic intent of business operations is inconsistent with the manner in which it has been taken into account for tax purposes, a tax benefit may be deemed to be unjustified. The same conclusion may apply when an operation lacks a reasonable economic or business rationale. As a result, a tax benefit cannot be regarded as a business objective in its own right. On the other hand, the fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unjustified. Moreover, there are no rules and little case law applicable to distinguishing between lawful tax optimisation and tax avoidance or evasion. The tax authorities have actively sought to apply the resolution of the Supreme Arbitrazh Court when challenging tax positions taken by taxpayers in court, and are expected to extend its application in the future. Although the intention of this resolution is to combat tax abuses, in practice there can be no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitrazh Court.

The above approach was further developed in amendments to the Russian Tax Code, which became effective on 19 August 2017. The amendments introduce the new Article 54.1 to the Russian Tax Code, limiting activities aimed at reducing the amount of taxes payable. Under those provisions, a taxpayer may not reduce the tax base and/or the amount of tax payable by misrepresenting information on economic events or the objects of taxation which are required to be disclosed in a taxpayer's tax and/or accounting records or tax statements. A taxpayer has the right to reduce the tax base and/or the amount of taxes payable, provided that the following conditions are met: (i) it is not the principal objective of a transaction to cause an amount of tax not to be paid or to be refunded, or (ii) the obligation arising from a transaction was performed by a person who is a party to the contract concluded with the taxpayer and/or a person to whom such obligation was transferred by contract or law. The following circumstances do not on their own constitute grounds for regarding a tax benefit as unjustified: (i) if primary documents were signed by unidentified or unauthorised persons, (ii) if a taxpayer's counterparty violated the tax law or (iii) if the same economic result could have been obtained through other transactions.

As a result of these rules, it is possible that despite the best efforts of the Group to comply with Russian tax laws and regulations, certain transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than expected tax burden, exposure to significant fines and penalties and potentially severe enforcement measures for the Group.

Recent developments show that the Russian tax authorities are scrutinising various tax planning and mitigation techniques used by taxpayers, including international tax planning. In particular, the Russian Federation introduced "controlled foreign company" ("**CFC**") rules, the concept of "tax residency for an organisation" and the "beneficial ownership" concept, and is increasingly engaged in the international exchange of tax and financial information (including through country-by-country reporting standards and common reporting standards developed and approved by the Organisation for Economic Co-operation and Development (the "**OECD**")). In 2017, the Russian Federation signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS ("**MLI**") implementing a series of tax treaty measures to update international tax rules and lessen the opportunity for tax avoidance (effective from 1 July 2018 based on the information from the OECD website http://www.oecd.org).

It is currently unclear how the Russian tax authorities will interpret and apply the new tax provisions and what will be the possible impact on the Group. Therefore, it cannot be excluded that the Group might be subject to additional tax liabilities because these changes are applied to transactions carried out by the Group.

Furthermore, Russian tax legislation is consistently becoming more sophisticated. It is possible that new revenue-raising measures could be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. No assurance can be given that no additional tax exposures will arise for the Group.

All the aforesaid evolving tax conditions create tax risks in the Russian Federation that are greater than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks impose additional burdens and costs on the Group's operations, including management's resources. Furthermore, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could materially adversely affect the Group's business, results of operations, financial condition, its ability to service its payment obligations under the Guarantee and the Issuer's ability to make payments under, or the trading price, of the Notes.

***Russian transfer pricing rules may subject the Group's transfer prices to challenge by the Russian tax authorities***

The Russian transfer pricing legislation allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to "controlled" transactions. The list of "controlled" transactions under the transfer pricing legislation includes transactions performed with related parties and certain types of cross-border transactions with unrelated parties. Starting from January 2019, transactions between related parties are no longer "controlled" if both related parties are located in Russia and apply the same corporate profits tax rate (i.e. 20 per cent.); this is a positive development. This legislation also shifts the burden of proving market prices from the Russian tax authorities to the taxpayer. Although Russian transfer pricing rules were modelled based on the transfer pricing principles developed by the OECD, there are some peculiarities as to how the OECD transfer pricing principles are reflected in the Russian rules. Special transfer pricing rules continue to apply to transactions with securities and derivatives.

Accordingly, due to uncertainties in the interpretation of the Russian transfer pricing legislation and undeveloped court practice, no assurance can be given that the Russian tax authorities will not challenge the Group's prices and make adjustments which could adversely affect the Group's tax position. The Russian transfer pricing rules could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Payments under the Guarantee made by EuroChem may be subject to Russian withholding tax or Russian personal income tax, as applicable***

Payments following enforcement of the Guarantee to be made by EuroChem to non-resident Noteholders relating to interest on the Notes are likely to be characterised as Russian-source income. Accordingly, there is a risk that such payments may be subject to withholding tax at a rate of 20 per cent. in the event that a payment under the Guarantee is made to a non-resident Noteholder that is a legal entity or organisation which in each case is not organised under Russian law and which holds the Notes otherwise than through a permanent establishment in the Russian Federation. In the event a payment under the Guarantee is made to a non-resident individual, there is a risk that such payment may be subject to personal income tax at a rate of 30 per cent. If tax is not withheld at source by EuroChem which is a Russian legal entity, non-resident Noteholders that are individuals may be obliged to pay Russian personal income tax on their own on the basis of a personal income tax return. Such tax, if it arises, would not be in any way indemnified by the Issuer and/or the Guarantors. We cannot offer any assurance that such withholding tax would not be imposed on the full amount of the payment under the Guarantee, including with respect to the principal amount of the Notes. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See "*Taxation — The Russian Federation*".

Under the gross-up provisions for the Notes, if payments made under the Guarantee are subject to any withholding taxes for any reason (as a result of which EuroChem would be obliged to reduce the payments to be made under the Guarantee by the amount of such taxes to be withheld), EuroChem is required to increase the payments as necessary so that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. It is unclear whether a tax gross-up clause such as that contained in this Prospectus is enforceable in the Russian Federation. There is a risk that the tax gross-up for withholding tax will not take place and that the full amount of the payments made by EuroChem, will be reduced by Russian withholding income tax at a rate of 20 per cent. (or 30 per cent. in respect of individual Noteholders). See *"Taxation — The Russian Federation"*.

***Tax might be withheld on disposals of the Notes in the Russian Federation, thereby reducing their value***

If a non-resident Noteholder that is a legal entity or organisation, which in each case is not organised under Russian law and which holds and disposes of the Notes otherwise than through a permanent establishment in Russia, sells the Notes and receives proceeds from a source within the Russian Federation, there is a risk that any part of the payment that represents accrued interest may be subject to a 20 per cent. Russian withholding tax (even if a disposal is performed at a loss). The foreign Noteholder may be entitled to a reduction of such Russian withholding tax under an applicable double tax treaty.

Where proceeds from a disposal of the Notes are received from a source within the Russian Federation by a non-resident Noteholder that is an individual, there is a risk that Russian withholding tax would be charged (or such Noteholder would be required to pay Russian personal income tax on a self-assessment basis) at a rate of 30 per cent. on gross proceeds from such disposal of the Notes less any available documented costs (including the acquisition cost of the Notes).

Such tax may be reduced or eliminated under an applicable double tax treaty, subject to compliance with the treaty clearance formalities.

Obtaining a refund of taxes withheld can be extremely difficult, if not impossible. The imposition or possibility of imposition of the withholding tax could adversely affect the value of the Notes. See "*Taxation — The Russian Federation*".

***Payments under the Notes may be subject to Russian withholding tax***

Payments made by the Issuer under the Notes may be subject to Russian withholding tax if the Issuer is treated as a Russian tax resident or if the Issuer's activities lead to creation of a permanent establishment for the Issuer in the Russian Federation. In these cases payments of interest under the Notes made by the Issuer to the Non-Resident Noteholders could be recognised by Russian tax authorities as subject to Russian withholding tax at a rate of 20 per cent. (or 30 per cent. in respect of Individual Non-Resident Noteholders).

However, the Russian Tax Code provides an exemption from the obligation to withhold tax from interest paid by a Russian organisation to Legal Entity Non-Resident Noteholders under the "quoted bonds" issued in accordance with the legislation of a foreign jurisdiction (this exemption is also applicable to foreign organisations, which are either recognised as Russian tax residents, or recognised as organisations, the activities of which lead to the creation of a permanent establishment in the Russian Federation). Based on the professional advice received, the Issuer believes that the Notes should be recognised as "quoted bonds" for the purposes of the Russian Tax Code. For details, see "*Taxation — The Russian Federation*".

Based on the professional advice received, the Issuer believes that it should be released from the obligation to withhold Russian withholding tax from interest payments made to the Legal Entity Non-Resident Noteholders under the Notes provided that the Notes continue to be recognised as "quoted bonds" for the purposes of the Russian Tax Code as outlined above.

If the Issuer's activities lead to the creation of a permanent establishment for the Issuer in the Russian Federation, the payments under the Notes (including interest and principal amounts under the Notes) made by the Issuer to Individual Non-Resident Noteholders less any available cost deduction could be subject to Russian taxation at a rate of 30 per cent. subject to any available double tax treaty relief (for details see "*Taxation — The Russian Federation — Double Tax Treaty Relief*").

Also, if the Issuer is treated as a Russian tax resident, or if the Issuer's activities lead to the creation of a permanent establishment in the Russian Federation, the Issuer will be fully subject to all applicable Russian taxes in accordance with the Russian tax law and will be exposed to all of the risks and implications associated with the Russian tax system. Such Russian tax consequences could have a material adverse effect on the Issuer's business, financial condition and results of operations and the Issuer's ability to make payments under, or the trading price, of the Notes.

**Risks Related to Changes in Tax Law**

***OECD Action Plan on Base Erosion and Profit Shifting***

Fiscal and taxation policy and practice is constantly evolving and recently the pace of change has increased due to a number of developments. In particular, a number of changes in law and practice are occurring as a result of OECD Base Erosion and Profit Shifting project ("**BEPS**"). Investors should note that certain action points which form part of the OECD BEPS project (such as Action 4, which may deny deductions for financing costs, see the risk factor entitled "*EU Anti-Tax Avoidance Directive*" below or Action 6 on the prevention of treaty abuse) may be implemented in a manner which affects the tax position of the Issuer.

***EU Anti-Tax Avoidance Directive***

As part of its anti-tax avoidance package, and to provide a framework for a harmonised implementation of a number of the BEPS conclusions across the EU, the EU Council adopted Council Directive (EU) 2016/1164 (the "**Anti-Tax Avoidance Directive**") on 12 July 2016.

The EU Council adopted Council Directive (EU) 2017/952 (the "**Anti-Tax Avoidance Directive 2**") on 29 May 2017, amending the Anti-Tax Avoidance Directive, to provide for minimum standards for counteracting hybrid mismatches involving EU member states and third countries.

EU member states must implement the Anti-Tax Avoidance Directive by the end of 2019 (subject to derogations for EU member states which have equivalent measures in their domestic law) and have until 31 December 2019 to implement the Anti-Tax Avoidance Directive 2 (except for measures relating to reverse hybrid mismatches, which must be implemented by 31 December 2021).

The Directives contain various measures that could, depending on their implementation in Ireland, potentially result in certain payments made by the Issuer ceasing to be fully deductible. This could increase the Issuer's liability to tax and reduce the amounts available for payments on the Notes.

There are two measures of particular relevance.

Firstly, the Anti-Tax Avoidance Directive provides for an "interest limitation rule" which restricts the deductible interest of an entity to 30 per cent. of its earnings before interest, tax, depreciation and amortisation. However, the interest limitation only applies to the net borrowing costs of an entity (being the amount by which its borrowing costs exceed its taxable interest revenues and other economically equivalent taxable revenues).

Secondly, the Anti-Tax Avoidance Directive (as amended by the Anti-Tax Avoidance Directive 2) provides for hybrid mismatch rules. These rules are designed to neutralise arrangements where amounts are deductible from the income of one entity but are not deductible for another, or the same amounts are deductible for two entities. These rules could potentially apply to the Issuer where: (i) the interest that it pays under the Notes, and claims deductions from its taxable income for, is not brought into account as taxable income by the relevant Noteholder, either because of the characterisation of the Notes, or the payments made under them, or because of the nature of the Noteholder itself; and (ii) the mismatch arises between associated enterprises, between the Issuer and an associated enterprise or under a structured arrangement.

The exact scope of these two measures, and impact on the Issuer's tax position, will depend on the implementation of the measures in Ireland.

**Risks Related to the Issuer**

***The Issuer is subject to risks related to the location of its centre of main interest, the appointment of examiners and the claims of preferred creditors under Irish Law***

*COMI*

The Issuer has its registered office in Ireland. Under Regulation (EU) No. 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings (recast) (the "**Recast EU Insolvency Regulation**"), the Issuer's centre of main interest ("**COMI**") is presumed to be the place of its registered office (i.e. Ireland) in the absence of proof to the contrary and provided that the Issuer did not move its registered office within the 3 months prior to a request to open insolvency proceedings.

As the Issuer's COMI is presumed to be Ireland, any main insolvency proceedings in respect of the Issuer would fall within the jurisdiction of the courts of Ireland. As to what might constitute "proof to the contrary" regarding the location of a company's COMI, the key decision is that in Re Eurofood IFSC Ltd ([2004] 4 IR 370 (Irish High Court); [2006] IESC 41 (Irish Supreme Court); [2006] Ch 508; ECJ Case C-341/04 (European Court of Justice)), given in respect of the equivalent provision in the previous EU Insolvency Regulation (Regulation (EC) No. 1346/2000). In that case, on a reference from the Irish Supreme Court, the European Court of Justice concluded that "factors which are both objective and ascertainable by third parties" would be needed to demonstrate that a company's actual situation is different from that which the location of its registered office is deemed to reflect.

As the Issuer has its registered office in Ireland, has Irish directors, is registered for tax in Ireland and has retained an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut the presumption that its COMI is located in Ireland, although this would ultimately be a matter for the relevant court to decide based on the circumstances existing at the time when it was asked to make that decision. If the Issuer's COMI was found to be in another EU jurisdiction and not in Ireland, main insolvency proceedings would be opened in that jurisdiction instead.

*Preferred Creditors*

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular, under Irish law, the claims of unsecured creditors of the Issuer rank behind other creditors (including fees, costs and expenses of any examiner appointed, certain capital gains tax liabilities and claims of the Irish Revenue Commissioners for certain unpaid taxes).

*Examinership*

Examinership is a court moratorium/protection procedure which is available under Irish company law to facilitate the survival of Irish companies in financial difficulties. Where a company, which has its COMI in Ireland is, or is likely to be, unable to pay its debts an examiner may be appointed on a petition to the relevant Irish court under Section 509 of the Companies Act 2014. The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances a negative pledge given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the relevant Irish Court when a minimum of one class of creditors, whose interests are impaired under the proposals, has (i) voted in favour of the proposals and (ii) the relevant Irish Court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and (iii) whose interests would be impaired by implementation of the scheme of arrangement and the proposals are not unfairly prejudicial to any interested party.

If an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

- the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership;
- a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views;
- the examiner may set aside any negative pledge in the Notes prohibiting the creation of security or the incurring of borrowings by the Issuer to enable the examiner to borrow to fund the Issuer during the protection period;

- in the event that a scheme of arrangement is not approved and the Issuer subsequently goes into liquidation, both the examiner's and liquidator's remuneration and expenses (including certain borrowings incurred by the examiner on behalf of the Issuer and approved by the relevant Irish Court) will take priority over the monies and liabilities which from time to time are or may become due, owing or payable by the Issuer to the Noteholders under the Notes or the transaction documents in connection therewith;
- while a company is under the protection of the Court, no action can be taken to enforce guarantees against persons who have guaranteed the debts of the company. Whether this prohibition under Irish law would be effective in the pursuit of a foreign guarantee is a matter of the governing law of the guarantee and/or the guarantor's residence; and

where a creditor receives notice of a meeting of creditors convened by the examiner to consider and vote on his proposals for a scheme of arrangement and that creditor's debt is guaranteed by a third party, then the creditor must, within very tight deadlines, offer the guarantor the opportunity to attend and vote at the meeting in place of the creditor. If this offer is not made in writing within the statutory time period, the creditor loses its right to pursue the guarantor pursuant to the guarantee.

**Risks Related to the Notes**

***The Group's shareholders may have interests that have an adverse impact on the Group and the Noteholders***

A company that holds business interests beneficially for Mr. Andrey Melnichenko indirectly owns 90 per cent. of the Parent, the remaining 10 per cent. of the Parent is indirectly owned by the company that holds business interests beneficially for Mr. Dmitry Strezhnev, a member of the board of directors of the Parent.

As such, these companies exercise significant control over the Group. While the Group believes that it adheres to best corporate governance practices and that the interests of such companies will remain consistent with those of the Group, there can be no assurance that such interests will always be consistent or that their rights will be exercised for the Group's benefit or for the benefit of the Noteholders. See "*Related Party Transactions*".

***The Issuer's or the respective Guarantor's ability to fulfil its obligations under the Notes or the Guarantee is dependent on the Group***

The Issuer is a wholly owned subsidiary of the Parent and will use the net proceeds from the issuance of the Notes to finance the purchase of the 2020 Notes and the 2021 Notes tendered and accepted for purchase in accordance with the terms and conditions of the Tender Offer that is expected to be settled on or about 15 March 2019. (see "*Use of Proceeds*").

The Issuer has insufficient net assets, other than amounts due to it from the Group in respect of any inter-Group loans, to meet its obligations to pay interest and other amounts payable in respect of the Notes. The Issuer would, therefore, in the absence of other funding sources, have to rely on the Group providing sufficient funds to meet such obligations.

The Guarantors' ability to make payments under the Guarantees depends upon payments to them from their respective subsidiaries. Although the Guarantors control their subsidiaries as the majority shareholders, these subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Guarantees or to make any funds available for these purposes, whether by dividends, loans, distributions or other payments, and do not guarantee the payment of interest on, or principal of, the Notes.

***The Notes contain a non-petition provision relating to the Issuer***

The Notes contain a non-petition provision which prevents the Noteholders from (i) instituting against the Issuer any bankruptcy or similar insolvency proceedings under any applicable bankruptcy or similar law and (ii) having any recourse against any director or officer of the Issuer, in each case in connection with any obligations of the Issuer under the Notes (except in the case of fraud, wilful default or negligence). As a result, although the Noteholders will be able to prove in an insolvency of the Issuer initiated by another person, the Noteholders' ability to recover against the assets of the Issuer or its directors is more limited as a consequence of these provisions.

***The Issuer or, as the case may be, the Guarantors may be unable to redeem the Notes at maturity or redeem the Notes early upon the occurrence of certain events set forth in the Terms and Conditions of the Notes***

At the time of maturity, the Issuer or, as the case may be, the Guarantors may not have the funds to fulfil their respective obligations under the Notes or the Guarantees and may not be able to arrange for additional financing. Furthermore, if the maturity date of the Notes occurs at a time when other arrangements prohibit the Issuer or, as the case may be, the Guarantors from redeeming the Notes, the Issuer or, as the case may be, the Guarantors would try to obtain waivers of such prohibitions from the lenders under those arrangements, or the Issuer or, as the case may be, the Guarantors could attempt to refinance the borrowings that contain the restrictions. If the Issuer or, as the case may be, the Guarantors were unable to obtain the requisite waivers or refinance these borrowings, the Issuer or, as the case may be, the Guarantors would be unable to redeem the Notes.

***Credit rating***

Outstanding Eurobonds of the Russian Federation are rated "Ba1" by Moody's, "BBB-" by Standard & Poor's Credit Market Services Europe Limited, a division of the McGraw Hill Companies Inc. ("**S&P**") and "BBB-" by Fitch. The Parent has a long-term rating of "BB" (stable) assigned by Fitch, "Ba2 (stable)" by Moody's and a long-term rating of "BB-" (positive) assigned by S&P. The Notes are expected to be rated "BB" by Fitch and "Ba3" by Moody's. Each of S&P and Fitch are established in the European Community and registered under the CRA Regulation. Moody's is not established in the European Union, has not applied for registration under the CRA Regulation and is not included in the list of registered credit rating agencies published on the website of European Securities and Markets Authority. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Any change in the credit rating of the Issuer, EuroChem, the Notes or the Russian Federation could adversely affect the trading price for the Notes.

***Payments under the Guarantees are structurally subordinated to existing indebtedness of the respective Guarantor's subsidiaries, and these subsidiaries may incur further such indebtedness in the future***

The Guarantees are structurally subordinated to the existing obligations of the Guarantors' subsidiaries. In addition, subject to certain limitations set forth in the Terms and Conditions of the Notes, the Guarantors and their respective subsidiaries may be able to incur substantial additional debt in the future, including debt that may be secured or structurally senior to the Guarantees. Any such additional debt incurred by the Guarantors' subsidiaries may be structurally senior to the obligations of the Guarantors under the Guarantees. Secured indebtedness of the Guarantors or any of their respective subsidiaries may also rank effectively senior to the obligations of the Guarantors under the Guarantees. The incurrence of additional indebtedness by the Guarantors, including secured indebtedness, may have a material adverse effect on the value of an investment in the Notes.

***The Terms and Conditions of the Notes do not restrict the Group from incurring Non-recourse Project Financing***

The Terms and Conditions of the Notes contain certain restrictions limiting the Group's flexibility in operating its business. Such restrictions limit its ability to, *inter alia*, create liens, borrow moneys, sell or otherwise dispose of assets and engage in mergers. However, the Terms and Conditions of the Notes do not place any restrictions on the Group's ability to incur Non-recourse Project Financing. Therefore, the Group will be able to incur Non-recourse Project Financing even in circumstances where (i) the Group would be unable to meet its obligations under the Consolidated Net Debt to Consolidated EBITDA ratio or (ii) it would result in a Potential Event of Default or Event of Default occurring or continuing, in each case, on a pro-forma basis. See "*Terms and Conditions of the Notes — Covenants — Limitation on Consolidated Total Debt*". Terms defined in this risk factor have the meanings given to them in the Terms and Conditions of the Notes.

***There is no active trading market for the Notes***

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Guarantors. Although application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on its regulated market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

***Modification, waivers and substitution***

The Trust Deed contains provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders which did not attend and vote at the relevant meeting and Noteholders which voted in a manner contrary to the majority. The Terms and Conditions of the Notes provide that the Trustee may, subject to the provisions of the Trust Deed, without the consent of Noteholders, agree to: (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed; or (ii) determine without the consent of the Noteholders that any event which would, or might otherwise give rise to a right of acceleration under the Notes shall not be treated as such; or (iii) the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes, all as more fully described in Condition 12 (*Meetings of Noteholders, Modification and Waiver*) of the Terms and Conditions of the Notes.

***The market price of the Notes may be volatile***

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's own, and the Group's competitors', operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors. In addition, in recent years, the global financial markets have experienced significant price and volume fluctuations which, if repeated, could adversely affect the market price of the Notes without regard to the Group's business, results of operations, financial condition or prospects.

***The Notes may be redeemed prior to maturity***

In the event that the Issuer (or if the Guarantees were called, a Guarantor) would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Switzerland, the Russian Federation, Ireland or, as the case may be, the applicable jurisdiction for any of the Issuer or the Guarantors if different from aforementioned, or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem the Notes, in whole but in part.

The Issuer may at its option redeem the Notes in whole, but not in part, at any time prior to the Maturity Date but on one occasion only, on giving not less than 25 and not more than 60 days irrevocable notice to the Noteholders, at a price equal to the aggregate of the principal amount thereof, plus the Make Whole Premium (as defined in the "*Terms and Conditions of the Notes*" herein), together with any accrued and unpaid interest and additional amounts (if any) to (but excluding) the date of redemption, as described under "*Terms and Conditions of the Notes*". The Notes are also subject to redemption, in whole or in part, at their principal amount, together with any accrued and unpaid interest and additional amounts (if any), at the option of the Issuer at any time on or after the date three months prior to the Maturity Date. See "*Terms and Conditions of the Notes — Optional Redemption at Par*".

***The Notes may not be a suitable investment for all investors***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

***The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited***

Except in limited circumstances, the Notes will be issued only in global form, with interests therein held through the facilities of Euroclear, Clearstream, Luxembourg and/or DTC. Ownership of beneficial interests in the Notes is shown on, and the transfer of that ownership is effected only through, records maintained by Euroclear, Clearstream, Luxembourg and/or DTC or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear, Clearstream, Luxembourg and/or DTC can only act on behalf of their participants, which, in turn, act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear, Clearstream, Luxembourg and/or DTC systems may be impaired.

***Enforcement under the Guarantee***

The Parent is organised in Switzerland and EuroChem is organised in the Russian Federation. All of the Guarantors' assets are located outside the United Kingdom, and most of the members of the Guarantors' boards of directors are resident outside of the United Kingdom. As a result, an arbitral award or a court decision taken against a Guarantor under the Guarantee, if any, may have to be enforced in Switzerland or in the Russian Federation, as the case may be, which may be a time consuming and costly procedure.

***The Prospectus does not contain separate single company accounts for each of the Guarantors***

Although item 11.1 of Annex IX of Commission Regulation (EC) No. 809/2004 requires that the Prospectus include separate single company accounts for each of the Guarantors, the Issuer has submitted a request to the Central Bank for the omission of such single company accounts of

EuroChem from the Prospectus, and the Central Bank has granted such omission request. The Prospectus includes the Group's audited consolidated financial statements as at and for the year ended 31 December 2018 and as at and for the year ended 31 December 2017, which consolidate the financial information of the Issuer and each Guarantor.

## ENFORCEABILITY OF CIVIL LIABILITIES

EuroChem is a joint stock company incorporated under the laws of the Russian Federation and the Parent is a corporation under the laws of Switzerland. The majority of assets of EuroChem and the Parent are currently located outside the United Kingdom and the United States. In addition, the majority of the directors and executive officers of EuroChem and the Parent are residents of countries other than the United Kingdom and the United States. As a result, it may not be possible for investors to (i) effect service of process within the United Kingdom or the United States on EuroChem, the Parent or on any of the directors or executive officers of EuroChem and the Parent named in this Prospectus; or (ii) enforce, in courts located within the United Kingdom or the United States, judgments obtained in courts in jurisdictions located outside the United Kingdom and the United States against EuroChem, the Parent or any of the directors or executive officers of EuroChem and the Parent in any action.

In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom and the United States, liabilities predicated upon English law or U.S. securities laws.

### Russian Federation

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognised by courts in Russia only if: (i) an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered; and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments. No such treaty exists between Russia, on the one hand, and the United Kingdom or the United States, on the other hand, for the reciprocal enforcement of foreign court judgments. Even if there were such a treaty, Russian courts could nevertheless refuse to recognise and enforce a foreign court judgment on the grounds set forth in such treaty and in Russian law in effect on the date which such recognition or enforcement is sought. Moreover, Russia has adopted no such law.

The Terms and Conditions of the Notes and the Trust Deed are governed by English Law. The Issuer, EuroChem and the Parent have agreed that any dispute or difference arising from or in connection with the Guarantees shall be settled by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**LCIA**"). The Russian Federation is a party to the 1958 United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Consequently, a foreign arbitral award obtained in a state which is party to that convention generally should be recognised and enforced by a Russian court (subject to the qualifications provided for in the convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation).

The Arbitrazh Procedural Code of the Russian Federation (the "**Arbitrazh Procedural Code**") sets out the procedure for the recognition and enforcement of foreign arbitral awards by Russian courts. The Arbitrazh Procedural Code also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the New York Convention.

The Arbitrazh Procedural Code and other Russian procedural legislation could change, and other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international conventions and treaties may meet with resistance or relative inexperience or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the LCIA Rules and the application of English law to the Notes and the Trust Deed may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies.

**Switzerland**

A final and conclusive judgment in civil or commercial matters of a competent court or authority in the United Kingdom or in the United States, respectively, will be recognized and enforced by Swiss courts against an individual or a legal entity with legal domicile or seat in Switzerland (such as the Parent) pursuant to and to the extent provided by the multilateral Convention of 30 October 2007 on Jurisdiction and the Recognition and Enforcement of Judgements in Civil and Commercial Matters (the "**Lugano Convention**") (in case of a judgment of a competent court or authority in the United Kingdom) or articles 25 *et seqq*. of the Swiss Federal Act on Private International Law ("**PILA**") (in case of a judgment of a competent court or authority in the United States). A final award of an arbitral tribunal pursuant to arbitration proceedings in accordance with the LCIA rules would be recognised and enforced by Swiss courts pursuant to and to the extent provided by the New York Convention.

Enforcement of a final and conclusive judgement of a competent court in the United Kingdom or the United States or a final award of an arbitral tribunal, respectively, may be limited by general principles of Swiss public policy (*Schweizerischer Ordre public*), as provided in article 17 and article 18 PILA, article 34 and article 35 Lugano Convention and the New York Convention, respectively. Enforcement of a judgement or an arbitral award may furthermore be limited by general principles of law, and insolvency, reorganisation, liquidation, moratorium or other similar laws restricting creditors' rights in enforcement and similar proceedings as such laws would apply in the event of an insolvency, or other similar proceedings with respect to the Parent or in the event of any moratorium or similar occurrence affecting the Parent.

Under Swiss law, any amount denominated in a foreign currency and ordered to be paid pursuant to a final judgment will be enforced by Swiss debt collection authorities (*Schweizerische Zwangsvollstreckungsbehörden*) and must be converted into Swiss Francs.

Due to the nature of enforcement proceedings in Switzerland, no statement can be made as to the time required to obtain recognition and enforcement of a judgment in Switzerland.

Judicial documents may not be served directly from abroad on a person in Switzerland (see Switzerland's reservation to the Hague Convention on Service Abroad of Judicial or Extra Judicial Documents in Civil and Commercial Matters concluded on 15 November 1965) and service must be effected by way of judicial assistance.

# PRESENTATION OF FINANCIAL AND OTHER INFORMATION

## Presentation of Financial Information

The financial information set out in this Prospectus with respect to the Group has, except where expressly stated otherwise, and subject to rounding, been derived from the consolidated financial statements of the Group, which were prepared in accordance with IFRS and comply with Swiss law.

The consolidated financial information of the Group set out in this Prospectus, as at and for the years ended 31 December 2018 and 2017, and as at 31 December 2016, has been derived or calculated based on, except where noted otherwise from the audited consolidated financial statements of the Group as at and for the year ended 31 December 2018 (the "**2018 Financial Statements**"). The consolidated financial information of the Group set out in this Prospectus for the year ended 31 December 2016 has been derived from or calculated based on, except where noted otherwise, the audited consolidated financial statements of the Group as at and for the year ended 31 December 2017, included in this Prospectus (the "**2017 Financial Statements**", and together with the 2018 Financial Statements, the "**Consolidated Financial Statements**"). The Consolidated Financial Statements, together with the related independent auditor's reports, are set forth elsewhere in this Prospectus.

Effective 1 January 2018, the Group changed its accounting policy for transportation expenses which are being capitalised as part of inventory until the moment of sale. As a result of this change in policy, transportation expenses for the years ended 31 December 2018 and 2017 were presented consistently on a new basis, and therefore are not directly comparable to transportation expenses as reported for the year ended 31 December 2016. The Group also adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. See "*Operating and Financial Review—Adoption of new IFRS Standards and changes in applying accounting policies*".

## Non-IFRS Measures

### *General*

This Prospectus includes certain financial measures that are not measures of performance or liquidity specifically defined by IFRS. These include EBITDA, EBITDA margin, gross profit margin, operating profit margin, net profit margin, net debt, net working capital, after-tax cash return on capital employed and gross cash flow. The non-IFRS measures disclosed in this Prospectus are unaudited supplementary measures of the Group's performance and liquidity that are not required by, or presented in accordance with, IFRS. Non-IFRS measures should not be considered as an alternative to the measures determined in accordance with IFRS.

The Group defines EBITDA as profit or loss before taxation adjusted for depreciation and amortisation, provision for impairment and write-off of idle property, plant and equipment, gain on sale of associate, loss from disposal of subsidiaries, non-recurring expenses, interest expense, financial foreign exchange gain or loss, other financial gain or loss, net and non-controlling interests ("**EBITDA**") and EBITDA margin as EBITDA divided by sales and expressed as a percentage.

Although EBITDA is not a measure of operating income, operating performance or liquidity derived in accordance with IFRS, the Group has presented this measure in this Prospectus because it understands that similarly titled measures may be used by some investors and analysts. The Group's EBITDA should not, however, be considered in isolation or as a substitute for profit before tax, or for cash flows from operating activities as determined in accordance with IFRS, or as an indicator of operating performance, or as a measure of discretionary cash available to the Group to invest in the growth of its business. EBITDA and EBITDA margin disclosed in this Prospectus may not be comparable to similarly titled measures disclosed by other companies because such measures are not uniformly defined. In particular, EBITDA as disclosed in this Prospectus may be calculated in a manner more similar to how some companies calculate measures that they refer to as "adjusted EBITDA" in that the Group's EBITDA excludes items in addition to interest expense, income tax expense and depreciation and amortisation. These additional items include provision for impairment and write-off of idle property, plant and equipment, gain on sale of associate, loss from disposal of subsidiaries, financial foreign exchange gain or loss, other financial gain or loss, net, non-recurring expenses and non-controlling interests. For a reconciliation of the Group's EBITDA to its profit before taxation, see "*Selected Consolidated Financial and Other Information — Key Financial Ratios and non-IFRS data*". Some of the limitations of the Group's EBITDA as a financial measure include the following:

- it does not reflect the Group's cash expenditure or future requirements for capital expenditure or contractual commitments;
- it does not reflect the impact of income taxes on the Group's operating performance;
- it does not reflect the impact of financing costs, which are significant and could further increase if the Group incurs more debt, on the Group's operating performance;
- it does not reflect changes in, or cash requirements for, the Group's working capital needs; and
- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often have to be replaced in the future, depreciation and amortisation may approximate the cost to replace these assets, however, the measure does not reflect any cash requirements for such replacements.

Accordingly, undue reliance should not be placed on the non-IFRS measures presented in this Prospectus.

The Group defines:

- gross profit margin as gross profit or loss divided by sales and expressed as a percentage;
- operating profit margin as operating profit or loss divided by sales and expressed as a percentage;
- net profit margin as net profit or loss divided by sales and expressed as a percentage;
- net debt as total borrowings (current bank borrowings and other loans received, non-current bank borrowings and other loans received, current bonds issued and non-current bonds issued) less total cash (cash and cash equivalents, fixed-term deposits and current restricted cash);
- net working capital as current assets (inventories, trade receivables, prepayments, other receivables and other current assets and income tax receivable less collateral held by banks to secure derivative transactions) less current liabilities (trade payables, other accounts payable and accrued expenses, income tax payable and other taxes payable);
- after-tax cash return on capital employed as EBITDA less income tax expense and divided by capital employed calculated as total assets less current liabilities; and
- gross cash flow as operating profit or loss less income tax paid plus sum of depreciation and amortisation, net loss on disposals, impairment and write-off of property, plant and equipment, change in expected credit losses (the "**ECL**") allowance of receivables and provision for obsolete and damaged inventories and other non-cash income or expense, net. For a reconciliation of the Group's gross cash flow to its operating profit, see "*Selected Consolidated Financial and Other Information — Key Financial Ratios and non-IFRS data*".

Gross profit margin, operating profit margin, net profit margin, net debt, net working capital, after-tax cash return on capital employed and gross cash flow (the "**ratios**") are not measures specifically defined by IFRS and the Group's use of the ratios may vary from other companies in its industry due to differences in accounting policies or differences in the calculation methodology by other companies in its industry. The ratios have limitations and should not be considered in isolation, or as substitutes for financial information as reported under IFRS. The ratios should not be considered as alternatives to any performance measures derived in accordance with IFRS.

## Currency

In this Prospectus, the following currency terms are used:

- "**U.S. dollar**", "**Dollar**", or "**U.S.$**" means the lawful currency for the time being of the United States;
- "**RUB**", "**RR**", "**Russian Roubles**", "**Rouble**", or "**rouble**" means the lawful currency for the time being of the Russian Federation; and
- "**EUR**", "**Euro**", "**euro**" or "**€**" means the lawful currency for the time being of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended.

## Exchange Rate Information

The Group's functional currency of each of the Group's entities varies, depending on the subsidiary (key currencies include Rouble, Euro, U.S. dollar, Brazilian Real, Argentinian Peso and Kazakhstan Tenge). The currency in which its direct costs and other costs are denominated likewise depends on the subsidiary. However, presentation currency of the Group is the U.S. dollars since the management considers the U.S. dollar to be more appropriate for the understanding and comparability of consolidated financial statements. As a result, fluctuations in the value of these currencies and, in particular, the value of the Rouble against the U.S. dollar may affect these results when translated into U.S. dollar. See "*Risk Factors — Risks Related to the Group's Business and the Fertiliser Industry — Foreign currency translation may impact the Group's IFRS financial results and may make it harder to compare the Group's performance year over year*".

The following table sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR. Fluctuations in the exchange rates between the Rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Group's financial statements and other information presented in this Prospectus.

| | Exchange Rate | | | |
|---|---|---|---|---|
| | **High** | **Low** | **Average** | **Period End** |
| | (*Rouble / U.S. dollar*) | | | |
| **Year/Period** | | | | |
| 2013 | 33.47 | 29.93 | 31.85 | 32.73 |
| 2014 | 67.79 | 32.66 | 38.42 | 56.26 |
| 2015 | 72.88 | 49.18 | 60.96 | 72.88 |
| 2016 | 83.59 | 60.27 | 67.03 | 60.66 |
| 2017 | 60.75 | 55.85 | 58.35 | 57.60 |
| 2018 | 69.97 | 55.67 | 62.71 | 69.47 |
| 2019 (up to and including 11 March 2019) | 67.19 | 65.26 | 66.08 | 65.97 |

## References

In this Prospectus, all references to "**U.S.**" are to the United States of America, all references to "**U.K.**" are to the United Kingdom and all references to "**European Union**" are to the European Union and its member states as of the date of this Prospectus. All references **"CIS"** are to the countries that formerly comprised the Union of Soviet Socialist Republics and that are now members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

In this Prospectus, all references to "**tonnes**" are to metric tonnes, and one metric tonne is equal to one thousand kilograms.

**Rounding**

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them. Also, some absolute and percentage changes were calculated using amounts in thousands of U.S. dollar, therefore, absolute and percentage changes presented in millions of U.S. dollar may not be arithmetical calculation from numbers presented in millions U.S. dollar.

**Market and Industry Information**

This Prospectus contains information about the markets and industries in which the Group operates and the Group's competitive position therein. Where such information has been derived from third-party sources, the name of the source is provided. Each of EuroChem, the Parent and the Issuer accepts responsibility for accurately reproducing such information. While EuroChem has accurately reproduced such third-party information, neither EuroChem, the Parent, the Issuer, the Joint Bookrunners nor the Co-Managers have verified the accuracy of such information, market data or other information on which third parties have based their studies. As far as EuroChem is aware and is able to ascertain from information published by these third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Moreover, market studies are frequently based on information and assumptions that may not be exact or appropriate, and their methodology is by nature forward-looking and speculative.

This Prospectus also contains estimates regarding the market position of the Group that cannot be gathered from publications by market research institutions or any other independent sources. In many cases, there is no publicly available information on such data, for example from industry associations, public authorities or other organisations and institutions. EuroChem believes that the estimates of market data and information derived therefrom and included in this Prospectus are helpful in order to give prospective investors a better understanding of the industry in which the Group operates as well as its position within this industry. Although EuroChem believes that its internal market observations are fair estimates, they have not been reviewed or verified by any external experts and EuroChem cannot guarantee that a third-party expert using different methods would obtain or generate the same results.

## USE OF PROCEEDS

The Issuer will use the proceeds received from the issue and sale of the Notes, expected to amount to approximately U.S.$700,000,000, to finance the purchase of the 2020 Notes and the 2021 Notes tendered and accepted for purchase in accordance with the terms and conditions of the Tender Offer in the principal amount of U.S.$375,872,000 and U.S.$371,954,000, respectively, that is expected to be settled on or about 15 March 2019.

The Group will not directly or indirectly use the proceeds of the offering of the Notes, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture, partner or other person or entity (i) to fund or facilitate any activities of or business with any person that, at the time of such funding or facilitation, is the subject or the target of EU, or U.S. or Swiss sanctions, (ii) to fund or facilitate any activities of or business in any country or territory that is subject to a general import, export, financial or investment embargo under EU, or U.S. or Swiss sanctions, or (iii) in any other manner that will result in a violation by any person (including any person participating in the offering of the Notes, whether as manager, bookrunner, advisor, investor or otherwise) of EU, or U.S. or Swiss sanctions or (iv) to finance or facilitate any activity referenced or specified in Sections 224, 225, 227, 228, 232, 233 or 234 of CAATSA, as a basis for the imposition of sanctions or penalties on any person pursuant to CAATSA as a result of such person engaging in such activity.

The commissions, fees and expenses in connection with the issuance and offering of the Notes and the admission to trading thereof will be paid by the Guarantors.

The Issuer will use the proceeds of the Notes outside Switzerland within the meaning of Swiss law in force and the practice of the Swiss Federal Tax Administration in a manner that will not result payments in respect of the Notes become subject to withholding or deduction for Swiss federal withholding tax.

## CAPITALISATION

The following table sets forth the Group's consolidated cash and cash equivalents, and capitalisation as at 31 December 2018, derived from the 2018 Financial Statements included elsewhere in this Prospectus. This information should be read in conjunction with "*Selected Consolidated Financial and Other Information*", "*Operating and Financial Review*" and the 2018 Financial Statements included elsewhere in this Prospectus.

| | **31 December 2018** |
|---|---|
| | *(U.S.$ in thousands)* |
| **Cash and cash equivalents** | **341,911** |
| **Interest-bearing debt:** | |
| Current interest-bearing debt, including current portion of non-current interest-bearing debt(1) | 586,983 |
| Non-current interest-bearing debt(2) | 3,214,536 |
| **Total interest-bearing debt** | **3,801,519** |
| **Equity:** | |
| Share capital | 111 |
| Cumulative currency translation differences | (2,403,963) |
| Retained earnings and other reserves | 6,578,487 |
| Non-controlling interests | 117 |
| **Total equity** | **4,174,752** |
| **Total capitalisation(3)** | **7,976,271** |

(1) Includes current bank borrowings and current portion of bonds issued.
(2) Includes non-current bank borrowings, other loans received and non-current bonds issued. Excludes project finance.
(3) Total capitalisation is the sum of total interest-bearing debt and total equity.

On 21 February 2019, the Issuer announced the Tender Offer. Following the expiration of the Tender Offer, the Issuer accepted for purchase the principal amount of U.S.$375,872,000 of the 2020 Notes and the principal amount of U.S.$371,954,000 of the 2021 Notes. The Tender Offer is expected to be settled on or about 15 March 2019.

Except as described above, there have been no material changes in the consolidated capitalisation of the Group since 31 December 2018.

## SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

*The following tables present selected consolidated financial information as at and for the years ended 31 December 2018, 2017 and 2016 and has been derived from the Consolidated Financial Statements included in the Prospectus. This section should be read in conjunction with the Consolidated Financial Statements and the notes thereto, as well as the sections entitled "Operating and Financial Review" and "Presentation of Financial and Other Information".*

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

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | (*U.S.$ thousands*) | |
| Sales | 5,577,472 | 4,865,664 | 4,375,090 |
| Cost of sales | (3,437,727) | (3,079,029) | (2,759,422) |
| **Gross profit** | **2,139,745** | **1,786,635** | **1,615,668** |
| Distribution costs[(1)] | (744,985) | (701,487) | (592,553) |
| General and administrative expenses | (208,292) | (217,775) | (170,240) |
| Other operating income/(expenses), net | 2,956 | (35,100) | (1,642) |
| **Operating profit** | **1,189,424** | **832,273** | **851,233** |
| Share of profit/(loss) from associates and joint ventures, net | 3,395 | (2,803) | 23,385 |
| Gain on sale of associate | - | - | 23,641 |
| Loss from disposal of subsidiaries | (45,753) | (60,205) | - |
| Interest income | 8,130 | 11,864 | 18,148 |
| Interest expense | (94,480) | (131,393) | (131,557) |
| Financial foreign exchange (loss)/gain, net | (162,070) | 569 | 148,929 |
| Other financial (loss)/gain, net | (159,804) | 46,305 | 23,137 |
| **Profit before taxation** | **738,842** | **696,610** | **956,916** |
| Income tax expense | (200,421) | (243,244) | (248,929) |
| **Profit** | **538,421** | **453,366** | **707,987** |
| **Profit attributable to:** | | | |
| Owners of the parent | 538,448 | 453,466 | 707,496 |
| Non-controlling interests | (27) | (100) | 491 |
| | **538,421** | **453,366** | **707,987** |
| Earnings per share – basic and diluted | 538.45 | 453.47 | 707.50 |
| **Profit** | **538,421** | **453,366** | **707,987** |
| **Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods** | | | |
| Currency translation differences | (1,080,523) | 402,254 | 654,840 |
| Share of other comprehensive (loss)/income of associates and joint ventures, net | (917) | (247) | - |
| Currency translation differences on disposed subsidiaries reclassified to profit or loss | 25,289 | - | - |
| **Total other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods** | **(1,056,151)** | **402,007** | **654,840** |

(1) As a result of a change in accounting policy for transportation expenses, distribution costs for the years ended 31 December 2018 and 2017 are not directly comparable to distribution costs for the year ended 31 December 2016.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | (*U.S.$ thousands*) | |
| **Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods** | | | |
| Remeasurements of post-employment benefit obligations, net of tax | 1,361 | (390) | (137) |
| Change in fair value of financial assets measured at fair value through other comprehensive income | (4,321) | - | - |
| **Total other comprehensive loss for the period that will not be reclassified to profit or loss in subsequent periods** | **(2,960)** | **(390)** | **(137)** |
| **Total other comprehensive (loss)/income** | **(1,059,111)** | **401,617** | **654,703** |
| **Total comprehensive (loss)/income** | **(520,690)** | **854,983** | **1,362,690** |
| **Total comprehensive (loss)/income attributable to:** | | | |
| Owners of the parent | (520,642) | 854,988 | 1,362,195 |
| Non-controlling interests | (48) | (5) | 495 |

## Consolidated Statement of Financial Position

| | As at 31 December | | |
|---|---|---|---|
| | 2018 | 2017 (adjusted) | 2016 (adjusted) |
| | | (*U.S.$ thousands*) | |
| **ASSETS** | | | |
| **Non-current assets:** | | | |
| Property, plant and equipment | 6,666,090 | 6,918,004 | 5,297,313 |
| Mineral rights | 315,753 | 372,809 | 455,488 |
| Goodwill | 475,797 | 516,830 | 468,223 |
| Intangible assets | 102,838 | 142,924 | 163,625 |
| Investments in associates and joint ventures | 38,198 | 43,152 | 36,500 |
| Originated loans | 3,864 | 51,046 | 53,178 |
| Restricted cash | 2,276 | 22,345 | 18,170 |
| Derivative financial assets | - | 7,189 | - |
| Deferred income tax assets | 82,613 | 55,360 | 112,517 |
| Other non-current assets | 71,011 | 52,199 | 83,690 |
| **Total non-current assets** | **7,758,440** | **8,181,858** | **6,688,704** |
| **Current assets:** | | | |
| Inventories | 1,044,690 | 781,622 | 713,919 |
| Trade receivables | 366,836 | 288,959 | 267,786 |
| Prepayments, other receivables and other current assets | 289,201 | 326,637 | 315,185 |
| Income tax receivable | 15,428 | 58,999 | 32,133 |
| Originated loans | - | - | 412 |
| Restricted cash | 2,850 | 20,101 | 45,994 |
| Derivative financial assets | 1,126 | 18,955 | 13,602 |
| Fixed-term deposits | 1,801 | 151 | 294 |
| Cash and cash equivalents | 341,911 | 228,613 | 285,605 |
| **Total current assets** | **2,063,843** | **1,724,037** | **1,674,930** |
| **TOTAL ASSETS** | **9,822,283** | **9,905,895** | **8,363,634** |
| **LIABILITIES AND EQUITY** | | | |
| **Equity attributable to owners of the parent**: | | | |
| Share capital | 111 | 111 | 111 |
| Cumulative currency translation differences | (2,403,963) | (1,347,833) | (1,749,745) |
| Retained earnings and other reserves | 6,578,487 | 5,442,999 | 4,993,073 |
| | **4,174,635** | **4,095,277** | **3,243,439** |
| Non-controlling interests | 117 | 165 | 1,371 |
| **Total equity** | **4,174,752** | **4,095,442** | **3,244,810** |
| **Non-current liabilities**: | | | |
| Bank borrowings and other loans received | 2,003,275 | 1,110,205 | 1,305,671 |

| | As at 31 December | | |
|---|---|---|---|
| | **2018** | **2017 (adjusted)** | **2016 (adjusted)** |
| | | (*U.S.$ thousands*) | |
| Project finance | 420,070 | 959,373 | 573,022 |
| Bonds issued | 1,211,261 | 1,512,413 | 824,848 |
| Derivative financial liabilities | 57,103 | - | 75,209 |
| Deferred income tax liabilities | 212,721 | 231,259 | 214,290 |
| Other non-current liabilities and deferred income | 178,057 | 192,401 | 166,456 |
| **Total non-current liabilities** | **4,082,487** | **4,005,651** | **3,159,496** |
| **Current liabilities:** | | | |
| Bank borrowings and other loans received | 371,133 | 770,405 | 1,075,418 |
| Project finance | 21,612 | - | - |
| Bonds issued | 215,850 | 87,091 | 323,856 |
| Derivative financial liabilities | 12,629 | 61,821 | 703 |
| Trade payables | 470,264 | 513,004 | 284,549 |
| Other accounts payable and accrued expenses | 407,191 | 334,519 | 221,396 |
| Income tax payable | 37,539 | 10,909 | 18,912 |
| Other taxes payable | 28,826 | 27,053 | 34,494 |
| **Total current liabilities** | **1,565,044** | **1,804,802** | **1,959,328** |
| **Total liabilities** | **5,647,531** | **5,810,453** | **5,118,824** |
| **TOTAL LIABILITIES AND EQUITY** | **9,822,283** | **9,905,895** | **8,363,634** |

## Selected Consolidated Statement of Cash Flow Data

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | (*U.S.$ thousands*) | |
| Net cash – operating activities | 981,715 | 1,048,620 | 1,105,487 |
| Net cash – investing activities | (1,075,540) | (1,237,668) | (1,274,612) |
| Net cash – financing activities | 226,574 | 121,403 | 122,584 |
| Effect of exchange rate changes on cash and cash equivalents | (19,451) | 10,653 | 2,477 |
| Net increase/(decrease) in cash and cash equivalents | 113,298 | (56,992) | (44,064) |
| Cash and cash equivalents at the beginning of the period | 228,613 | 285,605 | 329,669 |
| Cash and cash equivalents at the end of the period | 341,911 | 228,613 | 285,605 |

## Key financial ratios and non-IFRS data

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | (*U.S.$ thousands, unless otherwise indicated*) | |
| Gross profit margin, per cent.(1) | 38.4 | 36.7 | 36.9 |
| Operating profit margin, per cent.(2) | 21.3 | 17.1 | 19.5 |
| Net profit margin, per cent.(3) | 9.7 | 9.3 | 16.2 |
| Operating profit before depreciation and amortisation | 881,088 | 555,183 | 632,038 |
| EBITDA(9) | 1,516,926 | 1,130,438 | 1,132,915 |
| EBITDA margin, per cent.(4) | 27.2 | 23.2 | 25.9 |
| Net debt(5) | 3,454,957 | 3,231,249 | 3,197,900 |
| Net working capital(6) | 772,335 | 570,060 | 768,744 |
| After-tax cash return on capital employed, per cent.(7) | 15.9 | 11.0 | 13.8 |
| Gross cash flow(8) | 1,341,422 | 943,991 | 984,419 |

(1) Gross profit margin represents gross profit or loss divided by sales and expressed as a percentage.

(2) Operating profit margin represents operating profit or loss divided by sales and expressed as a percentage.

(3) Net profit margin represents net profit or loss divided by sales and expressed as a percentage.

(4) EBITDA margin represents EBITDA divided by sales and expressed as a percentage.

(5) Net debt represents total borrowings (current bank borrowings and other loans received, non-current bank borrowings and other loans received, current bonds issued and non-current bonds issued) less a total of fixed-term deposits, cash and cash equivalents and current

restricted cash.

(6) Net working capital represents current assets (inventories, trade receivables, prepayments, other receivables and other current assets and income tax receivable less collateral held by banks to secure derivative transactions) less current liabilities (trade payables, other accounts payable and accrued expenses, income tax payable and other taxes payable).

(7) After-tax cash return on capital employed is calculated as EBITDA less income tax expense and divided by capital employed calculated as total assets less current liabilities.

(8) Gross cash flow represents operating profit or loss less income tax paid plus sum of depreciation and amortisation, net loss on disposals, impairment and write-off of property, plant and equipment, change in ECL allowance of receivables and provision for obsolete and damaged inventories and other non-cash income or expense, net. Please see the reconciliation of gross cash flow to Group's operating profit below.

(9) EBITDA is not a measure of operating income, operating performance or liquidity as defined in accordance with IFRS. The Group presents this measure because similarly titled measures may be used by some investors and analysts. Group's EBITDA should not, however, be considered in isolation or as a substitute for profit before tax, or for cash flows from operating activities as determined in accordance with IFRS, or as an indicator of operating performance, or as a measure of discretionary cash available to the Group to invest in the growth of its business. The Group's EBITDA may not be comparable to similarly titled measures disclosed by other companies because such measures not uniformly defined. In particular, Group's EBITDA is calculated in a manner more similar to how some companies calculate measures that they refer to as "adjusted EBITDA" in that the Group's EBITDA excludes items in addition to interest expense, income tax expense and depreciation and amortisation. Reconciliation of the Group's EBITDA to profit or loss before taxation is presented below. Also see "*Presentation of financial and other information*".

The following table sets forth a reconciliation of gross cash flow to the Group's operating profit for the years indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | (*U.S.$ thousands*) | |
| **Operating profit** | 1,189,424 | 832,273 | 851,233 |
| Income tax paid | (140,364) | (177,255) | (155,724) |
| Depreciation and amortisation | 308,336 | 277,090 | 219,195 |
| Net loss on disposals and write-off of property, plant and equipment | 7,570 | 10,314 | 23,542 |
| Change in provision for impairment of receivables and provision for obsolete and damaged inventories, net | 18,276 | 19,953 | (7,362) |
| Other non-cash (income)/expenses, net | (41,820) | (18,384) | 53,535 |
| **Gross cash flow** | **1,341,422** | **943,991** | **984,419** |

The following table sets forth a reconciliation of the Group's EBITDA to the Group's profit before taxation for the years indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | (*U.S.$ thousands*) | |
| **EBITDA** | **1,516,926** | **1,130,438** | **1,132,915** |
| Depreciation and amortisation | (308,336) | (277,090) | (219,195) |
| (Impairment)/reversal of impairment/(write-off) of idle property, plant and equipment | (1,459) | (4,971) | (18,668) |
| Gain on sale of associate | - | - | 23,641 |
| Non-recurring expenses, net | (6,155) | (6,943) | (2,777) |
| Loss from disposal of subsidiaries | (45,753) | (60,205) | - |
| Interest expense | (94,480 | (131,393) | (131,557) |
| Financial foreign exchange (loss)/gain, net | (162,070) | 569 | 148,929 |
| Other financial (loss)/gain, net | (159,804) | 46,305 | 23,137 |
| Non-controlling interests | (27) | (100) | 491 |
| **Profit before taxation** | **738,842** | **696,610** | **956,916** |

The following table sets forth the Group's EBITDA (before intragroup eliminations) by division for the years indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016[(1)]** |
| | | (*U.S.$ thousands*) | |
| Mining | 304,401 | 287,268 | 286,364 |
| Fertilisers | 1,032,777 | 690,165 | 615,273 |
| Logistics | 93,887 | 96,342 | 75,549 |
| Sales | 207,918 | 90,836 | 71,607 |
| Other | (39,336) | (22,656) | 18,986 |
| Elimination | (82,721) | (11,517) | 65,136 |
| **EBITDA** | **1,516,926** | **1,130,438** | **1,132,915** |

(1) Effective 1 January 2018, the Group removed the Oil & Gas Division from its structure. EBITDA (before intragroup eliminations) for the Oil & Gas Division for the year ended 31 December 2016 was reclassified to "Other" to conform to presentation in the years ended 31 December 2018 and 31 December 2017.

## Net debt reconciliation

The following table sets forth a reconciliation of the Group's net debt for the years indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | (*U.S.$ thousands*) | |
| Current bank borrowings and other loans received | 371,133 | 770,405 | 1,075,418 |
| Non-current bank borrowings and other loans received | 2,003,275 | 1,110,205 | 1,305,671 |
| Current bonds issued | 215,850 | 87,091 | 323,856 |
| Non-current bonds issued | 1,211,261 | 1,512,413 | 824,848 |
| *Less:* | | | |
| Fixed-term deposits | (1,801) | (151) | (294) |
| Cash and cash equivalents | (341,911) | (228,613) | (285,605) |
| Current restricted cash | (2,850) | (20,101) | (45,994) |
| **Net debt** | **3,454,957** | **3,231,249** | **3,197,900** |

## Net working capital reconciliation

The following table sets forth a reconciliation of the Group's net working capital for the years indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | (*U.S.$ thousands*) | |
| Inventories | 1,044,690 | 781,622 | 713,919 |
| Trade receivables | 366,836 | 288,959 | 267,786 |
| Prepayments, other receivables and other current assets | 289,201 | 326,637 | 315,185 |
| Income tax receivable | 15,428 | 58,999 | 32,133 |
| Collateral held by banks to secure derivative transactions | - | (672) | (928) |
| *Less:* | | | |
| Trade payables | (470,264) | (513,004) | (284,549) |
| Other accounts payable and accrued expenses | (407,191) | (334,519) | (221,396) |
| Income tax payable | (37,539) | (10,909) | (18,912) |
| Other taxes payable | (28,826) | (27,053) | (34,494) |
| **Net working capital** | **772,335** | **570,060** | **768,744** |

**After-tax cash return on capital employed (per cent.) reconciliation**

The following table sets forth a reconciliation of the Group's after-tax cash return on capital employed for the years indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | (*U.S.$ thousands*) | |
| EBITDA | 1,516,926 | 1,130,438 | 1,132,915 |
| *Less:* | | | |
| Income tax expense | (200,421) | (243,244) | (248,929) |
| *Divided by:* | | | |
| Capital employed | 8,257,239 | 8,101,093 | 6,404,306 |
| **After-tax cash return on capital employed, per cent** | **15.9** | **11.0** | **13.8** |

## OPERATING AND FINANCIAL REVIEW

*The following overview of the Group's financial condition and results of operations as at and for the years ended 31 December 2018, 2017 and 2016, should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Prospectus and Presentation of Financial and Other Information.*

*The following overview includes forward-looking statements that reflect the current view of the management and involve inherent risks and uncertainties. The actual results of the Group could differ materially from those contained in such forward-looking statements as a result of factors discussed below and elsewhere in this Prospectus, particularly in "Risk Factors".*

*Selected consolidated financial information in this section has been derived from the audited Consolidated Financial Statements, in each case without material adjustments, unless otherwise stated, as well as the Group's management financial reports.*

### Overview

The Group is a leading vertically integrated nitrogen and phosphate fertiliser producer. The Group produces nitrogen mineral fertilisers (including urea, ammonia, AN, UAN, CAN), phosphate mineral fertilisers (including MAP, DAP and feed phosphates), as well as a growing number of complex products (a variety of NP and NPK grades), organic synthesis products, iron ore, apatite and baddeleyite concentrates. In 2018, the Group began test production of potassium chloride in the Usolskiy Potash Project and the VolgaKaliy Potash Project. The Group is also Russia's only producer of UAS, melamine, acetic acid and baddeleyite concentrate. The Group's nitrogen production facilities are located in the Stavropol Krai in Southern Russia, the Tula Oblast in Central Russia and Antwerp in Belgium. The Group's phosphate mines and production facilities are located in the Murmansk Oblast in Northern Russia, the Leningrad Oblast in Northwestern Russia, the Krasnodar Krai in Southern Russia, as well as in Lithuania, China and Kazakhstan. The Group finalises the development of its potash deposits in the Volgograd Oblast in Southern Russia (the VolgaKaliy Potash Project) and in the Perm Krai near the Ural Mountains in Russia (the Usolskiy Potash Project). The Group also has a licence to develop natural gas and gas condensate fields in the Astrakhan Oblast and Saratov oblast in Southern Russia and in Kazakhstan.

The Group has a vertically integrated business model conducted by four operating divisions, which are Mining, Fertilisers, Logistics and Sales:

- the *Mining* division encompasses the extraction of ores to obtain apatite, baddeleyite and iron-ore concentrates, phosphorite; as well as the test potash production at the Verkhnekamskoe deposit started in 2018 and the development of the second potassium salts deposit (potash) at the Gremyachinskoe deposit;
- the *Fertilisers* division includes the production of mineral fertilisers (nitrogen, phosphate and complex) and industrial products;
- the *Logistics* division covers all supply chain operations including transportation services, purchase and delivery of raw materials and finished goods, as well as freight forwarding and other logistics services;
- the *Sales* division is responsible for the sale of the complete range of products produced by the Group as well as third-party products through the Group's global distribution network spanning across Europe, Russia, North and Latin America, Central and South East Asia.

Effective 1 January 2018, the Oil & Gas division has been removed from the Group's corporate structure. Financial results of the Oil & Gas Division for the years ended 31 December 2017 and 31 December 2016 were reported in "Other". The results of the Oil & Gas division in these two years included the results of a subsidiary engaged in production of hydrocarbons, which was disposed off at the end of 2017.

The Group operates a vertically integrated business model with advanced, cost-efficient and flexible production capacity, based on high-quality reserves and supported by logistics and distribution assets that provide distinct cost advantages.

The Group's reserve base includes natural gas, oil, gas condensate, apatite ore, iron ore and potash. The Group has obtained licences that provide it with access to significant reserves of magnetite-apatite ore (high-quality phosphate rock) in Russia and phosphate rock in Kazakhstan. As a considerable addition to its phosphate product group performance, the Group also extracts baddeleyite and iron ore concentrates as coproducts of apatite beneficiation and sells both these products to third parties (historically to Asian and Russian customers). Upon ramp-up of production at its Potash Projects, the Group is expected to become a top three fertiliser producer globally with its own production of nitrogen-, phosphate- and potash-based fertilisers. Natural gas is the key constituent of ammonia, the primary component of nitrogen-based fertilisers. Following the disposal of Severneft-Urengoy, LLC in 2017, the Group acquires 100 per cent. of its gas requirements from the market.

The Group's combined reserves and resources of BAMO, LFAO, apatite-staffelite ore and apatite-baddeleyite tailings were measured by IMC Montan as at October 2009 in accordance with the JORC Code and consisted of 595 million tonnes of proved and probable reserves and 593 million tonnes of measured and indicated resources. As at 31 December 2018, the Group's phosphate rock reserves in Kazakhstan were 512.8 million tonnes of resources of categories A+B+C1. The Group's reserves and resources of potash ore were measured by IMC Montan as at September 2009 (the VolgaKaliy Potash Project) and October 2009 (the Usolskiy Potash Project) in accordance with the JORC Code and consisted of 912 million tonnes of proved and probable reserves, 2,050 million of measured and indicated resources tonnes and 590 million tonnes of inferred resources. In June 2014, the Group also acquired a mining licence in respect of the Belopashinskiy potassium deposit, providing additional 598 million tonnes of approved by the State Reserves Committee of Rosnedra reserves in accordance with Russian Classification approved in 2018 for its Usolskiy Potash Project. As at 31 December 2018, in accordance with Russian Classification, the Group's potassium deposit reserves of potash (sylvinite) in its Usolskiy Potash Project comprised 2,178 million tonnes of reserves approved by the State Reserves Committee of Rosnedra and the Gremyachinskoe potassium deposit reserves of potash ore comprised 1.6 billion tonnes of reserves approved by the State Reserves Committee of Rosnedra. As at 31 December 2018, the Group extracted approximately 112 million tonnes of magnetite-apatite ore and approximately 8 million tonnes of apatite-staffelite ore, in each case in accordance with the Russian classification. Further, in 2017 and 2018, the Group extracted 1.5 million tonnes of potash ore and 1.3 million tonnes of phosphate rock in Kazakhstan.

Production plants of the Group located in Russia, Belgium, Lithuania, Kazakhstan and China create more than 100 commodity and premium products, including an extensive mix of nitrogen, phosphates and complex fertilisers, and recently added potash, as well as acids, industrial gases, de-icing agents, organic synthesis products and mineral raw materials. These geographically and technically diversified assets and their associated product mix allow the Group to respond rapidly to changing market demand, offering competitive advantages in global markets. The manufacturing processes also allow the Group to create other products such as melamine and merchant-grade synthetic acetic acid.

As at 31 December 2018, the Group had a combined annual production capacity of approximately 11.8 million tonnes of nitrogen mineral fertilisers and organic synthesis products, 5.7 million tonnes of phosphate and complex mineral fertilisers (in the calculation of annual production capacity of certain nitrogen products, such as CAN and GAN, phosphates, such as MAP and DAP, as well as complex mineral fertilisers, the Group uses actual production volumes, rather than production capacity, for certain of the Group's plants, because production capacity at its multi-product production facilities cannot be measured due to the capability of such facilities to produce a number of different products on the same production line) and 2.6 million tonnes of apatite concentrate. As a co-product of its apatite mining operations, as at 31 December 2018, the Group had an annual production capacity of approximately 6.2 million tonnes of iron ore concentrate and 7.7 thousand tonnes of baddeleyite concentrate. For the year ended 31 December 2018, the Group produced 12.4 million tonnes of nitrogen mineral fertilisers and organic synthesis products (ammonia, urea, AN, CAN, UAN, GAN, melamine, methanol and acetic acid); 5.3 million tonnes of phosphate mineral fertilisers (MAP, DAP and feed phosphates) and complex fertilisers; and 8.4 million tonnes of raw material feedstock, including apatite concentrate, iron ore and baddeleyite concentrates. In 2018, the Group produced at its Usolskiy Potash Project approximately 250 thousand tonnes of potassium chloride. The Group's greenfield Potash Projects in Russia are expected to reach total annual maximum production capacity of 4.3 million tonnes for VolgaKaliy Potash Project and 4.0 million tonnes for Usolskiy Potash Project. The EuroChem NorthWest ammonia plant is anticipated to reach its design capacity of 2,700 metric tonnes per day in 2019.

The Group's fertiliser products are sold to more than 10 thousand customers in over 100 countries. The principal markets for the Group's fertiliser products outside Russia are Europe, Asia, Latin America, North America and the rest of the CIS.

The Group primarily sells its fertilisers outside Russia through its trading entities in the United States, Switzerland and Brazil and its EuroChem Agro distribution platform covering Europe and Turkey as well as through regional distributors in the United States, Mexico, Brazil, Argentina, China and an agency in Singapore. The Group also has storage facilities in Russia, the CIS, Europe, North America and Mexico. EuroChem Trading GmbH based in Switzerland allocates all of the Group's, and third-party, products to markets globally, including the markets where the Group operates distribution networks, based on the expected netback price or, for some products, contribution margin to the Group. The Group has a wide product distribution network in Europe, Russia and the CIS, North, Latin America, Central and South East Asia and, following the acquisition in August 2016 of a controlling interest in Fertilizantes Tocantins, Brazil, where the distribution of Group-produced and third-party produced fertilisers is made through its own or rented from third parties warehouses to a wide range of local clients. In order to support its presence in Eastern Europe, the Group established a distribution centre in Hungary in September 2016 and acquired distribution assets in Bulgaria in February 2017. In August 2017, the Group acquired Emerger Fertilizantes S.A., a privately-owned distributor of premium and standard fertilisers in Argentina. Additional distribution facilities have been established in Romania, a representation office of EuroChem Agro in August 2017, and in Serbia in May 2017. The Group primarily sells iron ore concentrate to wholesalers and ultimate customers in Russia and Asia. Overall, sales of iron ore outside Russia accounted for 1.9 per cent. of the Group's external sales for the year ended 31 December 2018. A significant part of the Group's sales of iron ore concentrate in Russia are to Severstal. Total sales to Severstal accounted for 33.9 per cent. of the Group's total sales of iron ore for the year ended 31 December 2018.

As part of its business model, the Group supports wholesalers, distributors and cooperatives across Europe, South East Asia and the Americas through its distribution platform. In addition to providing advisory services to local farmers and promoting the efficient use of fertilisers to increase yields, in particular through testing and open seminars, the Group also offers related agricultural and agrochemical services and products such as blending, agronomic advisory, seeds, crop protection items and soil analysis services. The Group's distribution platform also allows it to receive feedback on its products directly from the end-users and to market nitrogen, phosphates, potash and complex fertilisers with a focus on major customers in agriculture and special crops such as fruits, vegetables and grapes. The Group's distribution assets are located in the United States, Germany, Spain, Bulgaria, Hungary, Serbia, Italy, Greece, Mexico, France, Turkey, Singapore, China, Brazil and Argentina and sell to wholesalers, distributors, retailers, cooperatives and end-users in more than 65 countries.

The Group's logistics infrastructure supports the Group's vertically integrated business model. As at 31 December 2018, the Group had rolling stock comprising approximately 6 thousand rail cars and 47 locomotives. The Group also operates dedicated rail service and repair centres, as well as wholly-owned transhipment terminals in the ports of Tuapse (Black Sea, dry mineral fertilisers) and Murmansk (Barents Sea, iron ore, iron pellets, apatite and dry mineral fertilisers) in Russia, and Sillamae (Baltic Sea, liquid cargo such as methanol and complex fertilisers) in Estonia, and benefits from direct jetty access in the port of Antwerp in Belgium. The Group occasionally operates bulker vessels on a time-charter basis. The Group also plans to increase its cargo and shipment capacity by constructing a 5.0 million tonnes annual capacity bulk terminal in the Baltic Sea port of Ust-Luga (launch is planned in 2022) in Russia to support increasing production volumes of the Usolskiy Potash Project. The Group has also commenced a project to build an ammonia transhipment terminal in Sillamae (Estonia), one of the key objectives of which is the transhipment of ammonia produced by EuroChem NorthWest for further transportation to EuroChem Antwerpen and potentially to other export sales. The launch of the ammonia terminal is expected in the fourth quarter of 2019.

For the year ended 31 December 2018, the Group had sales of U.S.$5,577.5 million, EBITDA of U.S.$1,516.9 million, net profit of U.S.$538.4 million and EBITDA margin, which represents EBITDA divided by sales, of 27.2 per cent. For the year ended 31 December 2017, the Group had sales of U.S.$4,865.7 million, EBITDA of U.S.$1,130.4 million, net profit of U.S.$453.4 million and EBITDA margin of 23.2 per cent. For the year ended 31 December 2016, the Group had sales of U.S.$4,375.1 million, EBITDA of U.S.$1,132.9 million, net profit of U.S.$708.0 million and EBITDA margin of 25.9 per cent.

## Key Factors Affecting Results of Operations

The Group's operations have historically been influenced by the following key factors, which the Group's management believes will continue to affect the Group's financial position and results of operations in the future.

### *Macroeconomic and Other Economic Trends*

A number of macroeconomic factors underpin fertiliser demand across the Group's end markets and can, therefore, affect the Group's products and its results of operations. Demand for fertilisers is significantly dependent on the demand for crops and foodstuff, changes in which are reflected by population growth and the dietary shifts within populations brought on by economic growth. Given limitations in available arable land, fertilisers play a key role in the drive to improve both the quality of the harvest and crop yields. Putting further pressure on crop yields is the quest for renewable energy, which over the last decade has been displacing acreage traditionally used for feed crops in favour of biofuel production, especially in the United States.

*Growing Population*

Global population growth continues to act as the principal long-term driver behind global fertiliser demand. According to the United Nations (the "**UN**") Population Division, more than 210,000 people join the global food demand daily. The UN estimates that the world's population is expected to reach 9.73 billion people by 2050. Agricultural producers must continue to increase output and efficiency in order to keep up with the challenges brought on by an increasing population within a limited space and changes in dietary requirements of the population. According to the UN's projections, feeding the population of 9.73 billion people in 2050 would require increasing the overall food, feed and biofuel production by approximately 50 per cent. compared to 2012. It is expected that most of such growth in food production globally will come from higher crop yields and increased cropping intensity, rather than from arable land expansion.

*Dietary Shifts*

Growing prosperity, especially in emerging markets, has led to significant dietary changes. The populations of emerging economies increasingly demand protein-rich foods such as red meat, poultry and dairy products, which are resource-intensive to produce. At the same time, the amount of food consumed in developed economies has also risen. Global meat consumption is expected to grow by an annual average of 1.3 per cent., resulting in additional consumption of 30 million tonnes by 2025, while the demand for dairy products is set to expand by 11 per cent. to an estimated 48 million tonnes by 2025. According to OECD and the UN's Food and Agriculture Organisation ("**FAO**"), approximately 38 per cent. of global cereal output annually is used to produce animal feed for the production of meat, which is a resource-intensive source of protein.

In addition to population growth, changing consumption patterns are requiring more food to be grown. Developing economies, excluding the least developed, exhibit the greatest increase in total caloric intake per capita, rising to almost 2,800 kcal per person per day by 2024, only marginally below the caloric intake projected for developed regions, where further expansion of total caloric intake remains limited, according to FAO.

*Arable Land and Soil Productivity*

The amount of land that can be used for farming is limited. Between 1961 and 2016, while the global population increased by over 140 per cent., arable land increased by only 10 per cent., according to FAO Corporate Statistical Database ("**FAOSTAT**"). This diverging trend signifies that if one hectare of land fed two people in 1961, that same hectare must now feed more than five people.

Increasingly intensive farming methods have a direct impact on soil fertility. The loss of topsoil to erosion also contributes to a loss in soil nutrients, which leads to a decline in potential crop yield. Fertilisers play a vital role in replenishing nutrients lost to intensive agriculture and shorter fallow periods. It is widely acknowledged, however, that a combination of improved management, advanced fertiliser products and more precise application of fertilisers is required to drive better yields.

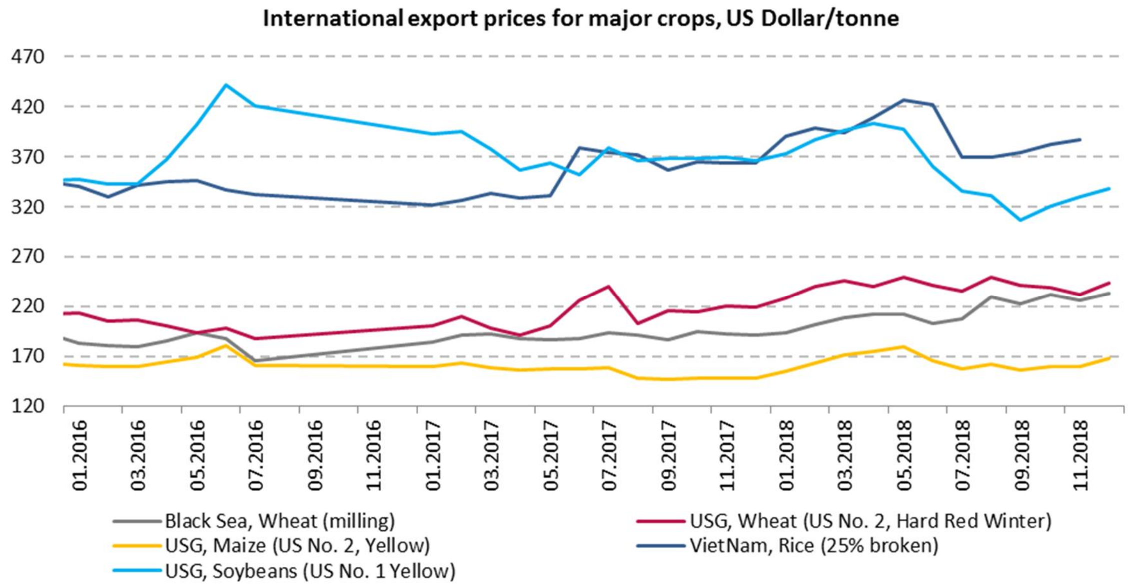
*Renewable Fuels*

In recent years, renewable fuels have accounted for a small but rapidly growing share of consumption of the world's food resources. In addition to feeding the world, global agricultural producers are a small but rapidly growing source of the world's fuel. After rapid expansion over the past decade, ethanol use in 2018 was estimated to account for 12 per cent. of global coarse grain consumption. Although the expansion of maize-based ethanol is expected to slow down in the coming years, projections suggest the increased use of vegetable oils and sugarcane in biofuel manufacturing, according to FAO. In particular, OECD and FAO indicate that by 2024, one-quarter of sugarcane production is expected to be used for the manufacturing of ethanol, which represents a 21 per cent. increase from 2014.

***Soft Commodity and Fertiliser Prices***

Soft commodity prices play a large role in determining the amount farmers allocate to fertilisers, which, in turn, will affect overall fertiliser consumption and the Group's results. Favourable grain and crop prices incentivise farmers to fertilise their fields and maximise crop output at harvest. Adverse weather conditions, stock-to-use ratios, increases in demand and financial speculation will all apply respective pressure on crop prices, whether as individual or combined forces. Since 2005, the world's major food-producing regions have been experiencing an increasing number of extreme weather events. Such episodes have contributed to the volatility, and an overall rise, in crop prices. An increase in the frequency or severity of weather-related occurrences will inevitably have an adverse effect upon agricultural productivity. According to FAO, on average, prices for major grains continued to rebound since 2016, for example, average prices for wheat and rice increased by approximately to 20 per cent. between 2016 and 2018 and for maize increased by 3 per cent. during the same period. Soybean price dynamics have been different, as prices decreased by 7 per cent. during the last two years, however, in the fourth quarter of 2018, trended upwards.

The following graph sets forth the prices of rice, corn and wheat between January 2016 and November 2018:




*Source: FAO.*

The following table sets forth fertiliser consumption, including both agricultural and industrial uses, by region and product for the periods indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | *(millions of tonnes)* | |
| **International** | | | |
| Urea | 162.0 | 162.3 | 165.6 |
| FGAN | 21.6 | 21.7 | 21.6 |
| CAN | 14.5 | 14.9 | 14.6 |
| MAP | 24.0 | 24.3 | 24.1 |
| DAP | 35.7 | 36.9 | 34.3 |
| UAN | 21.2 | 21.4 | 20.3 |
| MOP | 66.8 | 66.6 | 62.1 |
| **CIS (including Russia, Ukraine and Georgia)** | | | |
| Urea | 4.4 | 4.3 | 3.8 |
| AN | 10.0 | 9.6 | 9.9 |
| **Russia** | | | |
| Urea | 1.3 | 1.2 | 1.1 |
| AN | 5.6 | 5.4 | 5.6 |
| MAP | 0.7 | 0.8 | 0.8 |

*Sources: International: UAN, CAN, AN: Fertecon Nitrates (October 2018); Urea: Custom Resolution Utility ("**CRU**") Urea Outlook (December 2018); MAP/DAP: CRU Phosphates Outlook (October 2018); MOP: Fertecon Potash Outlook (December 2018).*
*CIS (excluding Russia): AN: Fertecon Nitrates (October 2018); Urea: CRU Urea Outlook (December 2018).*
*Russia: Russian Association of Mineral Fertiliser Producers (RAPU).*

The following table sets forth average fertiliser prices by region and product for the periods indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | (U.S.$/tonne) | |
| **International** | | | |
| Urea (FOB Black Sea) | 250.83 | 220.15 | 198.13 |
| AN (FOB Black Sea) | 186.45 | 190.81 | 165.39 |
| CAN (FOB Baltic Sea calculated from CIF Germany) | 171.80 | 154.35 | 136.60 |
| MAP (FOB Baltic Sea) | 412.75 | 348.16 | 337.86 |
| DAP (FOB Baltic Sea) | 414.39 | 350.23 | 338.35 |
| UAN (FOB Black Sea) | 180.13 | 145.31 | 139.07 |
| MOP (FOB Baltic Sea, spot) | 255.74 | 227.69 | 232.20 |
| **Russia** | | | |
| Urea | 200.17 | 202.15 | 167.76 |
| AN | 156.39 | 182.42 | 145.60 |
| MOP | 160.31 | 154.49 | 124.45 |

*Sources: CRU, Profercy, Fertecon, Argus FMB, ICIS The Market.*
*Russia: Rosstat. (Average Producer Price converted into U.S.$ using the following average annual exchange rates published by the Central Bank of Russia: RUB 66.83 to U.S.$ 1 in 2016, RUB 58.30 to U.S.$ 1 in 2017, RUB 62.93 to U.S.$ 1 in 2018).*

### *Cost of Sales*

The main components of the Group's cost of sales include raw materials, goods for resale (which comprise fertiliser products produced by third parties and sold by the Group via its distribution network or trading companies), labour (including contributions to social funds), other materials, depreciation and amortisation and energy. For the years ended 31 December 2018, 2017 and 2016, materials and components (comprising of raw materials, goods for resale and other materials) accounted for 81.2 per cent., 72.5 per cent. and 68.6 per cent., respectively, of the Group's cost of sales. Although the Group has a high degree of vertical integration and produces a portion of its phosphate rock, raw material cost volatility can, nonetheless, affect the Group's performance.

*Raw Materials*

*Natural Gas*. Natural gas is the primary raw material used by the Group to produce ammonia, the main building-block for nitrogen-based fertilisers. In addition to being used for the production of ammonia, natural gas is used for heating, as well as for other production related purposes.

For the years ended 31 December 2018, 2017 and 2016, natural gas represented 9.9 per cent., 10.5 per cent. and 10.0 per cent., respectively, of the Group's cost of sales. For the year ended 31 December 2018, mainly as a result of the currency translation effect, the average gas prices in U.S. dollar terms for the Group's nitrogen plants had decreased to U.S.$73 per 1,000 $m^3$, or by 4 per cent., and to U.S.$81 per 1,000 $m^3$, or by 4 per cent., at its Novomoskovskiy Azot and Nevinnomysskiy Azot facilities, respectively, compared to U.S.$76 per 1,000 $m^3$ and U.S.$84 per 1,000 $m^3$ for the year ended 31 December 2017.

The natural gas requirements are covered by purchases of natural gas from Gazprom (at tariffs regulated by FAS), Rosneft (at a discount to the FAS tariffs), Novatek (at a discount to the FAS tariffs) and the Saint-Petersburg International Mercantile Exchange (SPIMEX) (at prices below the FAS tariffs). Contracting with independent suppliers and purchasing natural gas on the exchange mitigates the risks of over-dependence on Gazprom (the monopolist on the Russian natural gas market) and improves the economy of gas supplies to the Group's enterprises through discounts to FAS tariff rates. Prior to the disposal of Severneft-Urengoy, LLC (the Group's subsidiary producing natural gas) in November 2017, natural gas requirements were partially covered internally, with up to 25 per cent. of total gas consumption being fulfilled by Severneft-Urengoy, LLC and not less than 75 per cent. from third-party sources. Following the Group's divestment of Severneft-Urengoy LLC, all natural gas consumption has been fulfilled by third-party suppliers, which the Group believes has reduced its expenditures on gas purchases. The Group believes that, given Russian domestic market conditions, it is more efficient to purchase gas from third-party suppliers than to operate an intra-group gas supplier. Russian domestic gas prices continue to remain below European levels. For the year ended 31 December 2018, the Group consumed a total of 4.7 billion $m^3$ of natural gas (100 per cent. purchased on the market as a result of the disposal of Severneft-Urengoy, LLC). For the years ended 2017 and 2016, the Group consumed a total of 4.6 billion of natural gas (85 per cent. purchased on the market).

*Ammonia*. A significant part of ammonia is produced internally. The Group sources ammonia externally (including from BASF and Ameropa) to supplement its internal ammonia production capacity. Ammonia accounted for 8.5 per cent., 8.5 per cent. and 8.9 per cent. of the Group's costs of sales for the years ended 31 December 2018, 2017 and 2016, respectively. The increase from U.S.$261.2 million for the year ended 31 December 2017 compared to U.S.$293.4 million for the year ended 31 December 2018 was due to an increase in the average purchase price and the Group's consumption of third-party ammonia, due to an increase in nitrogen and complex fertilisers production.

*Apatite*. The Group mined 2.5 million tonnes of apatite (Kovdor) for the year ended 31 December 2018, which represented 66 per cent. of its consumption which together with phosphate rock produced by the Group in Kazakhstan covered 69 per cent. of its own consumption for the period. For the year ended 31 December 2018, the Group purchased 1.3 million tonnes of apatite and phosphate rock to meet its production needs. Apatite accounted for 7.4 per cent., 6.9 per cent., and 8.6 per cent. of the Group's costs of sales for the years ended 31 December 2018, 2017 and 2016, respectively. The increase in the share of apatite in the cost of sales from 6.9 per cent. for the year ended 31 December 2017 to 7.4 per cent. for the year ended 31 December 2018 was primarily due to an increase in third-party supply of apatite due to an increase in phosphate and complex fertilisers production.

*Sulphur*. The Group uses sulphur as a raw material for the production of fertilisers. Sulphur accounted for 3.1 per cent., 2.1 per cent. and 2.4 per cent. of the Group's costs of sales for years ended 31 December 2018, 2017 and 2016, respectively. The main factors affecting sulphur costs are sulphur market prices, which increased in 2018, and the Group's phosphate and complex fertilisers production volumes, which gradually increased in 2016, 2017 and 2018.

*Other raw materials*. The Group's other raw materials include phosphate rock, MOP and potash sulphate. MOP is supplied by Uralkali and K+S while potash sulphate is sourced from K+S. Other materials accounted for 6.1 per cent., 5.4 per cent. and 5.8 per cent. of the Group's costs of sales for the years ended 31 December 2018, 2017 and 2016, respectively.

*Depreciation and Amortisation*

For the years ended 31 December 2018, 2017 and 2016, total depreciation and amortisation costs included in cost of sales represented 7.4 per cent., 7.4 per cent. and 6.7 per cent., respectively, of the Group's cost of sales. Depreciation and amortisation costs increased by U.S.$28.0 million for the year ended 31 December 2018 compared to the year ended 31 December 2017, and increased by U.S.$42.2 million for the year ended 31 December 2017 compared to the year ended 31 December 2016. The increase in 2018 compared to 2017 and 2016 was primarily due to an increase of property, plant and equipment value during 2018 and 2017 at the Group's main plants.

*Labour*

Labour (including contributions to social funds) is one of the largest components of the Group's cost of sales after depreciation and amortisation, raw materials and goods for resale and the main component of the Group's general and administrative expenses, accounting for 7.1 per cent., 7.5 per cent. and 8 per cent. of the Group's cost of sales and 58.7 per cent., 56.1 per cent. and 51.9 per cent. of the Group's general and administrative expenses for the years ended 31 December 2018, 2017 and 2016, respectively. Costs related to salaries, as well as the level of social contribution, have been growing in Russia on average at rates consistent with inflation. Due to the devaluation of Rouble, salaries denominated in U.S. Dollars deceased in 2014 and remained below 2013 level in 2018. Personnel costs denominated in U.S. Dollars continue to increase due to the recruitment of staff for greenfield potash projects and expansion of the sales and distribution business units.

*Energy*

For the years ended 31 December 2018, 2017 and 2016, total energy costs represented 5.4 per cent., 5.8 per cent. and 5.2 per cent., respectively, of the Group's cost of sales. The increase in absolute values in 2018 was primarily due to an increase in average price of energy and consumption volumes, which was partially offset by the currency translation effect. Energy costs include mainly electricity and steam expenses of the Group's facilities.

*Utilities and fuel*

For the years ended 31 December 2018, 2017 and 2016, total utilities and fuel costs represented 2.5 per cent., 2.4 per cent. and 2.2 per cent., respectively, of the Group's cost of sales, and comprised primarily of natural gas and other fuel types and water. The increase in absolute values was due to an increase in average price and consumption volumes, which was partially offset by the currency translation effect. Lifosa plant has natural gas supply agreements with Lithuanian suppliers. Natural gas supplies, primarily for heating purposes, for EuroChem Antwerpen, are mainly secured via BASF.

***Transportation***

For the years ended 31 December 2018, 2017 and 2016, total transportation costs for the Group amounted to U.S.$530.3 million, U.S.$511.4 million and U.S.$460.1 million, respectively, representing 71.2 per cent., 72.9 per cent. and 77.6 per cent., respectively, of the Group's total distribution costs. The increase in transportation costs for the year ended 31 December 2018 compared to the year ended 31 December 2017 was attributable to an increase in freight costs, which primarily resulted from an increase in the Group's sales volumes by approximately 3 per cent. on average and growth of freight rates (especially an increase in freight rates on delivery of iron ore to China). The increase in transportation costs in 2017 compared to 2016 was primarily due to the increase in railway transportation costs in Russia, mainly caused by the exchange rate effect, sea freight expenses growth and inclusion of Fertilizantes Tocantins transportation costs, which was partially offset by a decrease in port expenses. As a result of change in accounting policy, transportation expenses for the years ended 31 December 2018 and 2017 are not directly comparable to transportation expenses for the year ended 31 December 2016.

***Currency Fluctuations***

The Group, like many large multinational companies, faces a mismatch of the currencies in which its revenues and costs are denominated. The Group's revenue is generated principally in U.S. dollar and Euro. For the years ended 31 December 2018, 2017 and 2016, the Group's U.S. dollar-denominated sales represented 50 per cent., 49 per cent. and 49 per cent., respectively, of the Group's total sales. For the years ended 31 December 2018, 2017 and 2016, the Group's Euro-denominated sales represented 20 per cent., 20 per cent. and 23 per cent., respectively, of the Group's total sales. However, the Group's direct costs, including raw materials, energy, utilities, fuel and labour costs, have largely been incurred in Roubles. Thus, a devaluation of the Rouble against the U.S. dollar in 2018 led to a decrease, while an appreciation of the Rouble against the U.S. dollar in 2017 resulted in an increase in the Group's cost of sales in the relevant period (as reported in U.S. dollars). The depreciation of the Rouble against the U.S. dollar during most of 2016 led to a decrease in the Group's cost of sales. See "— *Year Ended 31 December 2018 Compared to the Year Ended 31 December 2017 and the Year ended 31 December 2017 Compared to the Year Ended 31 December 2016 — Cost of Sales*".

In 2017, the Rouble appreciated against the U.S. dollar, which resulted in the Group's reporting net financial foreign exchange gains. In 2018, the Rouble depreciated against the U.S. dollar, which resulted in the Group's reporting net financial foreign exchange loss. The Group reported net financial foreign exchange loss of U.S.$162.1 million, net financial foreign exchange gains of U.S.$0.6 million and U.S.$148.9 million in the years ended 31 December 2018, 2017 and 2016, respectively. Such losses and gains are not necessarily representative of the actual cash inflows or outflows of the Group. See "*Risk Factors — Foreign currency translation may impact the Group's IFRS financial results and may make it harder to compare the Group's performance year over year*".

The table below shows the average exchange rate of Rouble against the U.S. dollar and Euro for the periods indicated:

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Average exchange rate (RUB/U.S.$) | 62.7 | 58.4 | 67.0 |
| Average exchange rate (RUB/EUR) | 74.1 | 65.9 | 74.2 |

*Source: CBR.*

### *Seasonality*

The Group is subject to certain seasonal fluctuations in fertiliser demand and production output as a result of fertiliser application patterns and turnaround times as its nitrogen fertiliser facilities, respectively. Although the Group sells the majority of its production on international markets within key global agricultural regions, some periods of lesser activity in the international fertiliser markets remain, such as the end of November, prior to purchases for the spring planting season or the second quarter. For sales in Russia and other CIS countries, nitrogen-based fertilisers are primarily applied in the spring, with autumn and winter having lower application levels. Phosphate-based fertiliser application is slightly later, with NPK demand peaking in autumn. In order to limit seasonal volatility and complement the geographical coverage of EuroChem Agro, the Group has been taking steps to develop its distribution capabilities in several markets, such as in South America with the acquisition of Fertilizantes Tocantins in August 2016 and in Argentina with the acquisition of Emerger Fertilizantes S.A. in July 2017. To further develop its European presence, the Group established a distribution centre in Hungary in September 2016 and acquired distribution assets in Bulgaria in February 2017. Additional distribution facilities have been established in Romania, a representation office of EuroChem Agro in August 2017, and in Serbia in May 2017.

The Group's nitrogen fertiliser facilities undergo an average of approximately 20 days of maintenance turnarounds per year. So as to limit their operational impact, these tend to be scheduled for mid-summer, when demand is lower, and is preceded by an inventory build-up phase, which usually translates in slight increases in storage and handling costs.

Additionally, the Group's facilities generally consume more energy during winter and the costs linked to transporting, unloading and storing raw materials during this period are also generally higher as a result of climate conditions.

### *Product Mix*

The Group seeks to continually adjust its product mix in favour of high value-added products, however, while total production volumes may remain fairly stable, the share of high value-added products in the Group's output may vary considerably. Although the Group targets maximal operational returns, variations within its product mix can considerably affect its profitability.

### *Acquisitions and Divestments*

From time to time, the Group pursues strategic acquisitions and divestments. To expand its business operations (primarily relating to its distribution network), over the past several years, the Group acquired a 50 per cent. plus one share in Fertilizantes Tocantins, 100 per cent. interest in Agricola Bulgaria EAD (subsequently renamed EuroChem Agro Bulgaria EAD), Emerger Fertilizantes S.A., a

74.99 per cent. stake in Azottech, LLC, a minority interest (50 per cent. less one share) in Hispalense de Liquidos, which resulted in an increase in the Group's sales in the regions in which it acquired additional distribution assets. The Group also from time to time divests non-core assets: for example, in November 2017, the Group divested Severneft-Urengoy, LLC for an aggregate consideration of U.S.$225,174 thousand in an effort to reduce its operating costs in an environment in which gas price stability could be achieved without retaining an intra-group gas supplier. Following the divestment of Severneft-Urengoy, LLC, the Group believes that its cost of natural gas per $m^3$ generally decreased.

Effective 1 January 2018, the Oil & Gas division has been removed from the Group's corporate structure. Financial results of the Oil & Gas Division for the years ended 31 December 2017 and 31 December 2016 were reported in "Other". The results of the Oil & Gas division in these two years included the results of a subsidiary engaged in production of hydrocarbons, which was disposed off at the end of 2017.

### Recent Developments

In January 2019, the Group made a drawdown in full amount of the U.S.$100 million committed credit facility bearing a floating interest rate, signed in December 2018, maturing in December 2023.

In December 2017, the Group acquired 24.89 per cent. share of interest in Azottech, LLC, the company specialises in drilling and blasting operations and located in the Perm region in Russia. In January 2019, the Group increased its share in Azottech up to 74.99 per cent.

### Business Segments

The Group has a vertically integrated business model conducted by four operating divisions: the Mining Division, the Fertilisers Division, the Logistics Division and the Sales Division. For more information on business activities of each division see "*—Overview*". Prior to the year ended 31 December 2018, the Group had five operating divisions, including Oil & Gas Division, which was removed from the Group's structure effective 1 January 2018. Activities not assigned to a particular division are reported as "Other". These include certain service activities, central management and other activities. Financial results of the Oil & Gas Division for the years ended 31 December 2017 and 31 December 2016 were reported in "Other" to conform to presentation in the year ended 31 December 2018. The results of the Oil & Gas division in these two years included the results of a subsidiary engaged in production of hydrocarbons, which was disposed off at the end of 2017. All intersegment transactions and unrealised profit in inventory from intragroup sales are eliminated through "Elimination". See Note 7 to the 2018 Financial Statements.

### Results of Operations

The following table sets forth the Group's selected consolidated statement of profit or loss data for the years indicated:

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | *(U.S.$ in thousands)* | |
| Sales | 5,577,472 | 4,865,664 | 4,375,090 |
| Cost of sales | (3,437,727) | (3,079,029) | (2,759,422) |
| **Gross profit** | **2,139,745** | **1,786,635** | **1,615,668** |
| Distribution costs[(1)] | (744,985) | (701,487) | (592,553) |
| General and administrative expenses | (208,292) | (217,775) | (170,240) |
| Other operating income/(expenses), net | 2,956 | (35,100) | (1,642) |
| **Operating profit** | **1,189,424** | **832,273** | **851,233** |

(1) As a result of a change in accounting policy for transportation expenses, distribution costs for the years ended 31 December 2018 and 2017 are not directly comparable to distribution costs for the year ended 31 December 2016.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | *(U.S.$ in thousands)* | |
| Share of profit/(loss) from associates and joint ventures, net | 3,395 | (2,803) | 23,385 |
| Gain on sale of associate | - | - | 23,641 |
| Loss from disposal of subsidiaries, net | (45,753) | (60,205) | - |
| Interest income | 8,130 | 11,864 | 18,148 |
| Interest expense | (94,480) | (131,393) | (131,557) |
| Financial foreign exchange (loss)/gain, net | (162,070) | 569 | 148,929 |
| Other financial (loss)/gain, net | (159,804) | 46,305 | 23,137 |
| **Profit before taxation** | **738,842** | **696,610** | **956,916** |
| Income tax expense | (200,421) | (243,244) | (248,929) |
| **Net profit** | **538,421** | **453,366** | **707,987** |

***Year Ended 31 December 2018 Compared to the Year Ended 31 December 2017 and the Year ended 31 December 2017 Compared to the Year Ended 31 December 2016***

*Sales*

The following table sets forth the Group's external sales by operating division for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016[(1)] |
| | | *(U.S.$ in thousands)* | |
| Mining | 11,601 | 11,067 | 9,947 |
| Fertilisers | 66,653 | 54,743 | 50,100 |
| Logistics | 46,298 | 39,003 | 36,433 |
| Sales | 5,450,384 | 4,727,633 | 4,216,640 |
| Other | 2,536 | 33,218 | 61,970 |
| **Total sales** | **5,577,472** | **4,865,664** | **4,375,090** |

(1) Effective 1 January 2018, the Group removed the Oil & Gas Division from its structure. External sales for the Oil & Gas Division for the year ended 31 December 2016 were reclassified to "Other" to conform to presentation in the years ended 31 December 2018 and 31 December 2017.

The following table sets forth the Group's external sales by product for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016[(1)] |
| | | *(U.S.$ in thousands)* | |
| Nitrogen products | 1,837,985 | 1,704,825 | 1,774,243 |
| Phosphate and complex fertilisers | 2,317,795 | 1,899,473 | 1,674,088 |
| Potash fertilisers | 235,705 | 148,590 | 74,084 |
| Mining products | 422,252 | 435,859 | 303,267 |
| Industrial products | 632,003 | 532,104 | 424,157 |
| Hydrocarbons | - | 24,860 | 23,090 |
| Other sales | 131,732 | 119,953 | 102,161 |
| **Total sales** | **5,577,472** | **4,865,664** | **4,375,090** |

(1) External sales of certain product categories in the year ended 31 December 2016 were reclassified to conform to presentation in the years ended 31 December 2018 and 31 December 2017.

For the year ended 31 December 2018, the Group's total sales were U.S.$5,577.5 million, an increase of U.S.$711.8 million, or 14.6 per cent., compared to U.S.$4,865.7 million for the year ended 31 December 2017. The increase was primarily due to an increase in average prices of the Group's main fertilisers and mining products, as well as an increase in sales of other manufacturers' products, which increased as a result of the expansion of the Group's distribution network.

For the year ended 31 December 2017, the Group's total sales were U.S.$4,865.7 million, an increase of U.S.$490.6 million, or 11.2 per cent., compared to U.S.$4,375.1 million for the year ended 31 December 2016. The increase was primarily due to an increase in sales volumes and favourable market conditions, which was partially offset by a decrease in sales volumes of some products (such as ammonia and urea).

The following table sets forth the Group's sales by region for the years indicated:

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | *(U.S.$ in thousands)* | | |
| Europe | 1,600,106 | 1,534,840 | 1,590,461 |
| Russia | 1,062,519 | 965,249 | 804,327 |
| North America[(1)] | 841,997 | 618,099 | 678,851 |
| Asia Pacific | 526,780 | 490,088 | 444,772 |
| Latin America[(1)] | 1,154,193 | 780,256 | 443,108 |
| CIS[(2)] | 262,158 | 362,579 | 350,968 |
| Africa | 129,719 | 114,553 | 62,603 |
| **Total sales** | **5,577,472** | **4,865,664** | **4,375,090** |

(1) Sales to Mexico were reallocated from Latin America to North America to conform to presentation in the years ended 31 December 2018 and 31 December 2017.

(2) Including associate states.

For the year ended 31 December 2018, the Group's sales in Europe were U.S.$1,600.1 million, an increase of U.S.$65.3 million, or 4.3 per cent., compared to U.S.$1,534.8 million for the year ended 31 December 2017. The increase was primarily due to an increase in sales volumes of certain nitrogen and phosphates fertilisers and feed phosphates group fertilisers. For the year ended 31 December 2018, the Group's sales in Russia were U.S.$1,062.5 million, an increase of U.S.$97.3 million, or 10.1 per cent., compared to U.S.$965.2 million for the year ended 31 December 2017. The increase was primarily due to an increase in sales volumes of iron ore concentrate and industrial products. For the year ended 31 December 2018, the Group's sales in North America were U.S.$842.0 million, an increase of U.S.$223.9 million, or 36.2 per cent., compared to U.S.$618.1 million for the year ended 31 December 2017. The increase was primarily due to an increase in sales volumes of certain nitrogen and phosphates fertilisers and feed phosphates group fertilisers. For the year ended 31 December 2018, the Group's sales in Asia Pacific were U.S.$526.8 million, an increase of U.S.$36.7 million, or 7.5 per cent., compared to U.S.$490.1 million for the year ended 31 December 2017. The increase was primarily due to an increase in sales volumes of nitrogen and phosphates fertilisers and certain industrial products. For the year ended 31 December 2018, the Group's sales in Latin America were U.S.$1,154.2 million, an increase of U.S.$373.9 million, or 48 per cent., compared to U.S.$780.3 million for the year ended 31 December 2017. The increase was primarily due to a general rise in the prices on its products, an increase in sales volumes of a number of products of nitrogen and phosphates group and certain industrial products, which was largely attributable to sales growth in Brazil, where Fertilizantes Tocantins launched two new blending plants during 2018. For the year ended 31 December 2018, the Group's sales in CIS were U.S.$262.2 million, a decrease of U.S.$100.4 million, or 27.7 per cent., compared to U.S.$362.6 million for the year ended 31 December 2017. The decrease was primarily due to a substantial decrease in sales volumes of phosphates fertilisers. For the year ended 31 December 2018, the Group's sales in Africa were U.S.$129.7 million, an increase of U.S.$15.1 million, or 13.2 per cent., compared to U.S.$114.6 million for the year ended 31 December 2017. The increase was primarily due to an increase in sales volumes of phosphates fertilisers, feed phosphates group, certain industrial products.

For the year ended 31 December 2017, the Group's sales in Europe were U.S.$1,534.8 million, a decrease of U.S.$55.7 million, or 3.5 per cent., compared to U.S.$1,590.5 million for the year ended 31 December 2016. The decrease was primarily due to a decrease in the sales volumes of the Group's products on the European market. For the year ended 31 December 2017, the Group's sales in Russia were U.S.$965.2 million, an increase of U.S.$160.9 million, or 20 per cent., compared to U.S.$804.3 million for the year ended 31 December 2016. The increase was primarily due to an increase in pricing and sales volumes. For the year ended 31 December 2017, the Group's sales in Asia Pacific were U.S.$490.1 million, an increase of U.S.$45.3 million, or 10.2 per cent., compared to U.S.$444.8 million for the year ended 31 December 2016. The increase was primarily due to higher prices, in particular, for iron ore. For the year ended 31 December 2017, the Group's sales in North America were U.S.$618.1 million, a decrease of U.S.$60.8 million, or 8.9 per cent., compared to U.S.$678.9 million for the year ended 31 December 2016. The decrease was primarily due to decrease in urea and UAN sales volumes. For the year ended 31 December 2017, the Group's sales in Latin America were U.S.$780.3 million, an increase of U.S.$337.2 million, or 76.1 per cent., compared to U.S.$443.1 million for the year ended 31 December 2016. The increase was primarily due to the expansion of the Group's distribution system and a notable increase in sales of other manufacturers' products.

*Nitrogen Products*

The external sales of nitrogen products for the year ended 31 December 2018 were U.S.$1,838.0 million, an increase of U.S.$133.2 million, or 7.8 per cent., compared to U.S.$1,704.8 million for the year ended 31 December 2017, attributable to a substantial increase in sales volumes and sales price, which was partially offset by a decrease in sales of ammonium sulphate and GAN.

The external sales of nitrogen products for the year ended 31 December 2017 were U.S.$1,704.8 million, a decrease of U.S.$69.4 million, or 3.9 per cent., compared to U.S.$1,774.2 million for the year ended 31 December 2016. The decrease is mainly attributable to a substantial decrease in urea and UAN sales volumes, partially offset by an increase in average sales prices.

*Phosphates and complex fertilisers*

The Group's external sales of phosphates and complex fertilisers for the year ended 31 December 2018 were U.S.$2,317.8 million, an increase of U.S.$418.3 million, or 22 per cent., compared to U.S.$1,899.5 million for the year ended 31 December 2017. The increase is primarily a result of an increase in sales volumes, favourable market conditions and price appreciation. Total sales volume of phosphates and complex fertilisers increased by 6.9 per cent. to 5,685 thousand tonnes compared to 5,319 thousand tonnes for the year ended 31 December 2017.

The Group's external sales of phosphates and complex fertilisers for the year ended 31 December 2017 were U.S.$1,899.5 million, an increase of U.S.$225.4 million, or 13.5 per cent., compared to U.S.$1,674.1 million for the year ended 31 December 2016. The increase is primarily a result of a higher demand for MAP. Total sales volume of phosphates and complex fertilisers increased by 16.2 per cent. to 5,319 thousand tonnes compared to 4,576 thousand tonnes for the year ended 31 December 2016.

*Potash Fertilisers*

For the year ended 31 December 2018, the external sales of potash fertilisers amounted to U.S.$235.7 million, an increase of U.S.$87.1 million, or 58.6 per cent., compared to U.S.$148.6 million for the year ended 31 December 2017, which was due to an increase in prices, an increase in third parties products sales volumes as well as commencement of sales relating to the Group's own production in a testing mode.

For the year ended 31 December 2017, the external sales of potash fertilisers amounted to U.S.$148.6 million, an increase of U.S.$74.5 million, or 100.5 per cent., compared to U.S.$74.1 million, for the year ended 31 December 2016, which was due to an increase in third parties products sales volumes, mainly attributable to growing distribution network and an increase in prices.

*Mining Products*

For the year ended 31 December 2018, the external sales of mining products amounted to U.S.$422.3 million, a decrease of U.S.$13.6 million, or 3.1 per cent., compared to U.S.$435.9 million for the year ended 31 December 2017 due to a decrease in average prices of iron ore and a marginal decline in sales volumes.

For the year ended 31 December 2017, the external sales of mining products amounted to U.S.$435.9 million, an increase of U.S.$132.6 million, or 43.7 per cent., compared to U.S.$303.3 million for the year ended 31 December 2016 primarily due to the significant price increase of iron ore.

*Industrial products*

For the year ended 31 December 2018, the external sales of industrial products amounted to U.S.$632.0 million, an increase of U.S.$99.9 million, or 18.8 per cent., compared to U.S.$532.1 million for the year ended 31 December 2017 due to an increase in prices for Methanol, supported by production and sales growth, an increase in prices for Melamine, an increase in sales volumes for industrial ammonium nitrate and an increase in prices for certain organic base chemicals.

For the year ended 31 December 2017, the external sales of industrial products amounted to U.S.$532.1 million, an increase of U.S.$107.9 million, or 25.4 per cent., compared to U.S.$424.2 million for the year ended 31 December 2016 primarily due to an increase in sales volumes of wood processing products and industrial ammonium nitrate, and an increase in prices for certain organic base chemicals.

*Hydrocarbons*

For the year ended 31 December 2018, there were no external sales of hydrocarbons compared to U.S.$24.9 million for the year ended 31 December 2017, which was due to the disposal of Severneft-Urengoy, LLC.

For the year ended 31 December 2017, the external sales of hydrocarbons amounted to U.S.$24.9 million, an increase of U.S.$1.8 million, or 7.8 per cent., compared to U.S.$23.1 million for the year ended 31 December 2016 primarily due to an increase in sales prices, which was partially offset by a decrease in sales volumes.

*Other Sales*

The Group's other sales increased from U.S.$120.0 million for the year ended 31 December 2017 to U.S.$131.7 million for the year ended 31 December 2018 mainly due to an increase in sales of logistics services and steam.

The Group's other sales increased from U.S.$102.2 million for the year ended 31 December 2016 to U.S.$120.0 million for the year ended 31 December 2017 due to an increase in sales of utilities (electric power, heat and water supply) at Russian plants and due to the appreciation of Rouble.

*Cost of Sales*

The following table sets forth components of the Group's cost of sales for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | *(U.S.$ in thousands)* | |
| Raw materials | 1,204,587 | 1,025,391 | 985,100 |
| Goods for resale | 1,403,816 | 1,024,779 | 740,304 |
| Other materials | 184,508 | 180,752 | 168,185 |
| Energy | 184,709 | 178,330 | 143,498 |
| Utilities and fuel | 84,542 | 73,478 | 59,907 |
| Labour, including contributions to social funds | 244,770 | 231,737 | 220,527 |
| Depreciation and amortisation | 255,366 | 227,348 | 185,165 |
| Repairs and maintenance | 53,253 | 55,725 | 50,501 |
| Production overheads | 78,756 | 70,150 | 66,253 |
| Property tax, rent payments for land and related taxes | 27,236 | 38,598 | 30,188 |
| Impairment/(reversal of impairment)/write-off of idle property, plant and equipment, net | 920 | (480) | 18,347 |
| Reversal of provision for obsolete and damaged inventories, net | (68) | (290) | (1,060) |
| Changes in work in progress and finished goods | (293,288) | (47,756) | 78,470 |
| Other costs / (compensations), net | 8,620 | 21,267 | 14,037 |
| **Total cost of sales** | **3,437,727** | **3,079,029** | **2,759,422** |

For the year ended 31 December 2018, the Group's cost of sales was U.S.$3,437.7 million, an increase of U.S.$358.7 million, or 11.6 per cent., compared to U.S.$3,079.0 million for the year ended 31 December 2017. The increase was primarily due an increase in raw materials and goods for resale.

For the year ended 31 December 2017, the Group's cost of sales was U.S.$3,079.0 million, an increase of U.S.$319.6 million, or 11.6 per cent., compared to U.S.$2,759.4 million for the year ended 31 December 2016. The increase was primarily due to an increase in goods for resale, depreciation and amortisation, and raw materials.

*Raw Materials*

For the year ended 31 December 2018, the Group's raw materials costs were U.S.$1,204.6 million, an increase of U.S.$179.2 million, or 17.5 per cent., compared to U.S.$1,025.4 million for the year ended 31 December 2017. The increase was primarily due to an increase in average raw materials prices, an increase in the costs of ammonia resulting from third-party supply of ammonia required to support an increase in nitrogen and complex fertilisers production.

For the year ended 31 December 2017, the Group's raw materials costs were U.S.$1,025.4 million, an increase of U.S.$40.3 million, or 4.1 per cent., compared to U.S.$985.1 million for the year ended 31 December 2016. The increase was primarily due to an increase in the volume of gas purchased from third parties by the Group.

*Goods for Resale*

For the year ended 31 December 2018, the Group's goods for resale costs were U.S.$1,403.8 million, an increase of U.S.$379 million, or 37 per cent., compared to U.S.$1,024.8 million for the year ended 31 December 2017. The increase was primarily due to an increase in third-party products sales, which were sold by traders and distributors (mostly NPK, MAP, DAP).

For the year ended 31 December 2017, the Group's goods for resale costs were U.S.$1,024.8 million, an increase of U.S.$284.5 million, or 38.4 per cent., compared to U.S.$740.3 million for the year ended 31 December 2016. The increase correlates with the increase in third-party products sales (mostly NPK, KCI, NP) and resold by EuroChem Agro, traders, agrocentres and new Brazil-based distributor (Fertilizantes Tocantins Ltda) acquired in September 2016.

*Other materials*

For the year ended 31 December 2018, the Group's other materials costs were U.S.$184.5 million, an increase of U.S.$3.7 million, or 2 per cent., compared to U.S.$180.8 million for the year ended 31 December 2017. The increase was primarily due to testing of operational activities at the Usolskiy Potash Project, an increase in catalysts consumption and drilling works.

For the year ended 31 December 2017, the Group's other materials costs were U.S.$180.8 million, an increase of U.S.$12.6 million, or 7.5 per cent., compared to U.S.$168.2 million for the year ended 31 December 2016. The increase was primarily due to the currency translation effect (with respect to cost related to plants located in Russia), which partially was offset by a decrease in material costs, a decrease in the use of repair materials and a decrease in other material usage at Russian plants.

*Energy*

For the year ended 31 December 2018, the Group's energy costs were U.S.$184.7 million, an increase of U.S.$6.4 million, or 3.6 per cent., compared to U.S.$178.3 million for the year ended 31 December 2017. The increase was primarily due to an increase in energy costs and their consumption volumes at Russian plants.

For the year ended 31 December 2017, the Group's energy costs were U.S.$178.3 million, an increase of U.S.$34.8 million, or 24.3 per cent., compared to U.S.$143.5 million for the year ended 31 December 2016. The increase was primarily due to the currency translation effect (with respect to cost related to plants located in Russia) and an increase in energy costs.

*Utilities and Fuel*

For the year ended 31 December 2018, the Group's utilities and fuel costs were U.S.$84.5 million, an increase of U.S.$11 million, or 15 per cent., compared to U.S.$73.5 million for the year ended 31 December 2017. The increase was primarily due to costs increases at Kovdorskiy GOK (primarily relating to mazut and diesel costs).

For the year ended 31 December 2017, the Group's utilities and fuel costs were U.S.$73.5 million, an increase of U.S.$13.6 million, or 22.7 per cent., compared to U.S.$59.9 million for the year ended 31 December 2016. The increase was primarily due to the currency translation effect and costs increases at Kovdorskiy GOK (primarily relating to mazut and diesel costs), at EuroChem Antwerpen (primarily relating to cooling water and gas used as fuel costs).

*Labour, Including Contributions to Social Funds*

For the year ended 31 December 2018, the Group's labour, including contributions to social funds costs were U.S.$244.8 million, an increase of U.S.$13.1 million, or 5.7 per cent., compared to U.S.$231.7 million for the year ended 31 December 2017. The increase was primarily due to wages and salary indexation on average for the Group and growth related to testing operational activities at the Usolskiy Potash Project.

For the year ended 31 December 2017, the Group's labour, including contributions to social funds costs were U.S.$231.7 million, an increase of U.S.$11.2 million, or 5 per cent., compared to U.S.$220.5 million for the year ended 31 December 2016. The increase was primarily due to wages and salaries indexation on average for the Group effective from 1 January 2017.

*Repairs and Maintenance*

For the year ended 31 December 2018, the Group's repairs and maintenance costs were U.S.$53.3 million, a decrease of U.S.$2.4 million, or 4.3 per cent., compared to U.S.$55.7 million for the year ended 31 December 2017, due to foreign exchange translation effect.

For the year ended 31 December 2017, the Group's repairs and maintenance costs were U.S.$55.7 million, an increase of U.S.$5.2 million, or 10.3 per cent., compared to U.S.$50.5 million for the year ended 31 December 2016. The increase was primarily due to foreign exchange translation effect.

*EBITDA*

The following table sets forth the Group's EBITDA (before intragroup eliminations) by division for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016(1)** |
| | | *(U.S.$ in thousands)* | |
| Mining | 304,401 | 287,268 | 286,364 |
| Fertilisers | 1,032,777 | 690,165 | 615,273 |
| Logistics | 93,887 | 96,342 | 75,549 |
| Sales | 207,918 | 90,836 | 71,607 |
| Other | (39,336) | (22,656) | 18,986 |
| Elimination | (82,721) | (11,517) | 65,136 |
| **Group's EBITDA(2)** | **1,516,926** | **1,130,438** | **1,132,915** |

(1) Effective 1 January 2018, the Group removed the Oil & Gas Division from its structure. EBITDA (before intragroup eliminations) for the Oil & Gas Division for the year ended 31 December 2016 was reclassified to "Other" to conform to presentation in the years ended 31 December 2018 and 31 December 2017.

(2) EBITDA represents profit or loss before taxation adjusted for depreciation and amortisation, impairment or reversal of impairment/ write-off of idle property, plant and equipment, gain on sale of associate, loss from disposal of subsidiaries, non-recurring expenses, interest expense, financial foreign exchange gain or loss, net, other financial gain or loss, net and non-controlling interests. See "*Presentation of Financial and Other Information*".

*The Group*

For the year ended 31 December 2018, the Group's EBITDA was U.S.$1,516.9 million, an increase of U.S.$ 386.5 million, or 34.2 per cent., compared to U.S.$1,130.4 million for the year ended 31 December 2017, there was a decrease of U.S.$2.5 million for the year ended 31 December 2017, or 0.2 per cent., compared to U.S.$1,132.9 million for the year ended 31 December 2016. The increase in 2018 compared to the previous year was mainly attributable to the growth in market prices for main fertilisers and certain positive currency translation effect for Rouble-denominated costs (primarily relating to the Group's mining operations). The decrease in 2017 compared to 2016 was primarily due to a decrease in sales volumes.

Mining Division

For the year ended 31 December 2018, the Mining Division's EBITDA (before intragroup eliminations) was U.S.$304.4 million, an increase of U.S.$17.1 million, or 6 per cent., compared to U.S.$287.3 million for the year ended 31 December 2017, there was an increase of U.S.$0.9 million for the year ended 31 December 2017, or 0.3 per cent., compared to U.S.$286.4 million for the year ended 31 December 2016. The increase in 2018 compared to 2017 was mainly due to currency translation effect, cost reduction and tax refund relating to Kovdorskiy GOK's operations and beginning of the production in the testing mode at the Usolskiy Potash Project.

Fertilisers Division

For the year ended 31 December 2018, the Fertilisers Division's EBITDA (before intragroup eliminations) was U.S.$1,032.8 million, an increase of U.S.$342.6 million, or 49.6 per cent., compared to U.S.$690.2 million for the year ended 31 December 2017, there was an increase of U.S.$74.9 million for the year ended 31 December 2017 compared to U.S.$615.3 million for the year ended 31 December 2016. The increase in EBITDA in 2018 compared to 2017 was primarily due to an increase in prices for fertilisers and positive currency translation effect for Rouble-denominated costs, which was partially offset by an increase in raw material prices (mainly ammonia). The increase in EBITDA in 2017 compared to 2016 was primarily driven by higher prices for fertilisers, which was partially offset by higher raw material costs (mainly ammonia) and negative currency translation effect on Rouble-denominated costs.

Logistics Division

For the year ended 31 December 2018, the Logistics Division's EBITDA (before intragroup eliminations) was U.S.$93.9 million, a decrease of U.S.$2.4 million, or 2.5 per cent., compared to U.S.$96.3 million for the year ended 31 December 2017, there was an increase of U.S.$20.8 million for the year ended 31 December 2017 compared to U.S.$75.5 million for the year ended 31 December 2016. The decrease in 2018 compared to 2017 was mainly due to the disposal of shipping assets. The increase in 2017 compared to 2016 was mainly attributable to the acquisition of two companies, each owning a bulk carrier sea vessel, an increase in the relevant shipping costs and a decrease of maintenance costs.

Sales Division

For the year ended 31 December 2018, the Sales Division's EBITDA (before intragroup eliminations) was U.S.$207.9 million, an increase of U.S.$117.1 million compared to U.S.$90.8 million for the year ended 31 December 2017, which was an increase of U.S.$19.2 million, compared to U.S.$71.6 million for the year ended 31 December 2016. The increase in 2018 compared to 2017 was primarily due to a continued year-on-year increase in average market prices and trading volumes of third-party products. Similar dynamics occurred in 2017 compared to 2016.

*Distribution Costs*

The following table sets forth the Group's distribution costs for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | *(U.S.$ in thousands)* | | |
| Transportation[(1)] | 530,320 | 511,379 | 460,097 |
| Labour, including contributions to social funds | 87,650 | 79,672 | 64,445 |
| Depreciation and amortisation | 41,511 | 37,414 | 25,142 |
| Repairs and maintenance | 8,033 | 7,140 | 7,038 |
| Provision/(reversal of provision) for impairment of receivables, net | 16,307 | 14,531 | (8,179) |
| Other costs | 61,164 | 51,351 | 44,010 |
| **Total distributions costs** | **744,985** | **701,487** | **592,553** |

(1) As a result of a change in accounting policy, transportation expenses for the years ended 31 December 2018 and 2017 are not directly comparable to transportation expenses for the year ended 31 December 2016.

The Group's distribution costs primarily consist of transportation costs, which accounted for 71.2 per cent., 73 per cent. and 77.6 per cent. of the Group's distribution costs for the years ended 31 December 2018, 2017 and 2016, respectively. For the year ended 31 December 2018, the Group's distribution costs were U.S.$745.0 million, an increase of U.S.$43.5 million, or 6.2 per cent., compared to U.S.$701.5 million for the year ended 31 December 2017. The increase was primarily due to an increase in freight costs, port expenses, rent expenses and insurance expenses. For the year ended 31 December 2017, the Group's distribution costs were U.S.$701.5 million, an increase of U.S.$108.9 million, or 18.4 per cent., compared to U.S.$592.6 million for the year ended 31 December 2016. The increase was primarily due to an increase in transportation expenses (mainly caused by the increase in railway transportation and effect from sea freight expenses growth, as well as following the acquisition of an additional distribution entity).

*General and Administrative Expenses*

The following table sets forth the Group's general and administrative expenses for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | *(U.S.$ in thousands)* | |
| Labour, including contributions to social funds | 122,366 | 122,130 | 88,322 |
| Depreciation and amortisation | 11,459 | 12,328 | 8,888 |
| Audit, consulting and legal services | 13,150 | 14,927 | 18,353 |
| Rent | 6,737 | 7,060 | 6,043 |
| Bank charges | 3,436 | 4,261 | 5,063 |
| Social expenditure | 3,227 | 4,272 | 3,870 |
| Repairs and maintenance | 2,401 | 2,359 | 1,654 |
| Provision ECL allowance/(reversal of ECL allowance) of receivables, net | 2,037 | 5,712 | 1,877 |
| Other expenses | 43,479 | 44,726 | 36,170 |
| **Total general and administrative expenses** | **208,292** | **217,775** | **170,240** |

The Group's general and administrative expenses consist mainly of salaries and wages of administrative personnel and professional services costs, including costs incurred by financial, legal and accounting advisers. For the year ended 31 December 2018, the Group's general and administrative expenses were U.S.$208.3 million, a decrease of U.S.$9.5 million, or 4.4 per cent., compared to U.S.$217.8 million for the year ended 31 December 2017. The decrease was primarily due to the currency translation effect. For the year ended 31 December 2017, the Group's general and administrative expenses were U.S.$217.8 million, an increase of U.S.$47.6 million, or 28 per cent., compared to U.S.$170.2 million for the year ended 31 December 2016. The increase was primarily due to the currency translation effect resulting in an increase in Rouble-denominated administrative labour costs, effect from the inclusion of an additional distribution entity labour costs, wages and salary indexation on average at the Group level.

*Other Operating Income and Expenses*

The following table sets forth the Group's other operating income and expenses for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | *(U.S.$ in thousands)* | |
| Sponsorship | 6,752 | 21,013 | 17,807 |
| Loss on disposal of property, plant and equipment and intangible assets, net | 8,409 | 8,708 | 5,677 |
| Foreign exchange (gain)/loss from operating activities, net | (3,676) | 5,758 | 474 |
| Impairment/write off of idle property plant and equipment, net | 539 | 5,451 | 321 |
| (Gain) on sales and purchases of foreign currencies, net | (4,780) | (1,661) | (5,112) |
| Non-recurring expenses, net | 6,155 | 6,943 | 2,777 |
| Other operating (income), net | (16,355) | (11,112) | (20,302) |
| **Total other operating (income)/expenses, net** | **(2,956)** | **35,100** | **1,642** |

For the year ended 31 December 2018, the Group incurred net other operating income of U.S.$3 million compared to net other operating expenses of U.S.$35.1 million for the year ended 31 December 2017 primarily due to a decrease in the level of sponsorship programmes participated in by the Group, foreign exchange gain from operating activities, lower write-off of property, plant and equipment and higher gain on currency purchase and sales transactions. For the year ended 31 December 2017, the Group's net other operating expenses were U.S.$35.1 million, an increase of U.S.$33.5 million compared to U.S.$1.6 million for the year ended 31 December 2016. The increase was primarily due to the currency translation effect and currency volatility, an impairment in respect of certain items of property, plant and equipment, a decrease in sales and purchases of foreign currencies and higher costs accrued in respect of efforts focused on settlement of prior period agreements with customers.

*Operating Profit*

For the reasons described above, for the year ended 31 December 2018, the Group's operating profit was U.S.$1,189.4 million, an increase of U.S.$357.1 million, or 43 per cent., compared to U.S.$832.3 million for the year ended 31 December 2017.

For the reasons described above, for the year ended 31 December 2017, the Group's operating profit was U.S.$832.3 million, a decrease of U.S.$18.9 million, or 2.2 per cent., compared to U.S.$851.2 million for the year ended 31 December 2016.

*Share of Profit/(Loss) from Associates and Joint Ventures, Net*

For the year ended 31 December 2018, the Group's share of net profit from associates and joint ventures was U.S.$3.4 million, a change of U.S.$6.2 million, or 221.4 per cent., compared to loss of U.S.$2.8 million for the year ended 31 December 2017, a change of U.S.$26.2 million, or 112.0 per cent., compared to profit of U.S.$23.4 million for the year ended 31 December 2016.

*Loss from disposal of subsidiaries*

For the year ended 31 December 2018, the Group's loss from disposal of subsidiaries was U.S.$45.8 million, a decrease of U.S.$14.4 million, or 23.9 per cent., compared to loss of U.S.$60.2 million for the year ended 31 December 2017 as a result of the disposal of two subsidiaries.

*Interest Income*

For the year ended 31 December 2018, the Group's interest income was U.S.$8.1 million, a decrease of U.S.$3.8 million, or 32 per cent., compared to U.S.$11.9 million for the year ended 31 December 2017. The decrease mainly was caused by a decrease in interest income from loans to EuroChem Louisiana LLC, which became the Group's subsidiary in the beginning of 2018 and a decrease in interest income on cash deposits. For the year ended 31 December 2017, the Group's interest income was U.S.$11.9 million, a decrease of U.S.$6.2 million, or 34.3 per cent., compared to U.S.$18.1 million for the year ended 31 December 2016. The decrease mainly was caused by the fact that during 2016 the Group incurred interest income from originated loans issued (including to related parties).

*Interest Expense*

For the year ended 31 December 2018, the Group's interest expense was U.S.$94.5 million, a decrease of U.S.$36.9 million, or 28 per cent., compared to U.S.$131.4 million for the year ended 31 December 2017. For the year ended 31 December 2017, the Group's interest expense was U.S.$131.4 million, a decrease of U.S.$0.2 million, or 0.2 per cent., compared to U.S.$131.6 million for the year ended 31 December 2016.

*Financial Foreign Exchange (Loss)/Gain, Net*

For the year ended 31 December 2018, the Group's net financial foreign exchange loss was U.S.$162.1 million, a change of U.S.$162.7 million, compared to net foreign exchange gain of U.S.$0.6 million for the year ended 31 December 2017. For the year ended 31 December 2017, the Group's net financial foreign exchange gain was U.S.$0.6 million, a decrease of U.S.$148.3 million, compared to a gain of U.S.$148.9 million for the year ended 31 December 2016. The changes in the net financial foreign exchange gain or loss over the periods are mainly due to currency translation effect with respect to U.S. dollar-denominated Eurobonds and revaluation of Euro-denominated project finance facilities. See also "— *Key Factors Affecting Results of Operations — Currency Fluctuations*".

*Other Financial (Loss)/Gain, Net*

For the year ended 31 December 2018, the Group's net other financial loss was U.S.$159.8 million compared to net other financial gain of U.S.$46.3 million for the year ended 31 December 2017. The change was primarily due to the changes in the fair value of cross currency interest rate swaps and foreign exchange forwards. The Group's net other financial gain increased from U.S.$23.1 million for the year ended 31 December 2016 to U.S.$46.3 million for the year ended 31 December 2017, which was primarily due to changes in fair value of cross currency interest rate swaps.

*Profit before Taxation*

For the year ended 31 December 2018, the Group's profit before taxation was U.S.$738.8 million compared to profit before taxation of U.S.$696.6 million for the year ended 31 December 2017, compared to profit before taxation of U.S.$956.9 million for the year ended 31 December 2016.

*Income Tax Expense*

For the year ended 31 December 2018, the Group's income tax expense was U.S.$200.4 million, a decrease of U.S.$42.8 million, or 17.6 per cent., compared to U.S.$243.2 million for the year ended 31 December 2017. The decrease was primarily attributable to the reassessment of deferred income tax assets due to the Group entering into certain investment contracts with local authorities and a reduction in the income tax rate relating to these activities.

For the year ended 31 December 2017, the Group's income tax expense was U.S.$243.2 million, a decrease of U.S.$5.7 million, or 2.3 per cent., compared to U.S.$248.9 million for the year ended 31 December 2016. The decrease was primarily due to a reassessment of deferred tax assets as a result of a change in the income tax rate for a number of investment projects and a decrease in write-offs of previously recognised deferred tax assets.

*Profit for the Year*

For the year ended 31 December 2018, the Group's net profit was U.S.$538.4 million for the year ended 31 December 2018 compared to a profit of U.S.$453.4 million for the year ended 31 December 2017, compared to a profit of U.S.$708.0 million for the year ended 31 December 2016.

**Liquidity and Capital Resources**

The Group expects that working capital requirements, repayment of outstanding debt, capital expenditure and acquisitions will represent the most significant uses of funds for the next several years. The Group has historically relied on cash provided by operations and debt instruments to finance its working capital needs and capital expenditure requirements, and these are expected to remain important sources of cash in the future.

As at 31 December 2018, the Group's net working capital, which the Group defines as current assets (inventories, trade receivables, prepayments, other receivables and other current assets and income tax receivable less collateral held by banks to secure derivative transactions) less current liabilities (trade payables, other accounts payable and accrued expenses, income tax payable and other taxes payable) was U.S.$772.3 million, an increase of U.S.$202.2 million, or 35.5 per cent., compared to U.S.$570.1 million as at 31 December 2017 and U.S.$768.7 million as at 31 December 2016. The increase in net working capital as at 31 December 2018 compared to 31 December 2017 was primarily due to additional investments in inventories, an increase in trade receivables and a decrease in trade payables, which was partially offset by an increase in other accounts payable and accrued expenses.

The following table sets forth the Group's selected cash flow data for the years indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | *(U.S.$ in thousands)* | |
| **Operating profit** | **1,189,424** | **832,273** | **851.233** |
| Operating profit less income tax paid | 1,049,060 | 655,018 | 695,509 |
| **Gross cash flow**[(1)] | **1,341,422** | **943,991** | **984,419** |
| Net cash – operating activities | 981,715 | 1,048,620 | 1,105,487 |
| Net cash – investing activities | (1,075,540) | (1,237,668) | (1,274,612) |
| Net cash – financing activities | 226,574 | 121,403 | 122,584 |
| Effect of exchange rate changes on cash and cash equivalents | (19,451) | 10,653 | 2,477 |
| Net increase/(decrease) in cash and cash equivalents | 113,298 | (56,992) | (44,064) |
| Cash and cash equivalents at the beginning of the period | 228,613 | 285,605 | 329,669 |
| Cash and cash equivalents at the end of the period | 341,911 | 228,613 | 285,605 |

(1) Gross cash flow represents operating profit or loss less income tax paid plus sum of depreciation and amortisation, net loss on disposals, impairment and write-off of property, plant and equipment, change in ECL allowance of receivables and provision for obsolete and damaged inventories and other non-cash income or expense, net. For a reconciliation of the Group's gross cash flow to its operating profit, see "*Selected Consolidated Financial and Other Statements — Key Financial Ratios and non-IFRS data*".

### *Net Cash – Operating Activities*

The Group's net cash from operating activities for the year ended 31 December 2018 was U.S.$981.7 million, a decrease of U.S.$66.9 million, or 6.4 per cent., compared to U.S.$1,048.6 million for the year ended 31 December 2017. The decrease was primarily due to cash outflows related to changes in working capital (additional investments in inventories and an increase in trade receivables), while the gross cash flow for the year ended 31 December 2018 was U.S.$1,341.4 million, an increase of U.S.$397.4 million, compared to U.S.$944.0 million for the year ended 31 December 2017. The Group's net cash from operating activities for the year ended 31 December 2017 was U.S.$1,048.6 million, a decrease of U.S.$56.9 million, or 5.1 per cent., compared to U.S.$1,105.5 million for the year ended 31 December 2016. The decrease was primarily due to cash outflows related to changes in working capital (trade receivables, advances to suppliers and additional investments in related inventories).

### *Net Cash – Investing Activities*

The Group's net cash used in investing activities for the year ended 31 December 2018 was U.S.$1,075.5 million, mainly attributable to cash used for capital expenditure on property, plant and equipment of U.S.$1,100.1 million and other payments related to mineral rights of U.S.$10.9 million, partially offset by originated loans repayments of U.S.$24.1 million.

The Group's net cash used in investing activities for the year ended 31 December 2017 was U.S.$1,237.7 million, mainly attributable to cash used for capital expenditure on property, plant and equipment of U.S.$1,479.2 million and originated loans extended of U.S.$38.6 million, which was partially offset by proceeds from the sale of Severneft-Urengoy, LLC of U.S. $225.2 million and proceeds from the sale of an interest in an associate for U.S. $60.7 million.

The Group's net cash used in investing activities for the year ended 31 December 2016 was U.S.$1,274.6 million, mainly attributable to cash used for capital expenditure on property, plant and equipment of U.S.$1,288.3 million and originated loans extended of U.S.$106.7 million, which was partially offset by originated loans repayments of U.S.$186.0 million.

### *Net Cash – Financing Activities*

The Group's net cash from financing activities for the year ended 31 December 2018 was U.S.$226.6 million, mainly driven by proceeds from bank borrowings and other loans received of U.S.$2,723.7 million, funds received under the project finance facilities of U.S.$219.3 million and a capital contribution of U.S.$600.0 million, which was partially offset by the repayment of bank borrowings and other loans of U.S.$2,136.1 million, the repayment of a project finance facility of U.S.$750 million and interest paid of U.S.$219.9 million.

The Group's net cash from financing activities for the year ended 31 December 2017 was U.S.$121.4 million, mainly driven by proceeds from bank borrowings and other loans received of U.S.$3,128.3 million, funds received under the project finance facility of U.S.$416.9 million and proceeds from bonds, net of transaction costs of U.S.$767.5 million, which was partially offset by repayment of bank borrowings and other loans of U.S.$3,655.7 million, repayment of bonds of U.S.$324.0 million and interest paid of U.S.$210.6 million.

The Group's net cash from financing activities for the year ended 31 December 2016 was U.S.$122.6 million, mainly driven by proceeds from bank borrowings and other loans received of U.S.$3,236.3 million, funds received under the project finance facility of U.S.$385.5 million, proceeds from bonds, net of transaction costs of U.S.$713.9 million and capital contribution of U.S.$250.0 million, which was partially offset by repayment of bank borrowings and other loans of U.S.$3,641.8 million, repayment of bonds of U.S.$441.5 million and interest paid of U.S.$174.2 million.

## Indebtedness

### *Bank Borrowings and other loans received*

The following table sets forth the changes in the Group's bank borrowings and other loans received for the years indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | *(U.S.$ in thousands)* | |
| **Balance at the beginning of the period** | **1,880,610** | **2,381,089** | **2,685,412** |
| Bank loans received in U.S.$ | 2,599,254 | 2,349,592 | 3,017,084 |
| Bank loans received in RUB | 110,840 | 743,737 | 214,569 |
| Bank loans received in Argentinian Peso | 321 | - | - |
| Bank loans received in Brazilian Real | 13,241 | - | - |
| Targeted loans received in RUB | - | 25,889 | - |
| Bank loans received in Ukraine Hryvna | - | 9,105 | 4,676 |
| Bank loan acquired in a business combination in U.S.$ | - | - | 33,556 |
| Bank loan acquired in a business combination in Brazilian Real | - | - | 44,445 |
| Bank loan acquired in a business combination in Argentinian Peso | - | 30 | - |
| Loan acquired in a business combination in Euro | - | 6,555 | - |
| Bank loans repaid in U.S.$ | (1,591,903) | (3,478,130) | (3,052,510) |
| Bank loans repaid in RUB | (532,701) | (155,431) | (344,873) |
| Bank loans repaid in EUR | - | (6,555) | (210,700) |
| Bank loans repaid in Ukraine Hryvna | - | (9,175) | (4,615) |
| Bank loans repaid in Brazilian Real | (11,448) | (6,383) | (20,110) |
| Bank loans repaid in Argentinian Peso | (42) | - | - |
| Loan repaid to related party in U.S.$ | - | - | (9,000) |
| Additional transaction costs net of amortisation | (5,679) | 5,001 | 5,027 |
| Foreign exchange (gain)/loss, net | (70,068) | 15,388 | 27,750 |
| Currency translation differences, net | (18,017) | (102) | (9,622) |
| **Balance as at the end of the period** | **2,374,408** | **1,880,610** | **2,381,089** |

The Group has a number of facility agreements and credit lines in place with various banks. As at 31 December 2018, the Group's long-term borrowings amounted to U.S.$2,003.3 million, while short-term borrowings amounted to U.S.$371.1 million. As at 31 December 2017, the Group's long-term loans and borrowings amounted to U.S.$1,110.2 million, while short-term loans and borrowings amounted to U.S.$770.4 million.

The following table sets forth the Group's bank borrowings and other loans' maturity profile as at the dates indicated:

| | As at 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | *(U.S.$ in thousands)* | |
| - within 1 year | 371,133 | 770,405 | 1,075,418 |
| - between 1 and 2 years | 1,095,734 | 82,438 | 360,734 |
| - between 2 and 5 years | 907,541 | 1,021,632 | 936,624 |
| - more than 5 years | - | 6,135 | 8,313 |
| **Total bank borrowings and other loans received** | **2,374,408** | **1,880,610** | **2,381,089** |

The following table sets forth the Group's debt repayment schedule based on the Group's management financial report as at 31 December 2018:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022-2027** |
| | *(U.S.$ in millions)* | | | |
| Loans | 404 | 1 160 | 713 | 654 |
| RUB-denominated bonds | 216 | 216 | - | - |
| U.S.$-denominated bonds | - | 500 | 500 | - |
| **Total** | **620** | **1 876** | **1 213** | **654** |

The Group uses both fixed rate and floating rate debt to finance its operations. The Group's facility agreements include various general and financial covenants which require it to respect certain financial ratios, such as net debt to EBITDA for the previous 12 months and net debt to net worth (as defined in the respective agreements), as well as other general covenants which are customary to credit facilities. As at the date of this Prospectus, the Group believes that it is in compliance with such ratios and covenants.

The following is a list of the Group's significant borrowings as at 31 December 2018:

- an unsecured club facility of U.S.$750 million maturing in September 2022. As at 31 December 2018, the outstanding balance was U.S.$425 million;
- an unsecured club facility of U.S.$820 million maturing in July 2021. As at 31 December 2018, the outstanding balance was U.S.$820 million;
- a 2.5-year U.S.$200 million term loan facility bearing fixed-interest rate and maturing in February 2020. As at 31 December 2018, the outstanding balance was U.S.$200 million;
- a three-year U.S.$130 million term loan facility bearing fixed-interest rate and maturing in January 2020. As at 31 December 2018, the outstanding balance was U.S.$130 million;
- a three-year U.S.$70 million term loan facility bearing fixed-interest rate and maturing in January 2020. As at 31 December 2018, the outstanding balance was U.S.$70 million;
- a 1.5-year U.S.$100 million term loan facility bearing fixed-interest rate and maturing in December 2019. As at 31 December 2018, the outstanding balance was U.S.$100 million;
- a three-year U.S.$200 million term loan facility bearing floating-interest rate and maturing in April 2021. As at 31 December 2018, the outstanding balance was U.S.$200 million;
- a five-year U.S.$100 million term loan facility bearing floating interest rate and maturing in December 2023. As at 31 December 2018, the credit facility has no outstanding balance;
- an uncommitted U.S.$100 million revolving credit facility maturing in May 2020. As at 31 December 2018, the facility had no outstanding balance;
- an uncommitted U.S.$50 million revolving credit facility maturing in August 2019. As at 31 December 2018, the facility had no outstanding balance;
- a committed U.S.$125 million revolving credit facility maturing in December 2019. As at 31 December 2018, the outstanding balance was U.S.$50 million;
- an uncommitted U.S.$125 million revolving credit facility maturing in April 2019. As at 31 December 2018, the facility had no outstanding balance;

- a five-year uncommitted U.S.$150 million revolving credit facility maturing in December 2023. As at 31 December 2018, the outstanding balance was U.S.$150 million;
- U.S.$50 million revolving credit facility. As at 31 December 2018, the outstanding balance was U.S.$40.8 million;
- U.S.$50 million revolving credit facility maturing in 2019. As at 31 December 2018, the outstanding balance was U.S.$49.9 million;
- RUB20 billion revolving uncommitted credit agreement maturing in September 2019. As at 31 December 2018, the credit agreement had no outstanding balance;
- an uncommitted U.S.$550 million multicurrency revolving credit facility maturing in September 2020. As at 31 December 2018, the outstanding balance was RUB6,320 million;
- EUR557 million non-recourse 10.5-year project finance facility agreement with a floating interest rate proceeds from which were used to finance EuroChem NorthWest ammonia plant construction. As at 31 December 2018, the outstanding balance of the facility was EUR472.6 million; and
- U.S.$50 million credit facility agreement maturing in December 2019. As at 31 December 2018, the outstanding balance of the facility was U.S.$15.3 million.

***Collateral and Pledges***

As at 31 December 2018, loans of a Brazilian subsidiary totalling U.S.$15.1 million were collateralised by property, plant and equipment with the carrying value of U.S.$17.2 million. As at 31 December 2017, loans of U.S.$17.4 million were collateralised by property, plant and equipment with the carrying value of U.S.$30.7 million.

As at 31 December 2018 and 31 December 2017, all other bank borrowings and loans received listed in Note 18 to the 2018 Financial Statements were not secured.

### *Bonds Issued*

The following table sets forth the Group's carrying amount of outstanding bonds issued as at the dates indicated:

| | As at 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | *(U.S.$ in thousands)* | |
| **Current bonds** | | | |
| Unsecured RUB-denominated bonds payable (12.40%)..... | - | 86,805 | - |
| Unsecured RUB-denominated bonds payable (8.25%)....... | - | 310 | - |
| Unsecured U.S.$-denominated bonds payable (5.125%).... | - | - | 324,033 |
| Unsecured RUB-denominated bonds payable (10.60%)..... | 215,919 | - | - |
| Less: transaction costs..................................................... | (69) | (24) | (177) |
| **Total current bonds** ....................................................... | **215,850** | **87,091** | **323,856** |
| **Non-current bonds** | | | |
| Unsecured U.S.$-denominated bonds payable (3.80%)...... | 500,000 | 500,000 | 500,000 |
| Unsecured U.S.$-denominated bonds payable (3.95%)...... | 500,000 | 500,000 | - |
| Unsecured RUB-denominated bonds payable (12.40%) .... | - | - | 82,431 |
| Unsecured RUB-denominated bonds payable (8.25%) ...... | - | - | 294 |
| Unsecured RUB-denominated bonds payable (10.60%)..... | - | 260,416 | 247,293 |
| Unsecured RUB-denominated bonds payable (8.75%)....... | 215,919 | 260,416 | |
| Less: transaction costs .................................................... | (4,658) | (8,419) | (5,170) |
| **Total non-current bonds** ............................................... | **1,211,261** | **1,512,413** | **824,848** |
| **Total bonds issued** ......................................................... | **1,427,111** | **1,599,504** | **1,148,704** |

## Capital Expenditure

The Group contributed to capital expenditure property, plant and equipment, intangible assets and mineral rights U.S.$1,111.4 million, U.S.$1,489.5 million and U.S.$1,340.4 million during the years ended 31 December 2018, 2017 and 2016, respectively. The Group primarily funded these capital expenditure through operating cash flows, bank borrowings and other loans received, bonds issued, project finance and pre-export finance facilities. The budgeted capital expenditure described below does not include amounts for any acquisition the Group have made or may contemplate in the future.

The following table sets forth the Group's capital expenditure by operating divisions for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016[(1)]** |
| | | *(U.S.$ in thousands)* | |
| Mining ........................................................................ | 594,559 | 770,106 | 667,182 |
| Fertilisers .................................................................... | 447,863 | 634,805 | 592,993 |
| Logistics ..................................................................... | 34,828 | 17,414 | 11,378 |
| Sales ........................................................................... | 35,093 | 27,608 | 7,837 |
| Other........................................................................... | 19,431 | 43,224 | 55,529 |
| Elimination.................................................................. | (20,370) | (3,631) | 5,502 |
| **Total cash capital expenditures**.................................. | **1,111,404** | **1,489,526** | **1,340,421** |

(1) Effective 1 January 2018, the Group removed the Oil & Gas Division from its structure. Capital expenditure for the Oil & Gas Division for the year ended 31 December 2016 was reclassified to "Other" to conform to presentation in the years ended 31 December 2018 and 31 December 2017.

### *Mining Division*

In accordance with its investment plan, over the period from 2019 to 2023, the Group plans to invest up to U.S.$2.8 billion in its Mining Division. The Group plans to fund planned capital expenditure through operating cash flows, bank borrowings and other loans received, bonds issued, project finance and pre-export finance facilities.

*Kovdorskiy GOK*

The Group plans to invest approximately U.S.$365 million in its Kovdorskiy GOK mining and production facility between 2019 and 2023. The proposed investments during this five-year period include development plans (to invest, inter alia, approximately U.S.$64 million in increasing ore processing capacity and approximately U.S.$301 million in research and development, engineering and maintenance (including replacement of equipment).

*EuroChem-Fertilisers (Kazakhstan)*

The Group plans to invest approximately U.S.$11 million in its Kazakhstan phosphate rock project between 2019 and 2023.

*Potash Projects*

Over the period from 2019 to 2023, the Group plans to invest approximately U.S.$2.4 billion in its Potash product segment to develop the VolgaKaliy Potash Project and the Usolskiy Potash Project.

*VolgaKaliy Potash Project*

As at 31 December 2018, total investments in connection with the VolgaKaliy Potash Project were approximately U.S.$2.5 billion. Between 2019 and 2023, the Group estimates that capital expenditure in connection with the VolgaKaliy Potash Project will be up to U.S.$1.3 billion, to be invested in a range of development activities including further shaft sinking, research and development, design, construction, developing the main utility networks on the site and other development activities.

*Usolskiy Potash Project*

As at 31 December 2018, total investments in connection with the Usolskiy Potash Project were approximately U.S.$2.1 billion. Between 2019 and 2023, the Group estimates that capital expenditure in connection with the Usolskiy Potash Project will be up to U.S.$1.1 billion, to be invested in a range of development activities including shaft sinking, research and development, design, construction, developing the main utility networks on the site and other development activities.

***Fertilisers Division***

Over the period from 2019 to 2023, the Group plans to invest approximately U.S.$704 million in its Fertilisers Division. The Group plans to fund planned capital expenditure through operating cash flows, bank borrowings and other loans received, bonds issued, project finance and pre-export finance facilities.

*Nevinnomysskiy Azot*

The Group plans to invest approximately U.S.$145 million in its Nevinnomysskiy Azot facility between 2019 and 2023, including U.S.$60 million in development-driven and U.S.$85 million in maintenance-related capital expenditure.

*Novomoskovskiy Azot*

The Group plans to invest approximately U.S.$111 million in its Novomoskovskiy Azot production facility between 2019 and 2023, including U.S.$49 million in development-driven and U.S.$62 million in maintenance-related capital expenditure. The proposed investments during this period include, *inter alia,* plans to invest approximately U.S.$29 million in revamping of Weak Nitric acid production.

*EuroChem Antwerpen*

The Group plans to invest approximately U.S.$125 million in EuroChem Antwerpen between 2019 and 2023, in upgrading and expansion of certain production lines.

*EuroChem NorthWest*

As at 31 December 2018, total investments in connection with the EuroChem NorthWest ammonia plant were approximately U.S.$853 million, including project financing and additional bonus to the contractor from the sponsor. Between 2019 and 2023, the Group estimates that capital expenditure in connection with the EuroChem NorthWest ammonia plant will be up to U.S.$72.3 million, to be invested in a range of development activities (with the construction completed in 2018 and performance testing to be conducted in 2019, as per a notice of intention provided by Tecnimont to EuroChem NorthWest), and U.S.$29 million, to be invested in maintenance-related projects (between 2019 and 2023).

*Phosphorit*

The Group plans to invest approximately U.S.$78 million in its Phosphorit production facility between 2019 and 2023, including U.S.$8 million in development-driven and U.S.$70 million in maintenance-related capital expenditure. The proposed investments during this five-year period include, *inter alia,* plans to invest approximately U.S.$4 million in phosphoric acid workshop.

*Lifosa*

The Group plans to invest approximately U.S.$83 million in its Lifosa production facility between 2019 and 2023, including U.S.$18 million in development-driven and U.S.$65 million in maintenance-related capital expenditure.

*EuroChem-BMU*

The Group plans to invest approximately U.S.$61 million in its EuroChem-BMU production facility between 2019 and 2023, including U.S.$34 million in development-driven and U.S.$27 million in maintenance-related capital expenditure.

### *Logistics Division*

Over the period from 2019 to 2023, the Group plans to invest approximately U.S.$179 million in its Logistics Division (for terminals and ports). The Group plans to fund planned capital expenditure through operating cash flows, bank borrowings and other loans received, bonds issued and pre-export finance facilities.

### *Sales Division*

Over the period from 2019 to 2023, the Group plans to invest approximately U.S.$26 million in its Sales Division for renovations and development of its distribution and sales centres. The Group plans to fund planned capital expenditure through operating cash flows, bank borrowings and other loans received, bonds issued and pre-export finance facilities.

## Contractual Commitments

As at 31 December 2018, the Group had contractual commitments for capital expenditures of U.S.$499.1 million compared to U.S.$846.3 million as at 31 December 2017 and U.S.$1,043.6 million as at 31 December 2016. For the year ended 31 December 2018, total capital expenditure related to the development of potassium salt deposits and the construction of mining facilities at the VolgaKaliy Potash Project and Usolskiy Potash Project were U.S.$451.5 million compared to U.S.$685 million for the year ended 31 December 2017 and U.S.$608.2 million for the year ended 31 December 2016. For the year ended 31 December 2018, total capital expenditure related to the construction of the EuroChem NorthWest ammonia plant at Kingisepp (Russia) was U.S.$173 million compared to U.S.$269.7 million for the year ended 31 December 2017 and U.S.$286.3 million for the year ended 31 December 2016. See "*Description of Business — Material Contracts*".

**Off-Balance-Sheet Arrangements**

Except for the contractual commitments set forth in "- *Contractual Commitments*" above, the Group has no off-balance-sheet arrangements that are reasonably likely to have a material impact on its business, financial condition, results of operations and prospects.

**Quantitative and Qualitative Disclosure about Financial Risk Management**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Group.

***Market Risk***

*Foreign Currency Risk*

The Group is exposed to foreign exchange risk to the extent that its future cash inflows and outflows over a certain period of time are denominated in different currencies.

The objective of the Group's foreign exchange risk management is to minimise the volatility of the Group's cash flows arising from fluctuations in exchange rates of the U.S. dollar (which is the Group's base currency), while simultaneously at least average annual market exchange rates for the Group's non-U.S. dollar purchases. The Group focuses on assessing the Group's future cash flows in currencies other than U.S. dollar and managing operational currency position (i.e. the gaps arising between inflows and outflows) and also seeks to avoid open transactional currency positions by balancing non-U.S. dollar cash assets and liabilities.

The Group includes a number of subsidiaries with Rouble as functional currency which have a significant volume of U.S. dollar-denominated transactions, as well as several subsidiaries with U.S. dollar functional currency having Rouble-denominated transactions. At 31 December 2018, if the Rouble had been down/up against the U.S. dollar by 10 per cent., all other things being equal, after tax result for the year and equity would have been U.S.$59.4 million lower/higher compared to U.S.$60.1 million lower/higher as at 31 December 2017, purely as a result of foreign exchange gains/losses on translation of U.S. dollar-denominated assets and liabilities at subsidiaries with Rouble as a functional currency and Rouble-denominated assets and liabilities at subsidiaries with U.S. dollar as a functional currency and with no regard to the impact of this appreciation/depreciation on sales.

The Group believes that it benefits from the strengthening of U.S. dollar exchange rate versus the Rouble and Euro, and the other way around. This is mainly due to the fact that in terms of economic substance, as opposed to purely settlement perspective, the Group's revenues are directly or indirectly U.S. dollar-denominated, whereas a significant portion of its operating and capital costs is denominated in Rouble and Euro.

In 2018 and 2017, the Group entered into foreign exchange non-deliverable and deliverable forward contracts in order to achieve lower Rouble and Euro exchange rates for its Rouble and Euro purchases than the average annual exchange rates. The Group also routinely enters into forward and swap agreements aimed at lowering the cost of its debt portfolio in U.S. dollar terms.

***Interest Rate Risk***

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's principal interest rate risk arises from long-term and short-term borrowings.

The Group is exposed to risk from floating interest rates due to the fact that it has borrowings and loans denominated in foreign currencies.

The Group had U.S.$1,530.4 million of U.S. dollar-denominated loans outstanding as at 31 December 2018 and U.S.$1,944.6 million as at 31 December 2017 bearing floating interest rates varying from one-month Libor +1.55 per cent. to one-month Libor +2.20 per cent., three-month Libor +2.00 per cent., 6-month Libor +2.75 per cent as at 31 December 2018 and from one-month Libor +1.65 per cent. to one-month Libor +2.32 per cent., from three-month Libor +1.7 per cent. to three-month Libor +3.5 per cent., from 12-month Libor +2.95 per cent. to 12-month Libor +3.4 per cent. as at 31 December 2017.

The Group's profit after tax for the year ended 31 December 2018 and equity would have been U.S.$1.3 million, or 0.2 per cent. lower/higher and for the year ended 31 December 2017 U.S.$2.1 million, or 0.5 per cent. lower/higher, if the U.S. dollar Libor interest rate was 10 bps higher/lower than its actual level during the year.

In 2018 and 2017, the Group did not hedge this exposure using financial instruments.

The Group has a formal policy of determining how much maximum unhedged exposure it should have to interest rate risk on the basis of the assessment of the likely interest rate changes on the Group's cash flows. The Group performs periodic analysis of the current interest rate environment on the basis of which management makes decisions on the appropriate mix of fixed-rate and variable-rate debt for both existing and planned new borrowings.

***Financial Investments Risk***

The Group can be exposed to equity securities price risk because of investments that can be held by the Group. As at 31 December 2018 and 31 December 2017, the Group was not exposed to equity securities price risk.

The Group does not enter into any transactions with financial instruments whose value is exposed to the value of any commodities traded on a public market.

***Credit Risk***

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Financial assets, which potentially subject Group entities to credit risk, consist principally of originated loans, trade receivables, advances to suppliers and contractors, as well as cash and bank deposits. The objective of managing credit risk is to prevent losses of liquid funds deposited with or invested in financial institutions or the loss in value of receivables.

The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets, which at 31 December 2018 amounted to U.S.$762.1 million and at 31 December 2017 amounted to U.S.$644.8 million. The Group has no significant concentrations of credit risk.

*Cash and Cash Equivalents, Restricted Cash and Fixed-Term Deposits*

Cash and term deposits are mainly placed in major multinational banks and banks with independent credit ratings. No bank balances and term deposits are past due or impaired. See the analysis by credit quality of bank balances, term and fixed-term deposits in Note 15 to the 2018 Financial Statements included elsewhere in this Prospectus.

*Originated Loans*

Originated loans are issued to companies which are under common control within the Group and to associated companies or joint ventures of the Group.

*Trade Receivables*

Trade receivables are subject to a policy of active credit risk management which focuses on an assessment of ongoing credit evaluation and account monitoring procedures. The objective of the management of trade receivables is to sustain the growth and profitability of the Group by optimising asset utilisation while maintaining risk at an acceptable level.

***Liquidity Risk***

Liquidity risk results from the Group's potential inability to meet its financial liabilities, such as settlements of financial debt and payments to suppliers. The Group's approach to liquidity risk management is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

While managing its liquidity, the Group aims to ensure that it is sufficient to meet its short-term existing and potential obligations. At the same time, the Group strives to minimize its idle cash balances. These goals are achieved by ensuring, among other things, that there is a sufficient amount of undrawn committed bank facilities at the Group's disposal at all times. This may result, from time to time, in the Group's current liabilities exceeding its current assets.

In order to take advantage of financing opportunities in the international capital markets the Group has obtained credit ratings from Fitch, Moody's and S&P. As at 31 December 2018, the Group's S&P rating was "BB-" with positive outlook, Fitch rating was "BB" with stable outlook and Moody's rating was "Ba2" with stable outlook. As at 31 December 2017, S&P had affirmed the Group's rating at "BB-" with a stable outlook, Fitch had affirmed the Group's rating at "BB" with negative outlook. In 2018, Expert RA, Russian rating agency, awarded EuroChem a credit rating of "ruA+" with stable outlook.

Cash flow forecasting is performed throughout the Group. The Group finance monitors the rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 18 to the 2018 Financial Statements) at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

The Group controls the minimum required level of cash balances available for short-term payments in accordance with the financial policy of the Group. Such cash balances are represented by current cash balances on bank accounts, bank deposits, short-term investments, cash and other financial instruments, which may be classified as cash equivalents in accordance with IFRS.

As at 31 December 2018, the Group had U.S.$100 million in committed undrawn facilities with major international banks, as compared to U.S.$299 million at 31 December 2017.

The Group assesses liquidity on a weekly basis using a twelve-month rolling cash flow forecast.

**Critical Accounting Estimates and Judgements in Applying Accounting Policies**

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause an adjustment to the carrying amount of assets and liabilities include:

### *Taxation*

Judgments are required in determining tax liabilities. See Note 34 to the 2018 Financial Statements and Note 36 to the 2017 Financial Statements. The Group recognises liabilities for taxes based on estimates of whether additional taxes will be due. Where the final outcome of various tax matters is different from the amounts that were initially recorded, such differences will impact the tax assets and liabilities in the period in which such determination is made.

### *Deferred Income Tax Asset Recognition*

The recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. See Note 31 to the 2018 Financial Statements and Note 32 to the 2017 Financial Statements.

### *Related Party Transactions*

The Group enters into transactions with related parties in the normal course of business. See Note 33 to the 2018 Financial Statements and Note 34 to the 2017 Financial Statements. These transactions are priced at market rates. Judgement is applied in determining whether transactions are priced at market or non-market rates where there is no active market for such transactions. Judgements are made by comparing prices for similar types of transactions with unrelated parties.

### *Capital contribution*

The Group classified the capital contribution received from a shareholder in a form of perpetual loan which does not require repayment, or for which the Group will be able to avoid any payments as component of equity.

### *Recognition of 100 per cent. interest in Fertilizantes Tocantins*

In 2016, the Group entered into agreement with a shareholder of Fertilizantes Tocantins Ltda, according to which the Group acquired 50 per cent. interest plus one share and entered into put and call options for the remaining 50 per cent. interest minus one share to be executed in 2022. Since put and call options will be executed simultaneously at the same exercise price, the judgement was applied that the risks and rewards associated with 100 per cent. interest in Fertilizantes Tocantins Ltda were transferred to the Group on 1 September 2016, thus, no non-controlling interest was recognised and the transaction was accounted for as the acquisition of 100 per cent. interest in the company. The liability under the put and call options scheme payable in 2022 is assessed on an annual basis and subject to unwinding. The valuation technique used to measure the liability arising from contingent consideration is based on calculating the present value of the future expected cash flows.

## Recent Accounting Pronouncements

### *Adoption of new IFRS standards and changes in applying accounting policies*

Effective 1 January 2018, the Group applied change in accounting policy for transportation expenses which are to be capitalised as a part of inventory until the moment of sale. This change in approach is driven by the global expansion of the Group’s distribution network and the increasing share of sales to the ultimate customers of its products.

***IFRS 9 Financial Instruments***

The Group used an exemption in IFRS 9 allowing not to restate prior periods presented as a result of adoption of the new measurement requirements. The initial application of IFRS 9 did not result in any reclassifications of the Group's financial instruments or any material changes in their measurement. The standard also introduces expected credit losses impairment model, which means that anticipated as opposed to incurred credit losses will be recognised resulting in earlier recognition of impairment.

***IFRS 15 Revenue from Contracts with Customers***

The standard outlines the principles an entity must apply to measure and recognise revenue. As the majority of the Group's revenue is derived from arrangements in which the transfer of control coincides with the transfer of risk and rewards, thus the changes in respect of the timing and amount of revenue recognised do not have a material impact on the Consolidated Financial Statements.

The above changes in accounting policies and adoption of IFRS 9 and IFRS 15 resulted in adjustments to retained earnings as at 1 January 2017 and 1 January 2018 of US$26.2 million and US$23.1 million respectively. See Note 2 to 2018 Financial Statements.

The following amendments and improvements to standards became effective from 1 January 2018:

- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture;
- Amendments to IFRS 2, Share-based Payment;
- Amendments to IFRS 4, Applying IFRS 9 Financial instruments with IFRS 4, Insurance contracts;
- Annual Improvements to IFRSs 2014-2016 cycle – amendments to IFRS 1 and IAS 28;
- IFRIC 22, Foreign Currency Transactions and Advance Consideration;
- Amendments to IAS 40, Transfers of Investment property.

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2018, and have not been early adopted by the Group:

- IFRS 16, Leases. The standard provides a comprehensive model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset. Under the new standard, the Group is required to recognise the present value of the unavoidable lease payments as a lease liability in the statement of financial position (including those currently classified as operating leases) with a corresponding right of use asset. The unwinding of the financial charge on the lease liability and amortisation of the right-of-use asset are recognised in the statement of profit or loss based on the implied interest rate and contract term respectively. The Group envisages adopting the modified retrospective approach, through which the cumulative effect of the initial application will be recognised as at 1 January 2019 without any restatement of comparative information. Thus the Group will recognise a right-of-use asset for operating lease at the date of initial application at an amount equal to the lease liability, adjusted by the amount of any prepaid payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The Group has finalised its review of the impact of IFRS 16 and assessed that amount of right of use assets and lease liabilities that will be recognised upon adoption as at 1 January 2019 is estimated to be approximately US$65 million. The effect of the application of IFRS 16 on the Group's annual net profit and EBITDA is not expected to be significant.

- IFRS 17, Insurance contracts;
- IFRIC 23, Uncertainty over Income Tax Treatments;
- Amendments to IFRS 9, Prepayment Features with Negative Compensation;
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures;
- Annual improvements to IFRSs 2015-2017 cycle;
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement;
- Amendments to the Conceptual Framework for Financial Reporting;
- Amendments to IFRS 3, Definition of a business; and
- Amendments to IAS 1 and IAS 8; Definition of materiality.

Unless otherwise described above, the new standards, amendments to standards and interpretations are expected to have no impact or to have a non-material impact on the 2018 Financial Statements.

## DESCRIPTION OF BUSINESS

### Overview

The Group is a leading vertically integrated nitrogen and phosphate fertiliser producer. The Group produces nitrogen mineral fertilisers (including urea, ammonia, AN, UAN, CAN), phosphate mineral fertilisers (including MAP, DAP and feed phosphates), as well as a growing number of complex products (a variety of NP and NPK grades), organic synthesis products, iron ore, apatite and baddeleyite concentrates. In 2018, the Group began test production of potassium chloride in the Usolskiy Potash Project and the VolgaKaliy Potash Project. The Group is also Russia's only producer of UAS, melamine, acetic acid and baddeleyite concentrate. The Group's nitrogen production facilities are located in the Stavropol Krai in Southern Russia, the Tula Oblast in Central Russia and Antwerp in Belgium. The Group's phosphate mines and production facilities are located in the Murmansk Oblast in Northern Russia, the Leningrad Oblast in Northwestern Russia, the Krasnodar Krai in Southern Russia, as well as in Lithuania, China and Kazakhstan. The Group finalises the development of its potash deposits in the Volgograd Oblast in Southern Russia (the VolgaKaliy Potash Project) and in the Perm Krai near the Ural Mountains in Russia (the Usolskiy Potash Project). The Group also has a licence to develop natural gas and gas condensate fields in the Astrakhan Oblast and Saratov oblast in Southern Russia and in Kazakhstan.

The Group has a vertically integrated business model conducted by four operating divisions, which are Mining, Fertilisers, Logistics and Sales:

- the *Mining* division encompasses the extraction of ores to obtain apatite, baddeleyite and iron-ore concentrates, phosphorite; as well as the test potash production at the Verkhnekamskoe deposit started in 2018 and the development of the second potassium salts deposit (potash) at the Gremyachinskoe deposit;
- the *Fertilisers* division includes the production of mineral fertilisers (nitrogen, phosphate and complex) and industrial products;
- the *Logistics* division covers all supply chain operations including transportation services, purchase and delivery of raw materials and finished goods, as well as freight forwarding and other logistics services;
- the *Sales* division is responsible for the sale of the complete range of products produced by the Group as well as third-party products through the Group's global distribution network spanning across Europe, Russia, North and Latin America, Central and South East Asia.

The Group operates a vertically integrated business model with advanced, cost-efficient and flexible production capacity, based on high-quality reserves and supported by logistics and distribution assets that provide distinct cost advantages.

The Group's reserve base includes natural gas, oil, gas condensate, apatite ore, iron ore and potash. The Group has obtained licences that provide it with access to significant reserves of magnetite-apatite ore (high-quality phosphate rock) in Russia and phosphate rock in Kazakhstan. As a considerable addition to its phosphate product group performance, the Group also extracts baddeleyite and iron ore concentrates as coproducts of apatite beneficiation and sells both these products to third parties (historically to Asian and Russian customers). Upon ramp-up of production at its Potash Projects, the Group is expected to become a top three fertiliser producer globally with its own production of nitrogen-, phosphate- and potash-based fertilisers. Natural gas is the key constituent of ammonia, the primary component of nitrogen-based fertilisers. Following the disposal of Severneft-Urengoy, LLC in 2017, the Group acquires 100 per cent. of its gas requirements from the market.

The Group's combined reserves and resources of BAMO, LFAO, apatite-staffelite ore and apatite-baddeleyite tailings were measured by IMC Montan as at October 2009 in accordance with the JORC Code and consisted of 595 million tonnes of proved and probable reserves and 593 million tonnes of measured and indicated resources. As at 31 December 2018, the Group's phosphate rock reserves in

Kazakhstan were 512.8 million tonnes of resources of categories A+B+C1. The Group's reserves and resources of potash ore were measured by IMC Montan as at September 2009 (the VolgaKaliy Potash Project) and October 2009 (the Usolskiy Potash Project) in accordance with the JORC Code and consisted of 912 million tonnes of proved and probable reserves, 2,050 million of measured and indicated resources tonnes and 590 million tonnes of inferred resources. In June 2014, the Group also acquired a mining licence in respect of the Belopashinskiy potassium deposit, providing additional 598 million tonnes of approved by the State Reserves Committee of Rosnedra reserves in accordance with Russian Classification approved in 2018 for its Usolskiy Potash Project. As at 31 December 2018, in accordance with Russian Classification, the Group's potassium deposit reserves of potash (sylvinite) in its Usolskiy Potash Project comprised 2,178 million tonnes of reserves approved by the State Reserves Committee of Rosnedra and the Gremyachinskoe potassium deposit reserves of potash ore comprised 1.6 billion tonnes of reserves approved by the State Reserves Committee of Rosnedra. As at 31 December 2018, the Group extracted approximately 112 million tonnes of magnetite-apatite ore and approximately 8 million tonnes of apatite-staffelite ore, in each case in accordance with the Russian classification. Further, in 2017 and 2018, the Group extracted 1.5 million tonnes of potash ore and 1.3 million tonnes of phosphate rock in Kazakhstan.

Production plants of the Group located in Russia, Belgium, Lithuania, Kazakhstan and China create more than 100 commodity and premium products, including an extensive mix of nitrogen, phosphates and complex fertilisers, and more recently added potash, as well as acids, industrial gases, de-icing agents, organic synthesis products and mineral raw materials. These geographically and technically diversified assets and their associated product mix allow the Group to respond rapidly to changing market demand, offering competitive advantages in global markets. The manufacturing processes also allow the Group to create other products such as melamine and merchant-grade synthetic acetic acid.

As at 31 December 2018, the Group had a combined annual production capacity of approximately 11.8 million tonnes of nitrogen mineral fertilisers and organic synthesis products, 5.7 million tonnes of phosphate and complex mineral fertilisers (in the calculation of annual production capacity of certain nitrogen products, such as CAN and GAN, phosphates, such as MAP and DAP, as well as complex mineral fertilisers, the Group uses actual production volumes, rather than production capacity, for certain of the Group's plants, because production capacity at its multi-product production facilities cannot be measured due to the capability of such facilities to produce a number of different products on the same production line) and 2.6 million tonnes of apatite concentrate. As a co-product of its apatite mining operations, as at 31 December 2018, the Group had an annual production capacity of approximately 6.2 million tonnes of iron ore concentrate and 7.7 thousand tonnes of baddeleyite concentrate. For the year ended 31 December 2018, the Group produced 12.4 million tonnes of nitrogen mineral fertilisers and organic synthesis products (ammonia, urea, AN, CAN, UAN, GAN, melamine, methanol and acetic acid); 5.3 million tonnes of phosphate mineral fertilisers (MAP, DAP and feed phosphates) and complex fertilisers; and 8.4 million tonnes of raw material feedstock, including apatite concentrate, iron ore and baddeleyite concentrates. In 2018, the Group produced at its Usolskiy Potash Project approximately 250 thousand tonnes of potassium chloride. The Group's greenfield Potash Projects in Russia are expected to reach total annual maximum production capacity of 4.3 million tonnes for VolgaKaliy Potash Project and 4.0 million tonnes for Usolskiy Potash Project. The EuroChem NorthWest ammonia plant is anticipated to reach its design capacity of 2,700 metric tonnes per day in 2019.

The Group's fertiliser products are sold to more than 10 thousand customers in over 100 countries. The principal markets for the Group's fertiliser products outside Russia are Europe, Asia, Latin America, North America and the rest of the CIS.

The Group primarily sells its fertilisers outside Russia through its trading entities in the United States, Switzerland and Brazil and its EuroChem Agro distribution platform covering Europe and Turkey as well as through regional distributors in the United States, Mexico, Brazil, Argentina, China and an agency in Singapore. The Group also has storage facilities in Russia, the CIS, Europe, North America and Mexico. EuroChem Trading GmbH based in Switzerland allocates all of the Group's, and third-party, products to markets globally, including the markets where the Group operates distribution networks, based on the expected netback price or, for some products, contribution margin to the Group. The Group has a wide product distribution network in Europe, Russia and the CIS, North, Latin America, Central and South East Asia and, following the acquisition in August 2016 of a controlling interest in Fertilizantes Tocantins, Brazil, where the distribution of Group-produced and third-party produced fertilisers is made through its own or rented from third parties warehouses to a wide range of local clients. In order to support its presence in Eastern Europe, the Group established a distribution centre in Hungary in September 2016 and acquired distribution assets in Bulgaria in February 2017. In August 2017, the Group acquired Emerger Fertilizantes S.A., a privately-owned distributor of premium and standard fertilisers in Argentina. Additional distribution facilities have been established in Romania, a representation office of EuroChem Agro in August 2017, and in Serbia in May 2017. The Group primarily sells iron ore concentrate to wholesalers and ultimate customers in Russia and Asia. Overall, sales of iron ore outside Russia accounted for 1.9 per cent. of the Group's external sales for the year ended 31 December 2018. A significant part of the Group's sales of iron ore concentrate in Russia are to Severstal. Total sales to Severstal accounted for 33.9 per cent. of the Group's total sales of iron ore for the year ended 31 December 2018.

As part of its business model, the Group supports wholesalers, distributors and cooperatives across Europe, South East Asia and the Americas through its distribution platform. In addition to providing advisory services to local farmers and promoting the efficient use of fertilisers to increase yields, in particular through testing and open seminars, the Group also offers related agricultural and agrochemical services and products such as blending, agronomic advisory, seeds, crop protection items and soil analysis services. The Group's distribution platform also allows it to receive feedback on its products directly from the end-users and to market nitrogen, phosphates, potash and complex fertilisers with a focus on major customers in agriculture and special crops such as fruits, vegetables and grapes. The Group's distribution assets are located in the United States, Germany, Spain, Bulgaria, Hungary, Serbia, Italy, Greece, Mexico, France, Turkey, Singapore, China, Brazil and Argentina and sell to wholesalers, distributors, retailers, cooperatives and end-users in more than 65 countries.

The Group's logistics infrastructure supports the Group's vertically integrated business model. As at 31 December 2018, the Group had rolling stock comprising approximately 6 thousand rail cars and 47 locomotives. The Group also operates dedicated rail service and repair centres, as well as wholly-owned transhipment terminals in the ports of Tuapse (Black Sea, dry mineral fertilisers) and Murmansk (Barents Sea, iron ore, iron pellets, apatite and dry mineral fertilisers) in Russia, and Sillamae (Baltic Sea, liquid cargo such as methanol and complex fertilisers) in Estonia, and benefits from direct jetty access in the port of Antwerp in Belgium. The Group occasionally operates bulker vessels on a time-charter basis. The Group also plans to increase its cargo and shipment capacity by constructing a 5.0 million tonnes annual capacity bulk terminal in the Baltic Sea port of Ust-Luga (launch is planned in 2022) in Russia to support increasing production volumes of the Usolskiy Potash Project. The Group has also commenced a project to build an ammonia transhipment terminal in Sillamae (Estonia), one of the key objectives of which is the transhipment of ammonia produced by EuroChem NorthWest for further transportation to EuroChem Antwerpen and potentially to other export sales. The launch of the ammonia terminal is expected in the fourth quarter of 2019.

For the year ended 31 December 2018, the Group had sales of U.S.$5,577.5 million, EBITDA of U.S.$1,516.9 million, net profit of U.S.$538.4 million and EBITDA margin, which represents EBITDA divided by sales, of 27.2 per cent. For the year ended 31 December 2017, the Group had sales of U.S.$4,865.7 million, EBITDA of U.S.$1,130.4 million, net profit of U.S.$453.4 million and EBITDA margin of 23.2 per cent. For the year ended 31 December 2016, the Group had sales of U.S.$4,375.1 million, EBITDA of U.S.$1,132.9 million, net profit of U.S.$708.0 million and EBITDA margin of 25.9 per cent.

**Competitive Strengths and Advantages**

The Group's management believes that the Group has a number of competitive strengths that have enabled it to expand significantly over the last several years, and that these strengths will continue to provide it with competitive advantages in the future. The Group's key competitive strengths are summarised below.

*Significant Market Share*

The Group is the second largest mineral fertiliser producer in Russia in terms of product tonnes sold, with a market share of approximately 18 per cent. in 2018, according to data by the Russian Association of Mineral Fertiliser Producers. Globally, the Group was ranked among the leaders in fertiliser industry by nutrient capacity in 2018, with a market share measured by annual nutrient production of 2.5 per cent. in 2018, up from 2.2 per cent. in 2015 and 2.3 per cent. In 2017, according to the Company and IFA.

*Cost-Efficient Production and Access to Low-Cost Raw Material Feedstock*

The Group believes that it has lower costs of production compared to some of its Russian and international competitors. According to the Company and Bloomberg data, for the year ended 31 December 2018, the Group's EBITDA margin, which is defined as EBITDA divided by sales and presented as a percentage, was 27.2 per cent., which ranked the Group among the leading global fertiliser producers by EBITDA for both periods. The Group also believes that a key factor in achieving lower costs of production and higher profitability lies in its own source of high-quality apatite concentrate for the Group's phosphates product group (the Zhelezny open-pit mine at Kovdorskiy GOK). For the year ended 31 December 2018, the Group had the internal capacity to meet up to 69 per cent. of its phosphate rock requirements. For the year ended 31 December 2018, the Group consumed a total of 4.7 billion $m^3$ of natural gas in the course of production activities. For its nitrogen production, the Group believes that it is among the most efficient producers of ammonia in terms of natural gas consumption per tonne of ammonia produced, according to Integer Research.

*Vertical Integration Providing Raw Material Price Stability*

The Group's business is vertically integrated and includes significant mining, production, logistics, transportation, distribution and marketing functions that allow it to achieve cost efficiencies in producing and marketing its fertiliser products, and to improve margins. The Group believes that its vertical integration also allows it to minimise its exposure to fluctuations in the prices of some raw materials, such as those produced by its Russian mining operations (apatite, iron ore and baddeleyite concentrate) in the Murmansk Oblast, giving the Group a cost advantage over its competitors. The Group's high-quality apatite concentrate from Kovdorskiy GOK in Russia and EuroChem-Fertilizers mines in Kazakhstan allows it to meet up to 69 per cent. of its phosphate rock requirements. The Group's combined reserves and resources of BAMO, LFAO, apatite-staffelite ore and apatite-baddeleyite tailings were measured by IMC Montan as at October 2009 in accordance with the JORC Code and consisted of proved and probable reserves of 595 million tonnes and measured and indicated resources of 593 million tonnes. The Group also estimates its total natural gas reserves at approximately 1,069.9 billion $m^3$, petroleum reserves of approximately 247.5 million tonnes, sulphur of approximately 108.7 million tonnes and gas condensate reserves of approximately 328.1 million tonnes as at 31 December 2018. In addition to apatite concentrate, the Group's mining operations at Kovdorskiy GOK also yield iron ore as a co-product of phosphate rock mining. For the years ended 31 December 2018, 2017 and 2016, the Group sold 5.84 million tonnes, 5.89 million tonnes and 5.99 million tonnes, respectively, of iron ore concentrate, further minimising exposure to fertiliser cyclicality while providing a substantial credit to apatite concentrate production costs.

*Global Footprint and Proximity to Customers*

The Group has an international footprint with production facilities in Russia, Belgium, Lithuania, Kazakhstan and China. The Group has also continued to develop its international sales and distribution network. The Group's key international distributors are Ben-Trei, Fertilizantes Tocantins, Emerger Fertilizantes S.A. in Argentina and the EuroChem Agro platform in Europe and Turkey (formerly, K+S Nitrogen together with distributors in Mexico, China and an agency in Singapore). Ben-Trei, which is located in the United States, provides the Group with access to a wide network of warehouses in the key agricultural regions of the United States and allows the Group to develop relationships with local customers. Fertilizantes Tocantins is a leading fertiliser distribution company in Brazil, which allows the Group to penetrate the Brazilian market. EuroChem Agro historically had main distribution facilities in Germany, Spain, Italy, Greece, France and Turkey and sold the Group's products to wholesalers, distributors and cooperatives in their respective countries, as well as in Northern, Central and Eastern Europe, South East Asia and the Americas. To further support its presence in Eastern Europe, the Group established a distribution centre in Hungary in September 2016, acquired distribution assets in Bulgaria in February 2017 and established a distributor in Serbia in May 2017. The Group also has international sales offices in Brazil, Switzerland and the United States. The Group's consolidation of distribution platforms supports its strategy of moving closer to customers in core markets, both in terms of distance to end-customers and in terms of specific regional fertiliser requirements as the premium fertiliser grades distributed by the Group are tailored to specific markets and crop cultivation. For the year ended 31 December 2018, 19.1 per cent. of the Group's sales were to Russia; 43.8 per cent. were to Europe and North America; and 37.2 per cent. were to the CIS, Asia Pacific, Latin America and Africa. The Group believes that its global exposure and global distribution network provide it with the flexibility to channel products to most attractive markets.

*Developed Logistics Infrastructure*

A significant portion of the cost of fertilisers is attributable to transportation costs. The Group operates a large transportation and logistics network, which includes rolling stock owned by the Group and rented from third parties, allowing it to keep its transportation costs lower than those of many of its competitors without a similar transportation network. The Group's transportation and logistics facilities also provide it with a reliable means of supplying raw materials to, and delivering products from, the Group's production facilities, thereby reducing the Group's dependence on third parties for logistics and transportation services. As at 31 December 2018, the Group had rolling stock comprising of approximately 6 thousand rail cars and 47 locomotives, and the Group also operates dedicated rail service and repair centres. The Group also operates its wholly-owned transhipment terminals in the towns of Tuapse (Black Sea, dry mineral fertilisers) and Murmansk (Barents Sea, iron ore, iron pellets, apatite and dry mineral fertilisers) in Russia, and Sillamae (Baltic Sea, liquid cargo such as methanol and complex fertilisers) in Estonia, and benefits from direct jetty access in the port of Antwerp in Belgium. The Group occasionally operates vessels on a time-charter basis when required. The Group also plans to increase its cargo and transhipment capacity by constructing a 5.0 million tonnes annual capacity bulk terminal in the Baltic Sea port of Ust-Luga in Russia to support increased production volumes once the Usolskiy Potash Project is completed and operational (expected launch in 2022). The Group is also engaged in a project to build an ammonia transhipment terminal in Sillamae (Estonia), one of the key objectives of which is the transhipment of ammonia produced by EuroChem NorthWest for further transportation to EuroChem Antwerpen and potentially to other export sales. The launch of the ammonia terminal is expected in the fourth quarter of 2019. The Group's logistics assets include storage facilities in Russia, the CIS, Europe, North America and Mexico (owned and rented).

*Broad Value-Added Product Offering*

The Group produces and sells more than 100 different products, including ammonia, urea, AN, CAN, UAN, MAP, DAP, NPKs, methanol and melamine. The Group is taking steps to diversify its product range further with the development of two potash deposits in Russia. The Group believes that its diversified product mix provides it with a competitive advantage in both Russian and international markets as its substantial degree of sales flexibility allows it to adapt to changes in customer demand and economic conditions for different products and regions over sustained periods of time if needed. Additionally, consistent investment in construction of new production sites (such as JSC EuroChem NorthWest investment in the development of an ammonia plant project at Kingisepp ("**EuroChem NorthWest**") and VolgaKaliy and Usolskiy Potash Projects) and the development of a global distribution network, for example through the acquisition of Ben-Trei (the U.S.) in 2015 and a controlling interest in Fertilizantes Tocantins (Brazil) in 2016, combined with joint venture agreements, such as EuroChem Migao (China), have further broadened the Group's product offering with branded premium grades, as well as an experienced global sales force and platform to offer both commodity type products and high-performance and high-quality stabilised fertilisers as well as the ability to distribute additional third-party agricultural products.

*Unique Products in Certain Geographical Areas*

The Group is the world's only producer of baddeleyite concentrate and the only Russian producer of melamine and merchant-grade synthetic acetic acid. The Group also benefits from the geological characteristics of its Kovdorskiy GOK apatite mine, which, together with EuroChem-Fertilizers mines in Kazakhstan, allows it to meet up to 69 per cent. of its phosphate rock requirements for phosphate-based fertiliser production. The deposit also contains significant amounts of iron ore concentrate, which is sold to third parties and provides the Group with revenue diversification. For the year ended 31 December 2018, the Group had external sales volumes of 5.84 million tonnes of iron ore concentrate. For the same period, sales of iron ore concentrate represented 6.8 per cent. of the Group's total sales.

*Prudent Financial Policy*

The Group has historically maintained what it believes to be conservative financial policies. The Group's strategy has been to maintain a net debt to twelve months' rolling EBITDA ratio of less than 3.5 and, as at 31 December 2018, the foreign currency risk on approximately 24 per cent. of the Group's foreign-denominated debt (RUB-denominated bonds, EUR-denominated Baltic Ammonia project finance facility and BRL-denominated debt of Fertilizantes Tocantins) was mitigated through the use of cross-currency swaps (with a total notional value of U.S.$360 million), deliverable forwards (with a total notional value of U.S.$142 million) and non-deliverable forwards (with a total notional value of U.S.$208 million). In addition, the Group's strategy has been to maintain consolidated cash balances of between U.S.$200 million and U.S.$300 million, plus credit lines, and maintain a debt structure with a balanced maturity profile. As a result of these policies, the Group has not faced any significant liquidity issues in the past three years.

*Dynamic and Experienced Management Team*

The Group has a strong management team with extensive Russian and international expertise and a proved management track record in improving the operating results of the Group's production assets, as well as significant mergers and acquisition activity experience. The Group's senior management team combine industry and marketing expertise coupled with extensive financial and managerial expertise, with the Board of Directors, including its independent directors, providing additional leadership and oversight. See "*Management and Directors — Board of Directors*".

*International Corporate Governance Model*

The Group has had annual IFRS reporting since 2002 and quarterly IFRS reporting since 2004. Starting from the first quarter of 2019, the Group plans to discontinue producing unaudited consolidated financial statements on a quarterly basis for the first and the third financial quarters of each financial year.

The Group believes that its corporate governance complies with best practices and international standards. In 2014, the Group underwent a reorganisation of its legal structure and management system in accordance with the new effective corporate governance structure approved by the Board of Directors. For additional information on the reorganisation, see "*Shareholding — Reorganisation*".

**Strategy**

The Group's strategic objective is to be in the global top three leading mineral fertiliser producers in the world in terms of production, sales and profitability. In order to achieve this objective, the Group has been implementing a strategy that includes the following key elements.

*Improving Efficiency and Cost Leadership through Vertical Integration*

The Group intends to further increase its vertical integration, improve efficiency and reach self-sufficiency of its raw material base. To this end, the Group is planning to further invest in increasing production capacity at Nevinnomysskiy Azot and Phosphorit, construction of EuroChem NorthWest ammonia plant and Potash Projects, expansion of mining output of the Kovdorskiy GOK and EuroChem-Fertilizers, all of which are expected to increase the Group's raw materials base. Improved operating efficiency and a reduction in operation and production costs are expected to be achieved through the implementation of various strategic programmes such as by increasing the efficiency of the Group's production and marketing facilities and enhancing cost position by reducing volatility of earnings through sales of speciality value-added products. By 2023, together with the Group's existing production capacities of nitrogen and phosphate fertilisers, the Group expects that its investment in potash fertiliser and ammonia production will increase its total nutrient capacity to 9.9 million metric tonnes per annum. See "— *Developing a Value-Added Product Range and Further Improving Product Quality*". The Group plans to improve its cost efficiency and further develop vertical integration by expanding its logistics network.

*Starting Own Potash Production*

In 2010, the Group started an estimated U.S.$7.3 billion investment programme to commence potash production at the VolgaKaliy Potash Project and Usolskiy Potash Project. As at 31 December 2018, the Group had invested U.S.$2.5 billion and U.S.$2.1 billion in the VolgaKaliy Potash Project and Usolskiy Potash Project, respectively, funding 61 per cent. and 66 per cent. of the total expected costs for these projects, respectively. In 2014, the Group also acquired a mining licence in respect of the Belopashinskiy potassium deposit. As at 31 December 2018, the Group's potassium deposit reserves and resources of potash (sylvinite) in the Usolskiy Potash Project comprised proved and probable reserves of 2,420 million tonnes. Over time, these two key potash production sites are expected to increase their capacity to a combined 8.3 million tonnes of potassium chloride. In 2018, the Group began test production of potassium chloride in the Usolskiy Potash Project and the VolgaKaliy Potash Project. Upon ramp-up of production at its Potash Projects, the Group is expected to become a top three fertiliser producer globally with its own production of nitrogen-, phosphate- and potash-based fertilisers. See "*— Production -Mining Division — Potash projects*".

*Developing a Value-Added Product Range and Further Improving Product Quality*

The Group intends to further diversify its product range and to achieve additional improvements in the quality of its products, while maintaining its price competitiveness. The rising demand for diversified food and the declining arable land per capita are posing challenges for the farmers to increase the per acre yield rate through the use of efficient premium fertilisers. Increasing concerns regarding environmental degradation due to indiscriminate use of fertilisers is compelling agricultural producers to use high-efficiency fertilisers. The application of premium products significantly reduces possible loss of nutrients, and allows gradual nutrient release. It also reduces loss of ammonia due to evaporation, which substantially decreases the risk of environmental pollution. In line with the general market trend and demand, the Group plans to continue to increase sales of current advanced products (such as ENTEC, UTEC and Nitrophoska) and to further diversify its industrial portfolio primarily through the expansion of premium fertilisers. In order to achieve diversification, the Group's strategy envisages the expansion of the product range with innovative premium products and environmentally friendly crop enhancing solutions such as different NPK formulas, products with micronutrients, urea inhibitors and nitrification inhibitors. The end-users of premium fertilisers will be able to receive products customised to particular crops and soils, which is cost effective for customers and encourages sustainable agriculture practices by providing optimal nutrition with minimal application.

*Expanding the Distribution Network and Increasing Proximity to Customers*

Through acquisitions, as well as partnering with distributors globally, the Group has expanded its distribution network to five regions: Europe, Russia/CIS, North America, Latin America and Asia, supported by trading companies in Switzerland, Brazil and U.S. Complementing its organic growth strategy, in 2015 the Group completed the acquisition of Ben-Trei, a U.S.-based fertiliser distributor with a wide network of warehouses in the country's key agricultural regions and established relationships with local customers. In August 2016, in order to strengthen its presence in the fast growing Latin American fertiliser market, the Group completed the acquisition of a controlling interest in Fertilizantes Tocantins, a leading fertiliser distribution company in Brazil. In order to further support its presence in Eastern Europe, the Group established a distribution centre in Hungary (September 2016) and acquired distribution assets in Bulgaria (February 2017). Additional distribution facilities have been established in Romania, a representative office of EuroChem Agro in August 2017, and in Serbia in May 2017. In the second half of 2018, the Group extended its North American distribution network by acquiring dry and liquid fertiliser transportation and storage assets from international merchandising and trading firm Trammo, Inc. This resulted in a significant increase in the Group's fertiliser storage capacity in the U.S., also enabling the Group to strengthen its presence on the U.S.'s East Coast as well as in Western Canada. The Group operated 25 warehouses in the U.S. with a storage capacity of approximately 500,000 metric tonnes as at 31 December 2018. The Group's strategic goal is to further enhance its regional market footprint, distribution in core markets and the amount of direct sales (including sales to farmers, retailers, cooperatives, distributors and other local clients), in order to acquire valuable market knowledge, exploit seasonality patterns and benefit from sales at premium prices. Aiming at the development of end-user relationships, the Group plans to further improve its support, services and product development operations. In order to ensure greater stability in the supply of raw materials to its production subsidiaries and the distribution of products to its customers, the Group has been developing its transport and logistics infrastructure. In addition to the existing maritime transhipment facilities in Russia, Estonia and Belgium with a total annual transhipment capacity of 7.9 million tonnes, the Group plans to complete the construction project for a 5.0 million tonne per annum bulk terminal in the Russian Baltic Sea port of Ust-Luga in 2022, to support potash exports from the Usolskiy Potash Project. The planned bulk terminal will be used to export the Group's fertilisers via the Baltic Sea. The terminal will have three berths and two warehouses. The Group also plans to invest in the purchase of additional railcars in forthcoming years (mainly purchase of hoppers to support new potassium volumes). The Group is also engaged in a project to build an ammonia transhipment terminal in Sillamae (Estonia), one of the key objectives of which is the transhipment of ammonia produced by EuroChem NorthWest for further transportation to EuroChem Antwerpen and potentially to other export sales. The launch of the ammonia terminal is expected in the fourth quarter of 2019.

**History and Development**

EuroChem was established under the laws of the Russian Federation on 27 August 2001.

In 2002, EuroChem acquired controlling stakes in the Novomoskovskiy Azot and Nevinnomysskiy Azot nitrogen facilities, Phosphorit and EuroChem-BMU phosphate facilities and Kovdorskiy GOK iron ore and apatite mine. In 2003, the Group proceeded with a series of upgrades and overhauls at the EuroChem-BMU plant. The Group followed the next year with the large-scale overhaul of ammonia production at Novomoskovskiy Azot in order to reduce gas and steam consumption.

In 2005, the Group acquired the controlling stake in Lithuania-based Lifosa phosphate plant from its shareholders. That same year, the Group at a public auction acquired an exploration and mining licence for the Gremyachinskoe potassium deposit in the Volgograd Region, where the Group is developing the VolgaKaliy Potash Project. The Gremyachinskoe potassium deposit reserves and resources of potash ore were measured by IMC Montan as at September 2009 according to the JORC Code and consisted of proved and probable reserves of 492 million tonnes and measured, indicated and inferred resources of 1.9 billion tonnes.

In 2006, the Group acquired a port terminal in Sillamae, Estonia, while at the same time, it began the construction of the Tuapse transhipment terminal on the Black Sea. In 2007, the Group acquired port terminal facilities in Murmansk commercial sea port and acquired the Mosaic Ukraine and Mosaic Krasnodar distributors from the U.S.-based Mosaic fertiliser company.

In 2008, the Group acquired at auction a licence for the exploration and mining of the Palasherskiy and Balakhontsevskiy sections of the Verkhnekamskoe potassium deposit in the Perm region, where the Group is developing the Usolskiy Potash Project. The Group's reserves and resources of potash (sylvinite) ore within the Verkhnekamskoe deposit were measured by IMC Montan as at October 2009 according to the JORC Code and consisted of proved and probable reserves of 420 million tonnes and measured and indicated resources of 712 million tonnes. In September 2009, the Group's Russian assets were certified to the ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 standards. The certificates were confirmed/renewed in 2015. See *"— Mineral Reserves"*.

In October 2009, the Group launched CAN production at Novomoskovskiy Azot, with an annual production capacity of 420 thousand tonnes and Russia's only granulated urea production facility at the time with a production capacity of 2,000 tonnes per day. In mid-2010, the Group completed pre-design work for the planned construction of a 5 million tonne per annum bulk terminal at the commercial port of Ust-Luga, the Leningrad Region. In August 2010, Novomoskovskiy Azot became Europe's largest urea plant with the launch of a second urea production line. Further capacity expansion followed as the Group doubled the feed phosphate capacity at Lifosa. Active shaft sinking was launched at the Usolskiy Potash Project in November 2010. In July 2011, the 2.3 million tonne per annum the Tuapse transhipment terminal officially began operating. In December 2011, skip shaft sinking operations started at the Usolskiy Potash Project, followed by cage shaft sinking in March 2012.

In March 2012, the Group acquired the nitrogen fertiliser operations of BASF in Belgium (now EuroChem Antwerpen). The transaction included multiproduct production workshops for CAN/GAN fertilisers, NP/NPK fertilisers and nitrophosphoric acid, as well as three related nitric acid workshops with an estimated combined production volume of approximately 2.3 million tonnes per annum of nitrogen and complex fertilisers depending on chosen products split.

In July 2012, the Group completed its acquisition of K+S Nitrogen and its affiliates (now EuroChem Agro and distributors in Mexico, China and an agency in Singapore), a business specialising in the global marketing of nitrogen fertilisers with a focus on major customers in agriculture and special crops such as fruits, vegetables and grapes. In addition to the fertilisers produced by the Group's owned production sites in Belgium (EuroChem Antwerpen) and in Lithuania (Lifosa) EuroChem Agro also markets products supplied by BASF from its plants in Ludwigshafen, Germany and Antwerp, Belgium.

In 2012, EuroChem-Fertilizers signed agreements with the authorities of the Republic of Kazakhstan for the extraction of phosphate rock from the Kok-Jon (Aral-Tobe, Kesik-Tobe) and Gimmelfarbskoe deposits in the Zhambyl Province. In 2013, the Group launched a mining and production project in Kazakhstan, which included the development of phosphate rock deposits, the construction of integrated mining-and-processing facilities and a fertiliser production plant. Production of phosphate ore at the site started in 2014, and by the end of 2015 intra-group shipments of ground phosphate rock have begun, providing close to 50 thousand tonnes of ore to EuroChem-BMU plant. As at 31 December 2016, the Group has commissioned further transport infrastructure and more equipment at the site and has reached full mining capacity of 640 thousand tonnes. Total phosphate rock proved reserves at Kok-Jon (Aral-Tobe, Kesik-Tobe) and Gimmelfarbskoe deposits amount to 513 million tonnes of categories A+B+C1 as recorded in the State Register of Mineral Resources of the Republic of Kazakhstan as at 1 January 2019 according to the Kazakh Classification.

In 2014, the Group reorganised its legal structure and management system in accordance with a new effective corporate governance structure. For additional information on the reorganisation, see "*Shareholding — Reorganisation*".

In 2014, the Group acquired at an auction the right to explore and produce potash from the Belopashinskiy potash licence area located in the Verkhnekamskoe deposit (Usolskiy Potash Project). Adjacent to the Palasherskiy licence area, the Belopashinskiy licence area covers 65 km$^2$ and provides an additional 700 million tonnes of estimated resources attributable to its Verkhnekamskoe potassium deposit licence area.

In 2014, the Group set up a joint-venture with the Migao Corporation, a Yunnan, China-based manufacturer of potash and complex fertilisers, as well as a leading producer of potassium sulphate and potassium nitrate, a premium fertiliser. In January 2014, the EuroChem-Migao started a production line with an annual capacity of 100 thousand tonnes of NPK. A 70 thousand tonne potassium nitrate (NOP) line started operating in the second half of 2015. In addition to capacity enhancement, this partnership also provided the Group with access to Migao's distribution network.

In 2015, the Group launched a new apatite-staffelite ore processing plant at Kovdorskiy GOK. The plant is expected to increase Kovdorskiy GOK's output by 632 thousand tonnes of apatite concentrate and 87 thousand tonnes of iron ore annually once it reaches its design capacity in 2019. Also in 2015, the Group completed the construction of a low-density ammonium nitrate (LDAN) production unit at Novomoskovskiy Azot facility, as well as completed Nevinnomysskiy Azot's new 1B ammonia unit, increasing the Group's annual ammonia production capacity to more than 3.0 million tonnes.

In March 2015, the Group completed the acquisition of a 100 per cent. interest in JSC "Astrakhan Oil and Gas Company" ("**AOGC**"). AOGC holds a licence for the development and extraction of hydrocarbons on the right bank section of the Astrakhan gas condensate field in the Astrakhan Region. This acquisition provides the Group with deeper vertical integration by securing additional raw material reserves, such as natural gas and sulphur. The acquired asset holds a licence for the development of reserves amounting to around 221 billion $m^3$ of category C1+C2 gas as recorded in the State Register of Mineral Resources of the Russian Federation as at 1 January 2017 according to the Russian Classification.

In March 2015, the Group entered into a joint-venture agreement with Thyssen Schachtbau GmbH to set up a drilling and geophysical logging operations "Thyssen Schachtbau EuroChem Drilling" LLC. The company was incorporated in Russia in June 2015.

In August 2015, the Group initiated the construction of EuroChem NorthWest, a new ammonia plant in Kingisepp, the Leningrad Region, Russia. The site is strategically located within the territory of the Group's Phosphorit phosphate facility, which is in close proximity to the Group's Sillamae transhipment terminal and the port of Ust-Luga, both on the Baltic Sea. The 2,700 metric tonnes per day design capacity EuroChem NorthWest project is expected to be commissioned and reach its design capacity in 2019. The Group estimates the total investment required for the development of the EuroChem NorthWest project to be approximately U.S.$977 million. The project is financed via a non-recourse EUR557 million 13.5-year project finance facility with a club of banks and insurance cover provided by the Italian Export Credit Agency SACE for the political and commercial risks associated with the project.

In October 2015, in order to further develop its distribution capacity and expand its presence in the U.S. market, the Group completed the acquisition of Ben-Trei, a U.S.-based fertiliser distributor with a wide network of warehouses and established relationships with local customers. Ben-Trei distributes a variety of dry fertilisers and feed products, primarily via truck and rail transport, and has a strong presence in the key agricultural regions of the United States.

In 2015, shaft sinking and equipping were completed at the cage shaft and skip shaft at the Usolskiy Potash Project. In addition to significant advancement of construction of the surface facilities on the site, successful hydrostatic testing on the thickeners was performed. The sinking of the cage shaft at VolgaKaliy Potash Project was delayed due to water inflow in the second half of 2015. Notwithstanding the delay, the Group's management believes that the inflow will not significantly alter the total timeline of the project. For information on the water inflow, see "*— Production -Mining Division — Potash projects*".

In 2016, the Group entered into special investment agreements with regional authorities of two Russian regions where EuroChem currently has large-scale investment projects underway: the Perm

Region, where the Usolskiy Potash Project is located, and the Volgograd Region, where the VolgaKaliy Potash Project is located. The agreements provide tax benefits to the Group's subsidiaries operating production projects in these regions. Under these agreements, the Group is expected to be required to invest approximately RUB130 billion (approximately U.S.$2 billion) in the Potash Projects. The planned investments are in line with the Group's original plan.

In August 2016, the Group completed the acquisition of a controlling interest in Fertilizantes Tocantins, a leading fertiliser distribution company in Brazil. Fertilizantes Tocantins operates blending facilities and has an established network of 2,000 customers. Founded in 2003, Fertilizantes Tocantins is strategically located in Brazil's emerging fertile farming regions in the North, Northeast and Mid-West. The acquisition is in line with the Group's strategy to strengthen its presence in the fast growing Latin American fertiliser market. See "*Description of Business — Production — Operational Structure — Sales Division*".

In September 2016, the Group signed a framework facility agreement with AIM Capital S.E., the Group's principal shareholder, which was subsequently amended and restated on 21 November 2016 and on 1 May 2018. Pursuant to the agreement, AIM Capital S.E. made a perpetual debt financing available to the Group with a limit of up to U.S.$1 billion and the availability period ending on 31 December 2020. In 2016 and in June 2018, the Group utilised U.S.$250 million and U.S.$600 million, respectively, from this facility. From July 2018 through 31 December 2018, the Group did not draw any additional funds from the facility. This zero-interest, non-callable, perpetual finance facility is accounted for as equity in the Consolidated Financial Statements.

In September 2016, in order to support its strategic expansion in Central and Eastern Europe, the Group established a distribution centre in Hungary. The centre primarily distributes the Group's products, including premium fertilisers, and provides local farmers with unique agronomic solutions. In addition, it distributes premium fertilisers produced by Fertilia Ltd., a leading Hungarian producer and distributor of enhanced fertilisers.

In November 2016, EuroChem Agro GmbH, Germany, entered into an agreement to sell some of its trade receivables to a factoring company (on a non-recourse factoring basis).

In February 2017, the Group acquired a 100 per cent. interest in Agricola Bulgaria EAD, a leading fertiliser distribution company in Bulgaria. Agricola Bulgaria EAD (subsequently renamed EuroChem Agro Bulgaria EAD), based in Pleven, Bulgaria, has annual fertiliser sales of approximately 70 to 80 thousand tonnes, representing approximately 9 per cent. of the Bulgarian fertiliser distribution market.

In July 2017, the Group acquired a minority interest (50 per cent. less one share) in Hispalense de Liquidos, a family-owned producer of liquid NPK blends located in the south of Spain.

In August 2017, the Group acquired a 100 per cent. stake in Emerger Fertilizantes S.A., a privately-owned distributor of premium and standard fertilisers in Argentina.

In October 2017, the Board of Directors of the Group made a decision to sell Severneft-Urengoy, LLC, which the Group acquired in 2012. In November 2017, after certain conditions were fulfilled and antimonopoly authority's approval, the Group sold 100 per cent. stake in Severneft-Urengoy, LLC to an unrelated party.

In December 2017, the Group acquired a 24.89 per cent. stake in Azottech, LLC, a company specialising in drilling and blasting operations and located in the Perm region, Russia. The shareholding was increased up to 74.99 per cent. in January 2019.

In the first quarter 2018, the Group acquired from AIM Capital S.E. (the Group's principal shareholder) a company that owns a land plot for a project for construction of a nitrogen fertiliser plant, which is located in Louisiana, U.S.

In May 2018, the Group sold a 100 per cent. stake in two subsidiaries, within the Sales division, located in Ukraine, to third parties.

In May 2018, the Group signed an agreement for the purchase of the Geres phosphate deposit in Kazakhstan. The transaction is subject to certain conditions, which have not been met as at the date of this Prospectus.

In third quarter of 2018, Joint Venture Eurochem Migao Limited (Hong Kong) sold a 30 per cent. stake in its wholly owned subsidiary Yunnan Eurochem Fertilizer Technology Co., Ltd. to Yunnan Hua Ye Investment Co., Ltd. (Yunnan Tobacco Company) to expand the sales in China.

## Product Range

### *Overview*

The Group's current product range consists of:

- *Nitrogen fertilisers*: ammonia, urea, AN, UAN, CAN, GAN.
- *Phosphate and complex fertilisers*: MAP and DAP, complex fertilisers (NP, NK, NPK), feed phosphates.
- *Mineral raw materials:* apatite concentrate, iron ore concentrate and baddeleyite concentrate.
- *Organic synthesis products*: melamine, acetic acid and methanol.

The following table sets forth the group's external sales by product for the period indicated:

| | **For the year ended 31 December 2018** | |
|---|---|---|
| | **Sales** | **Share of total sales** |
| | (*U.S.$ millions*) | (%) |
| **Nitrogen fertilisers** | | |
| Ammonia | 2.0 | 0.0 |
| Urea | 822.6 | 14.7 |
| Ammonium Nitrate | 283.4 | 5.1 |
| UAN | 274.3 | 4.9 |
| CAN | 241.5 | 4.3 |
| GAN | 51.4 | 0.9 |
| **Phosphate and complex fertilisers** | | |
| MAP, DAP | 998.1 | 17.9 |
| Complex fertilisers (NP, NK, NPK) | 1,097.2 | 19.7 |
| Feed phosphates | 176.2 | 3.2 |
| **Mineral raw materials** | | |
| Iron ore concentrate | 381.8 | 6.8 |
| Apatite concentrate | 0.0 | 0.0 |
| Baddeleyite concentrate | 32.9 | 0.6 |
| **Organic synthesis products** | | |
| Melamine | 61.9 | 1.1 |
| Methanol | 111.4 | 2.0 |
| Acetic Acid | 74.8 | 1.3 |
| **Other** | **968.0** | **17.5** |
| **Total** | **5,577.5** | **100.0** |

### *Nitrogen fertilisers*

*Ammonia*

Ammonia is a basic raw material for mineral fertilisers and a primary input for other fertiliser products. For the year ended 31 December 2018, the Group produced a total of 3.1 million tonnes of ammonia of which more than 99 per cent. were utilised as raw materials internally by the Group for fertiliser production in each period.

*Urea*

Urea is an organic compound of carbon, nitrogen, oxygen and hydrogen produced from synthetic ammonia and carbon dioxide as an assortment of granules, flakes, pellets, crystals and solutions. Urea is the most widely used dry nitrogen fertiliser. It is a solid nitrogen product containing 46.0 per cent. nitrogen and is typically applied in granular form. Once applied to the soil, urea is converted to ammonia, which reacts with water to form ammonium. Urea is produced from ammonia and carbon dioxide and is also used as a raw material for the manufacture of plastics (urea-formaldehyde resin), glues (urea-formaldehyde or urea-melamine-formaldehyde) and as a component of compound mineral fertilisers. Urea can be combined with ammonium nitrate solution to make liquid nitrogen fertiliser (UAN). For the year ended 31 December 2018, the Group produced a total of 2.6 million tonnes of urea.

*Ammonium Nitrate (AN)*

Ammonium nitrate is produced by reacting ammonia gas with unconcentrated nitric acid, an intermediate chemical feedstock produced from ammonia, to form a concentrated watery solution that is subsequently solidified in a prilling or granulation process. It contains 34.0 per cent. nitrogen and is typically applied in solid form as it is water soluble and can be used in various fertiliser solutions. For the year ended 31 December 2018, the Group produced a total of 3.3 million tonnes of AN.

*Urea Ammonium Nitrate Solution (UAN)*

Urea ammonium nitrate solution is an urea-ammonium nitrate mixture produced from ammonium nitrate and urea. UAN is one of the principal nitrogen fertilisers used in agriculture and, like other fertilisers in solution form, has the advantage that it can be applied with fertigation systems, which can increase its effectiveness. Another advantage to solution fertilisers is the ability to mix in liquid pesticides. The most common form of UAN solutions vary in nitrogen content from 28.0 per cent. to 32.0 per cent. For the year ended 31 December 2018, the Group produced a total of 1.4 million tonnes of UAN.

*Calcium Ammonium Nitrate (CAN)*

Calcium ammonium nitrate is a mixture of AN and calcium or magnesium carbonate containing 25.0 per cent. to 28.0 per cent. nitrogen which is produced by mixing calcium and/or magnesium carbonate into an ammonium nitrate solution before the solidification process. The lime content of CAN also helps to neutralise soil acidity. For the year ended 31 December 2018, the Group produced a total of 1.2 million tonnes of CAN.

*Granular Ammonium Nitrate (GAN)*

Granular Ammonium Nitrate (or ammonium nitrate fertiliser) is made of ammonium nitrate by adding inert fillers and additives to the melt. The main nutrient is nitrogen in ammonia form and nitrate form. GAN contains 33.5 per cent. of nitrogen, including no more than 17 per cent. of nitric nitrogen. For the year ended 31 December 2018, the Group produced a total of 0.2 million tonnes of GAN.

***Organic synthesis products***

*Methanol*

Methanol is an organic chemical compound that is synthesised from the methane component in natural gas and used mainly in the manufacturing of synthetic resins, formaldehyde and acetic acid by the customers of the Group. For the year ended 31 December 2018, the Group produced a total of 0.4 million tonnes of methanol.

*Acetic Acid*

Acetic acid is an organic chemical compound used in the production of polyethylene terephthalate, cellulose acetate and polyvinyl acetate, as well as many synthetic fibres and fabrics. Acetic acid is generated through methanol carbonylation and is applied as a chemical reagent for the production of many chemical compounds. The major use of acetic acid is for the production of vinyl acetate monomer. The Group produces various types of acetic acid, including glacial acetic acid and acetic acid for the food industry. For the year ended 31 December 2018, the Group produced a total of 0.2 million tonnes of acetic acid.

*Melamine*

Melamine is a trimer of cyanamide and falls into the chemical class of cyclic cyanamides. The melamine technology is based on the synthesis of urea in presence of a catalyst. Melamine is the most important semi-finished product in plastic and timber processing as well as in the manufacturing of various household and industrial purposes products. In addition, it has a wide application in the construction and automotive industries. For the year ended 31 December 2018, the Group produced a total of 0.05 million tonnes of melamine.

***Phosphate and complex fertilisers***

*Monoammonium Phosphate (MAP) and Diammonium Phosphate (DAP)*

Monoammonium Phosphate and Diammonium Phosphate products are granulated, high-quality, water-soluble, complex mineral fertilisers consisting primarily of nitrogen and phosphorus. DAP is a dry material used extensively for bulk blending and for direct application where soils do not need an additional application of potassium. An affordable fertiliser option, it also has the added advantage of being highly water soluble. MAP is also used for bulk blending or direct application, but has a lower ammonia content than DAP and is, therefore, less harmful to germinating seeds. Both DAP and MAP are produced using the same production process and differ mainly in their respective nitrogen and phosphorus content. For the year ended 31 December 2018, the Group produced a total of 1.3 million tonnes of MAP and 0.8 million tonnes of DAP.

*Complex Fertilisers (NP, NK, NPK)*

Multi-nutrient, complex fertilisers, commonly referred to as NPK (nitrogen-phosphorus-potassium), include all three main nutrient elements: nitrogen, phosphate and potassium. Complex fertilisers are produced by either blending or chemical reaction between phosphoric acid, ammonia, potassium chloride (potassium sulphate), nitric acid and other substances. The main Group's producers of complex fertilisers are Nevinnomysskiy Azot (NPK, NK), EuroChem Antwerpen (NPK, NP) and EuroChem-BMU (NP). For the year ended 31 December 2018, the Phosphates product group produced a total of 2.0 million tonnes of complex fertilisers including NPK, NP and NK.

*Feed Phosphates*

Feed phosphates include monocalcium phosphate and defluorinated phosphate manufactured using apatite concentrate, phosphoric acid, calcium reagent (lime) and sodium hydrate. Feed phosphates are used as feeding additive in the cattle, poultry and swine industries. For the year ended 31 December 2018, the Group produced a total of 0.4 million tonnes of feed phosphates.

*Water-soluble fertilisers*

The Group developed a range of water-soluble fertilisers, which enhance the effectiveness of fertigation. The optimisation of nitrogen fertilisation is a fundamental aspect of the modern, sustainable agriculture, which strives for maximum yields in an environmentally friendly manner, with healthy harvests and sufficient profitability for farmers. During water shortages, water-soluble fertilising has become particularly important to farmers. Such fertilisers provide considerable water savings and, through fixed dosage, achieve more efficient fertiliser delivery and result in optimised crop nutrition, as well as crop quality and yields. As at 31 December 2018, the Group offered seven water-soluble products, including five straights (NOP solub, CN solub, MAP solub, SOP solub, UP solub) and 2 premium salts (Nitrophoska solub, ENTEC solub).

### *Mineral raw materials*

*Iron Ore Concentrate*

Iron ore concentrate is mined and processed at the Zhelezny open-pit mine by Kovdorskiy GOK. Iron ore concentrate is primarily used in steel manufacturing. For the year ended 31 December 2018, the Group produced a total of 5.9 million tonnes of iron ore concentrate. For the year ended 31 December 2018, the Group sold 38 per cent. of its iron ore concentrate production to Severstal, a major Russian steel producer, and 24 per cent. to customers in Asia.

*Baddeleyite Concentrate*

Baddeleyite concentrate is a product of natural zirconium ore processing and is used in refractory, abrasives, ceramic pigment and technical ceramic manufacturing. The Group is the only industrial-size manufacturer of baddeleyite concentrate in the world and produces a variety of grades of this product. For the year ended 31 December 2018, the Group exported 91 per cent. of its baddeleyite production. For the year ended 31 December 2018, the Group produced a total of 7.4 thousand tonnes of baddeleyite concentrate.

*Apatite Concentrate*

Apatite concentrate is a phosphate rock (apatite, phosphorite) processing product used for the production of phosphate-based fertilisers by being reacted with phosphoric and sulphuric acid. For the year ended 31 December 2018, the Group produced a total of 2.5 million tonnes of apatite concentrate.

### *Production Volumes*

The following table sets forth the production volumes of the Group's primary products for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | *(thousand tonnes)* | |
| **Nitrogen fertilisers** | | | |
| Ammonia | 3,064.2 | 3,016.9 | 2,986.5 |
| Urea | 2,633.7 | 2,484.9 | 2,510.1 |
| AN | 3,269.7 | 3,196.8 | 3,019.9 |
| CAN | 1,232.4 | 994.5 | 904.0 |
| UAN | 1,361.5 | 1,145.8 | 1,296.6 |
| GAN | 180.5 | 393.6 | 421.3 |
| **Organic synthesis products** | | | |
| Melamine | 49.2 | 45.7 | 47.9 |
| Methanol | 419.8 | 409.0 | 409.8 |
| Acetic acid | 162.1 | 162.6 | 163.2 |
| **Phosphate and complex fertilisers** | | | |
| MAP | 1,244.5 | 1,179.0 | 1,021.1 |
| DAP | 804.5 | 828.6 | 899.9 |
| Complex fertilisers (NP, NK, NPK) | 1,946.0 | 1,812.5 | 1,817.1 |
| Feed phosphates | 373.1 | 324.2 | 349.9 |
| **Mineral raw materials** | | | |
| Apatite concentrate | 2,462.1 | 2,583.3 | 2,709.1 |
| Iron ore concentrate | 5,941.9 | 6,205.1 | 6,336.5 |
| Baddeleyite concentrate | 7.4 | 7.2 | 7.8 |

### *Sales Volumes*

The following table sets forth the external sales volumes of the Group's primary products for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | *(thousand tonnes)* | |
| **Nitrogen fertilisers** | | | |
| Ammonia | 4.2 | 72.4 | 100.9 |
| Urea | 2,848.5 | 2,807.7 | 3,045.1 |
| AN | 1,439.8 | 1,570.8 | 1,597.0 |
| UAN | 1,396.4 | 1,242.1 | 1522.5 |
| CAN | 1,133.3 | 954.3 | 956.6 |
| GAN | 190.9 | 361.4 | 441.0 |
| **Organic based chemicals** | | | |
| Melamine | 44.3 | 45.0 | 48.7 |
| Methanol | 327.5 | 313.0 | 324.9 |
| Acetic acid | 119.6 | 121.8 | 123.3 |
| **Phosphate and complex fertilisers** | | | |
| MAP, DAP | 2,201.7 | 2,197.8 | 2173.9 |
| Complex fertilisers (NP, NK, NPK) | 2,907.1 | 2,666.7 | 2095.3 |
| Feed phosphates | 399.4 | 348.4 | 300.2 |
| **Mineral raw materials** | | | |
| Iron ore concentrate | 5,844.1 | 5,878.4 | 5994.9 |
| Apatite concentrate | 0.0 | 27.5 | 26.1 |
| Baddeleyite concentrate | 7.2 | 7.3 | 7.7 |

## Mineral Reserves

Most of the Group's reserves have been evaluated in accordance with the JORC Code. In 1975, a geological-exploration expedition from Murmansk conducted a review of the mineral resources at the Kovdorskiy field, which is now subject to exploration by Kovdorskiy GOK. An additional internal review of the mineral resources is carried out by Kovdorskiy GOK on an annual basis. Certain of the Group's reserves have been evaluated in accordance with the Russian Classification or the Kazakhstan Classification.

The estimation of the quantity and content of the Group's reserves is based on drilling and geological data, and represents the mineral resources that could be legally and economically extracted or produced at the time that the reserve estimation was made. Russian subsoil licences are issued for areas within defined boundaries and for specific periods. However, under Law No. 2395-1 "On Subsoil Resources" dated 21 February 1992, as amended, licences are required to be extended by the relevant authorities on the date of their scheduled termination at the request of the licensee if the extension is necessary to finish production in the field, provided that the licensee has not violated the conditions of the licence.

The Group has 16 solid minerals licences (including for general geological exploration, general and detailed geological exploration and mining and detailed exploration and mining), which are valid up to 2039. Under the provisions of some of the Group's licencing agreements for Potash Projects, mining operations licence may be revoked if the Group fails to meet certain production levels. However, in September 2016, the Group successfully negotiated revocation triggers to be eliminated in respect of the licence for mining operations at Usolskiy Potash Project (expected production levels have been aligned with project plan) and VolgaKaliy Potash Project (the terms of the licence for the Gremyachinskoe deposit were changed and the Group continues to be in compliance with the relevant terms. None of the Group's subsoil licences has ever been revoked or suspended.

*Kovdorskiy GOK*

The following table sets forth Kovdorskiy GOK's reserves and resources of BAMO, LFAO, apatite-staffelite ore and apatite-baddeleyite tailings as measured by IMC Montan as at October 2009 according to the JORC Code:

| | **Amount** | **Fe content** | **$P_2O_5$ content** | **$ZrO_2$ content** |
|---|---|---|---|---|
| | *(tonnes in millions)* | | *(%)* | |
| **BAMO** | | | | |
| Proved and probable | 372.19 | 26.05 | 6.66 | 0.17 |
| Measured and indicated | 365.93 | 26.62 | 6.80 | 0.17 |
| **LFAO** | | | | |
| Proved and probable | 136.44 | 10.17 | 5.74 | 0.08 |
| Measured and indicated | 143.73 | 10.45 | 5.90 | 0.08 |
| **Apatite staffelite ore** | | | | |
| Proved and probable | 63.05 | 7.17 | 12.80 | - |
| Measured and indicated | 57.16 | 8.09 | 14.46 | - |
| **Apatite baddeleyite tailings** | | | | |
| Proved and probable | 22.83 | - | 10.66 | 0.28 |
| Measured and indicated | 26.37 | - | 10.67 | 0.28 |

*EuroChem-Fertilizers (Kok-Jon (Aral-Tobe, Kesik-Tobe) and Gimmelfarbskoe deposits in Kazakhstan)*

The following table sets out the Kok-Jon, (Aral-Tobe, Kesik-Tobe) and Gimmelfarbskoe deposits, reserves and resources of phosphate rock as recorded in the Sate Register of Mineral Resources of the Republic of Kazakhstan as at 1 January 2019 according to the Kazakhstan Classification:

| | **Amount** | **$P_2O_5$ content** |
|---|---|---|
| | *(tonnes in millions)* | *(%)* |
| **Phosphate rock** | | |
| Total resources of categories A+B+C1, which includes: | 512.81 | 26.97 |
| Aral-Tobe | 25.60 | 27.90 |
| Kesik-Tobe | 159.24 | 28.20 |
| Gimmelfarbskoe | 327.98 | 26.30 |

*VolgaKaliy Potash Project (Gremyachinskoe Potassium Deposit)*

The Group plans to mine potassium and produce potassium mineral fertiliser at the site (see "— *Production —Potash projects — VolgaKaliy Potash Project*" below). EuroChem's subsidiary EuroChem VolgaKaliy LLC ("**EuroChem VolgaKaliy**") is in the process of building shafts and underground mines.

The following table sets forth the Gremyachinskoe potassium deposit reserves and resources of potash ore as measured by IMC Montan as at September 2009 according to the JORC Code:

| | **Amount** | **KCl content** | **NaCl content** | **$MgCl_2$ content** | **$CaSo_4$ content** | **Insoluble residue content** |
|---|---|---|---|---|---|---|
| | *(tonnes in millions)* | | | | *(%)* | |
| **Potash ore** | | | | | | |
| Proved | 164.8 | 35.86 | 54.04 | 0.19 | 7.7 | 0.51 |
| Probable | 326.8 | 37.23 | 53.56 | 0.19 | 6.63 | 0.55 |
| Measured | 448.43 | 37.55 | 52.64 | 0.19 | 7.55 | 0.46 |
| Indicated | 889.26 | 39.01 | 52.21 | 0.19 | 6.36 | 0.51 |
| Inferred | 590.30 | 35.72 | 56.88 | 0.21 | 4.64 | 1.43 |

*Usolskiy Potash Project (Verkhnekamskoe Potassium Deposit)*

The Group plans to mine potassium and produce potassium mineral fertiliser (see "— *Production — Potash projects — Usolskiy Potash Project*" below). The Group's subsidiary is developing the

Usolskiy Potash Project and is in the process of building shafts and underground mines. In 2018, the Group began test production of potassium chloride in the Usolskiy Potash Project and the VolgaKaliy Potash Project.

The following table sets forth the Verkhnekamskoe potassium deposit reserves and resources of potash (sylvinite) ore as measured by IMC Montan as at October 2009 according to the JORC Code:

| | **Amount** | **KCl content** | **NaCl content** | **$MgCl_2$ content** | **$CaSo_4$ content** | **Insoluble residue content** |
|---|---|---|---|---|---|---|
| | *(tonnes in millions)* | | | | *(%)* | |
| **Potash (sylvinite) ore** | | | | | | |
| Proved | 118.45 | 27.16 | 61.90 | 0.38 | 2.55 | 6.77 |
| Probable | 301.60 | 27.66 | 62.01 | 0.38 | 2.31 | 6.54 |
| Measured and Indicated | 712.19 | 30.04 | 61.95 | 0.33 | 2.22 | 4.71 |

*Astrakhan Oil and Gas Company*

In March 2015, the Group completed the acquisition of a 100 per cent. interest in JSC “Astrakhan Oil and Gas Company” (reported in “Other” in the 2018 Financial Statements). AOGC holds a licence for the development and extraction of hydrocarbons on the right bank section of the Astrakhan gas condensate field and natural gas reserves of approximately 457.8 billion $m^3$, sulphur of approximately 108.7 million tonnes and gas condensate reserves of approximately 23.9 million tonnes as at 31 December 2018 according to the Russian Classification.

## Production

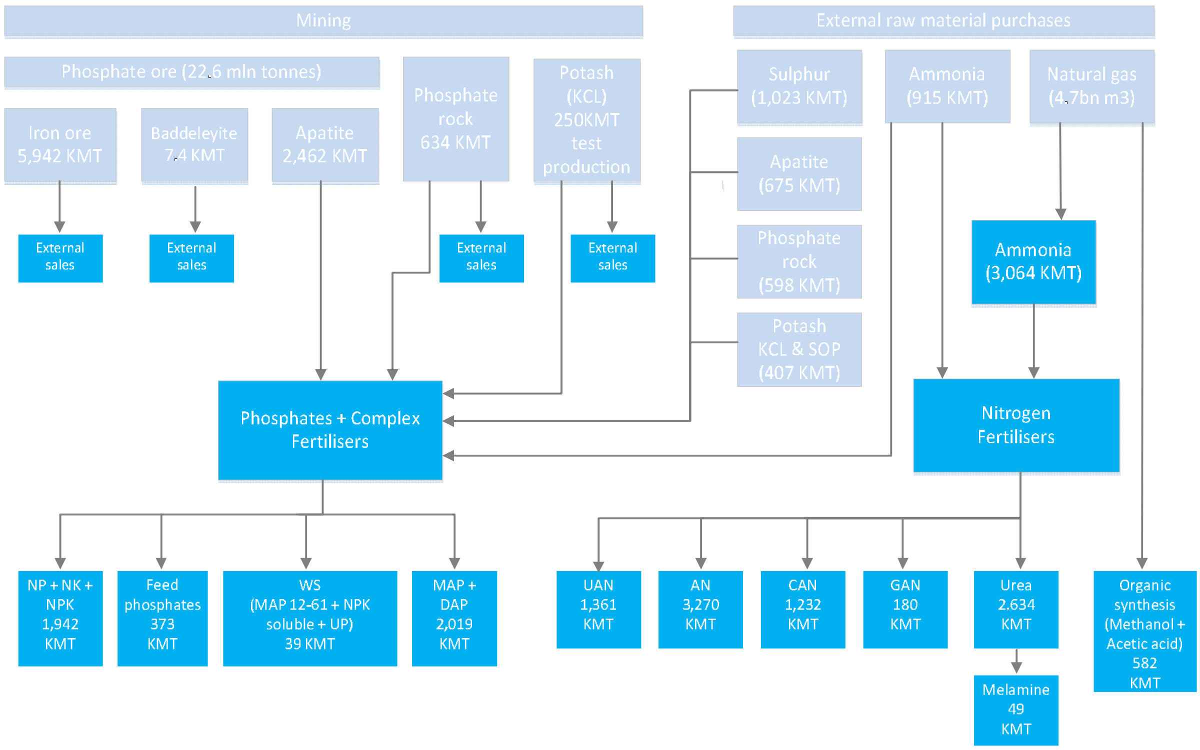
### *Overview*

The Group’s operations consist of magnetite-apatite mines; apatite, iron ore and baddeleyite beneficiation plants; and nitrogen mineral fertiliser, organic synthesis product and phosphate mineral fertiliser production facilities.

As part of its vertically integrated business model, the Group mines magnetite-apatite ore, which is high-quality phosphate rock, from the Group’s own mine and extracts apatite concentrate from the ore at the Group’s beneficiation plant. The Group then uses its apatite concentrate output as a raw material to produce phosphate mineral fertilisers. Additional product derived from the production of phosphate mineral fertilisers is aluminium fluoride. As requested by the FAS, the Group also sells a small portion of its apatite concentrate production to third parties. The Group also extracts baddeleyite concentrate from its magnetite-apatite ore and sells it to third parties. The Group’s mining operations also yield iron ore concentrate, a co-product of apatite mining, which it sells to third parties for the production of steel.

Phosphate-based and nitrogen-based fertilisers are used to improve soil fertility by enhancing nutrient content in the soil and, as a result, to increase crop production and yields. Feed phosphates are used as feeding additive in the cattle, poultry and swine industries. Iron ore concentrate is used in steel production.

The following chart sets forth the main elements of the Group's production chain (including maximum annual mining capacities) as at the date of this Prospectus and fertiliser production volumes for the year ended 31 December 2018:




### *Operational Structure*

The Group's reporting segments are based on business divisions comprising four operating divisions: Mining, Fertilisers, Logistics and Sales. Reflecting focus on core fertilisers business, the Group sold 100 per cent. of its interest in Severneft-Urengoy, LLC and, accordingly, dissolved its Oil & Gas division effective from 1 January 2018:

- the *Mining* division encompasses the extraction of ores to obtain apatite, baddeleyite and iron-ore concentrates, phosphorite; as well as the test potash production at the Verkhnekamskoe deposit started in 2018 and the development of the second potassium salts deposit (potash) at the Gremyachinskoe deposit;
- the *Fertilisers* division includes the production of mineral fertilisers (nitrogen, phosphate and complex) and industrial products;
- the *Logistics* division covers all supply chain operations including transportation services, purchase and delivery of raw materials and finished goods, as well as freight forwarding and other logistics services;
- the *Sales* division is responsible for the sale of the complete range of products produced by the Group as well as third-party products through the Group's global distribution network spanning across Europe, Russia, North and Latin America, Central and South East Asia.

Activities not assigned to a particular division are reported as "Other". These include certain service activities, central management and other items. All intersegment transactions and unrealised profit in inventory from intragroup sales are eliminated through "Elimination".

The Group benefits from the vertical integration of its new operational structure while preserving product group diversification for production and marketing purposes.

### *Mining Division*

The Group's Mining Division includes Kovdorskiy GOK and EuroChem-Fertilizers (in Kazakhstan), the Group's operations aimed at the extraction of ores to obtain apatite, baddeleyite and iron ore concentrates, phosphorite. In addition, the Mining Division oversees the development of the Group's potassium salts deposits (potash) extraction projects – VolgaKaliy Potash Project and Usolskiy Potash Project. The Group's external sales attributable to the Mining Division amounted to U.S.$11,601 thousand for the year ended 31 December 2018, representing 0.2 per cent. of the Group's total external sales.

The following table sets forth the production volumes, production capacities and utilisation levels of the Mining Division facilities for the years indicated:

| | For the year ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | | 2016 | | |
| | Production volume | Production capacity | Utilisation | Production volume | Production capacity | Utilisation | Production volume | Production capacity | Utilisation |
| | *(thousand tonnes)* | | *(%)* | *(thousand tonnes)* | | *(%)* | *(thousand tonnes)* | | *(%)* |
| Iron ore | 5,941.9 | 6,161.4 | 96.4 | 6,205.1 | 6,336.0 | 97.9 | 6,336.5 | 6,336.5 | 100.0 |
| Apatite concentrate | 2,462.1 | 2,553.0 | 96.4 | 2,583.3 | 3,093.0 | 83.5 | 2,709.1 | 2,846.5 | 95.2 |
| Phosphate ore | 565.7 | 587.6 | 96.1 | 621.7 | 631.7 | 89.2 | 356.3 | 633.6 | 56.2 |
| Baddeleyite concentrate | 7.4 | 7.7 | 100.0 | 7.2 | 7.2 | 100.0 | 7.8 | 7.8 | 100.0 |

*Kovdorskiy GOK*

History and Development

Located in Kovdor in the Murmansk Oblast in northern Russia, Kovdorskiy GOK is the second largest producer of apatite concentrate in Russia, one of the largest producers of iron ore concentrate in Russia and the only mine which produces baddeleyite (a zirconium oxide mineral) concentrate in the world, according to the Group and Metal Expert. Construction of the plant commenced in 1953, and Kovdorskiy GOK commenced regular production in 1962. In the mid-1970s, an apatite and baddeleyite beneficiation plant was put in operation to produce apatite and baddeleyite concentrates from the mined ore. By the early 1980s, operations at Kovdorskiy GOK had reached their full capacity and the facilities were privatised in 1993. In December 2002, the Group acquired a controlling stake in Kovdorskiy GOK. Subsequently, Kovdorskiy GOK was integrated into the Group's phosphate fertiliser production chain as the principal raw materials supplier. As at the date of this Prospectus, over 95 per cent. of all apatite concentrate produced by Kovdorskiy GOK is consumed within the Group. Since 2002, the Group has invested U.S.$1.037 billion capital expenditure in Kovdorskiy GOK.

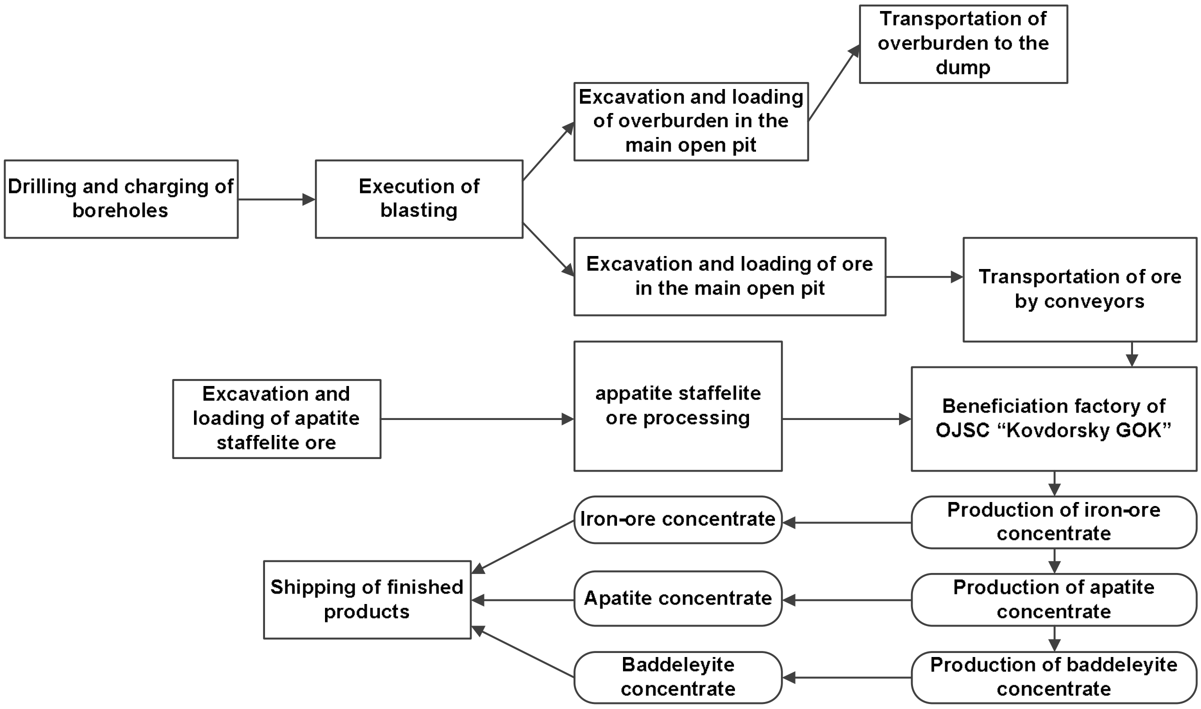
As a result of a production upgrade programme for the apatite processing facility carried out from 2005, the production capacity of Kovdorskiy GOK was expanded and had reached a total annual output of approximately 2.6 million tonnes of apatite concentrate and 6.2 million tonnes of iron ore as at 31 December 2018. As at 31 December 2018, Kovdorskiy GOK had annual production capacities of 6.2 million tonnes of iron ore concentrate, 2.6 million tonnes of apatite concentrate and 7.7 thousand tonnes of baddeleyite concentrate.

In 2015, the Group launched a new apatite-staffelite ore processing plant at Kovdorskiy GOK. The plant is expected to increase Kovdorskiy GOK's output by 639 thousand tonnes of apatite concentrate and 79 thousand tonnes of iron ore annually once it reaches its design capacity in 2022.

Production

Kovdorskiy GOK produces iron ore concentrate with an average Fe content of 64.0 per cent., apatite concentrate with an average $P_2O_5$ content of 38.0 per cent. and a maximum MgO content of 2.5 per cent., and baddeleyite concentrate with an average $ZrO_2$ content of 98.5 per cent. The main production divisions of Kovdorskiy GOK include the Zhelezny open-pit mine (Workshop No. 02), the technological transport workshop (Workshop No. 03), the crushing facility (Workshop No. 04), the iron ore concentrating facility (Workshop No. 05), the apatite-baddeleyite ore concentrating facility (Workshop No. 06) and apatite-staffelite ore processing facility (Workshop No. 07).

The following chart sets forth the principal technological processes of Kovdorskiy GOK:




*Zhelezny Mine*

The Zhelezny open-pit mine is the main ore mining facility of the Group. Its main equipment includes excavators, roller bit drilling rigs and jaw crushers. The mine is of an open-pit design, and mining is conducted using the blasting method, which involves the drilling of blast holes in the ore body by roller- bit drilling rigs and the placing of explosives into the holes for detonation.

*Crushing*

Crushing is the initial operation prior to iron ore dressing. There are three stages of crushing: primary (350–100 mm), secondary (100–40 mm) and fine (30–5 mm). Jaw and cone crushers are used for the primary and secondary crushing of hard rocks, following which the ore is further reduced to powder using ball and rod mills. Crushed ore is further treated at a dressing plant. The crushing facility includes main production buildings, a repair workshop and reloading station. The main machinery and equipment of the crushing facility includes various types of cone crushers and jaw crushers.

*Iron Ore Dressing*

Iron ore dressing comprises several stages. Primary crushed ore is first ground using rod and ball mills and is then separated from the tails using electro-magnetic separators. The pulp produced is then dried with vacuum filters. During the winter, the concentrate is further dried to 1.5 per cent. humidity in order to produce a dry concentrate before shipment to customers. The tailings of the iron ore dressing are then taken to apatite and baddeleyite production. The tailings are screened and ground if required, and then transformed into concentrate. Apatite concentrate is separated from the tailings via floatation. The pulp is heated and mixed with reagents before being floated, dried in rotary kilns and stored in silos. The tailings from the apatite concentrate production are later used for baddeleyite concentrate production. Baddeleyite is separated from the tailings via gravitation and magnetic separation methods. The pulp is then concentrated and dried and the residual tailings pumped to the tailing quarry.

*Iron Ore Concentrating*

The iron ore concentrating facility occupies ten buildings, including the main production building, the concentrate storage, the drying building, reloading stations and a compressor station. The main machinery and equipment of the iron ore concentrating facility includes drying furnaces, rod mills, ball mills and vacuum filters.

*Apatite-Baddeleyite Ore Concentrating*

The apatite-baddeleyite facility includes a building housing the thickening department, buildings for the dressing plant, pumping stations, reloading stations and an administrative building. The main machinery and equipment of the apatite-baddeleyite ore concentrating facility includes drying furnaces, rod mills, ball mills, vacuum filters and screens.

*Apatite-Staffelite Ore*

Apatite-staffelite ore reserves were originally approved by the State Committee for Reserves in 1977. Following the results of geological exploration, which was conducted between 2009 and 2013, the geology of the apatite-staffelite deposit was updated, comprehensive investigation of the deposit conditions, ore mineralogy and processing properties was conducted, geological and technological map was prepared. The project includes construction of an open pit to mine apatite-staffelite ore.

When processing apatite-staffelite ore, the ore is crushed to the required size, attrited, washed and transported to the flotation feed preparation circuit to then produce iron ore concentrate and apatite-staffelite concentrate.

*Production Volumes*

The following table sets forth the production volumes of principal products at Kovdorskiy GOK for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | *(thousand tonnes)* | |
| Iron ore | 5,941.9 | 6,205.1 | 6,336.5 |
| Apatite concentrate | 2,462.1 | 2,583.3 | 2,709.1 |
| Baddeleyite concentrate | 7.4 | 7.2 | 7.8 |

*EuroChem-Fertilizers*

History and Development

In 2008 the Group initiated the expansion of its operations to Kazakhstan by establishing a wholly-owned subsidiary EuroChem-Fertilizers. In 2008, EuroChem-Fertilizers acquired 58.2 per cent. of state-owned Sary-Tas Fertilisers located in Karatau, Kazakhstan. In 2012, EuroChem-Fertilizers signed agreements with the authorities of the Republic of Kazakhstan for the extraction of phosphate rock from the Kok-Jon and Gimmelfarbskoe deposits in Kazakhstan's Zhambyl province. In 2013 the Group launched a mining and production project in Kazakhstan, which included the development of phosphate rock deposits, the construction of integrated mining-and-processing facilities and a fertiliser production plant. Production of phosphate ore at the site started in 2014, and by the end of 2015 intra-group shipments of ground phosphate rock began, providing close to 50 thousand tonnes of ore to EuroChem-BMU plant. By the end of 2016, the Group commissioned further transport infrastructure and more equipment at the site and reached full mining capacity equivalent to 640 thousand tonnes per annum. In addition, the Group is contemplating the construction of chemical and fertiliser processing and manufacturing capacity alongside the progress of the mining operations on the site.

Production

EuroChem-Fertilizers is producing the phosphate ore at Araltobe site with the annual mined capacity of 566 thousand tonnes in 2018. The produced ore is stockpiled and if required it is blended at the open ore storage beforehand. Then the produced ore is transported by trucks using the service road (25 km) for the subsequent phosphate ground production by the subsidiary of the Group, EuroChem-Karatau.

Production Volumes

The following table sets forth the production volumes of principal products at EuroChem-Fertilizers for the years indicated:

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | *(thousand tonnes)* | |
| Phosphate ore production | 565.7 | 621.7 | 368.4 |

### *Potash Projects*

The Potash Projects include VolgaKaliy Potash Project and Usolskiy Potash Project, which are in the process of developing the Gremyachinskoe and Verkhnekamskoe potassium deposits, respectively. The total capacity of the VolgaKaliy Potash Project and Usolskiy Potash Project after achieving their full projected production capacity is expected to be approximately 8.3 million tonnes. In 2018, the Group produced at its Usolskiy Potash Project approximately 250 thousand tonnes of potassium chloride. The Group believes that the development of the VolgaKaliy Potash Project and the Usolskiy Potash Project should allow it to diversify its business and customer base as well as reduce the Group’s exposure to any future price fluctuations in its nitrogen and phosphates fertiliser businesses.

*Usolskiy Potash Project (Verkhnekamskoe Potassium Deposit)*

The Usolskiy Potash Project is located near the city of Perm in the Urals region, close to Uralkali potash production sites where operations started in 1930s. In 2008, the Group acquired at an auction a licence for the exploration and mining of potassium in Palasherskiy and Balakhontsevskiy sections of the Verkhnekamskoe field at a purchase price of U.S.$172 million. In 2014, the Group also acquired a mining licence in respect of the Belopashinskiy potassium deposit. As at 31 December 2018, in accordance with Russian Classification, the Group’s potassium deposit reserves and resources of potash (sylvinite) in the Usolskiy Potash Project comprised 2,178 million tonnes of reserves approved by the State Reserves Committee of Rosnedra. The maximum capacity of the Usolskiy Potash Project is projected to be approximately 4.0 million tonnes of end product per year, which is expected to be achieved between 2023 and 2024 when the project is fully operational and ramped-up.

The Group estimates the total investment required for the development of the Usolskiy Potash Project to be approximately U.S.$3.2 billion. As at 31 December 2018, the Group invested approximately U.S.$2.1 billion in the aggregate on the development of the Usolskiy Potash Project, which represents approximately 66 per cent. of the total planned expenditure. The Usolskiy Potash Project development was partially financed through a U.S.$750 million non-recourse project finance facility received by the Group in 2014 and maturing at the end of 2022. In June 2018, the Group fully repaid this facility early primarily with the proceeds from a subordinated shareholder loan.

The Usolskiy Potash Project is being implemented in two phases. The first phase of the project comprising construction of two shafts and four trains, is expected to be completed in 2019 with the projected capacity of 2.3 million tonnes per year and fully ramped-up, by 2022, with the maximum production capacity of 3.0 million tonnes per year. As at the date of this Prospectus, two shafts and two trains were fully operational in a testing mode and being utilised at their projected capacity of 1.1 million tonnes per year. The remaining third and fourth trains are under construction with expected launch in 2019. The train construction works have been undertaken in conjunction with the ramp-up of the underground works. The Group expects to obtain all approvals and permits required to utilise the production facilities in a commercial operation mode between 2019 and 2020.

The second phase of the Usolskiy Potash Project comprises the construction of the third shaft (which has already commenced) and a new processing plant, which is expected to increase ore mining capacity from 10.5 million tonnes per year to 14.4 million tonnes per year and final production capacity from 3.0 million tonnes per year to 4.0 million tonnes per year. The Group intends to develop a detailed technological and construction plan relating to the second phase of the Usolskiy Potash Project in 2019 with the intention of completing the second phase of the project by 2024.

*VolgaKaliy Potash Project (Gremyachinskoe Potassium Deposit)*

In 2005, Investpromresurs LLC (subsequently renamed EuroChem-VolgaKaliy LLC), a wholly-owned subsidiary of the Group, obtained a licence for the exploration and mining of potassium in the Gremyachinskoe field, located in the Volgograd Oblast in southern Russia, at a purchase price of U.S.$106 million. As at 31 December 2018, in accordance with Russian Classification the Gremyachinskoe potassium deposit reserves and resources of potash ore comprised 1.6 billion tonnes of reserves approved by the State Reserves Committee of Rosnedra. The VolgaKaliy Potash Project is expected to be completed between 2024 and 2025 with the commissioning of 3 shafts. Once fully operational and ramped-up, the projected maximum capacity is expected to be approximately 4.3 million tonnes of end product per year.

The Group estimates the total investment required for the development of the VolgaKaliy Potash Project to be approximately U.S.$4.1 billion. As at 31 December 2018, the Group invested approximately U.S.$2.5 billion in the aggregate on the development of the VolgaKaliy Potash Project, which represents approximately 61 per cent. of the total planned expenditure.

The project is being implemented in two phases. The first phase of the project, comprising construction and commissioning of two shafts and a processing plant, is expected to be completed in 2020. As at the date of this Prospectus, two shafts are being utilised with the protection of a freeze wall. The two connected shafts and the processing plant are operating as planned in the testing mode. The two existing shafts are designed to produce between 10 and 12 million metric tonnes of ore per year but are restricted to 7.5 million metric tonnes by the regulator while in the test mode. The shafts and the processing plant are yet to be officially commissioned pursuant to the relevant Russian regulations. As at the date of this Prospectus, it was agreed with the relevant authorities that the first two shafts could be unfrozen and grouted following the unfreezing of the third shaft. However, the Group believes that based on the level of completion of the first two shafts, the relevant authorisation for the unfreezing and ungrouting of these shafts could be achieved prior to the unfreezing of the third shaft, which remains under construction. Following the full ramp-up of the first phase, which is expected in 2021, its annual mining capacity is expected to be approximately 6.5 million tonnes of potash ore, which represents production capacity of approximately 2.3 million tonnes of product per year. The total ore mining capacity of the two shafts is between 10 and 12 million tonnes per year.

The second phase comprises completing the construction of the third shaft as well as construction of one additional processing plant. The construction of the third shaft has been delayed due to water inflow, which initially occurred in 2015. Six additional wells were drilled and frozen, but these had only limited success. The Group’s site production experts are devising a further action plan to tackle the inflow. The water inflow in the third shaft is not expected to significantly delay the continued implementation of the project and the ramp-up of the first two shafts, because the third shaft is not connected with the first two shafts and therefore water inflow in the third shaft will not cause flooding the first two shafts and/or loss of their reserves. The fully operational third shaft is expected to increase the VolgaKaliy Potash Project’s ore mining and extraction capacity from 10 million tonnes to 14.6 million tonnes per year. The Group’s completion of the second phase of the project depends on the progress with completing the construction of third shaft.

### *Fertilisers Division*

The Group's Fertilisers Division includes the production of mineral fertilisers (nitrogen, phosphate and complex) and organic synthesis products. Nitrogen mineral fertilisers and organic synthesis products are produced by Novomoskovskiy Azot, Nevinnomysskiy Azot and EuroChem Antwerpen. Phosphate mineral fertilisers are produced by EuroChem-BMU, Lifosa and Phosphorit facilities and production of complex fertilisers (NP, NPK, NK) is carried out by Novomoskovskiy Azot, Nevinnomysskiy Azot, EuroChem Antwerpen and EuroChem Migao (JV). The Group's external sales attributable to the Fertilisers Division amounted to U.S.$66,653 thousand for the year ended 31 December 2018, representing 1.2 per cent. of the Group's total external sales. Share of results of EuroChem Migao (JV) is included in "Other" product group due to its joint-venture nature

The following table sets forth the production volumes, production capacities and utilisation levels of the Fertilisers Division facilities for the years indicated:

| | For the year ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | | 2016 | | |
| | Production volume | Production capacity | Utilisation | Production volume | Production capacity | Utilisation | Production volume | Production capacity | Utilisation |
| | *(tonnes in millions)* | | *(%)* | *(tonnes in millions)* | | *(%)* | *(tonnes in millions)* | | *(%)* |
| **Nitrogen:** | | | | | | | | | |
| Ammonia | 3.06 | 3.3 | 94.1 | 3.0 | 3.2 | 95.0 | 3.0 | 3.2 | 94.1 |
| Urea | 2.63 | 2.8 | 93.7 | 2.5 | 2.7 | 93.5 | 2.5 | 2.6 | 95.8 |
| AN | 3.27 | 3.6 | 91.5 | 3.2 | 3.5 | 90.8 | 3.0 | 3.2 | 95.3 |
| CAN[(1)] | 1.23 | 1.3 | 96.1 | 1.0 | 1.3 | 76.9 | 0.9 | 1.3 | 71.8 |
| UAN | 1.36 | 1.5 | 90.9 | 1.1 | 1.5 | 77.5 | 1.3 | 1.5 | 87.5 |
| GAN [(1)] | 0.18 | n/a | n/a | 0.4 | n/a | n/a | 0.4 | 0.5 | 80.5 |
| **Organic synthesis products:** | | | | | | | | | |
| Melamine | 0.05 | 0.1 | 97.7 | 0.05 | 0.1 | 89.3 | 0.0 | 0.1 | 87.3 |
| Methanol | 0.4 | 0.4 | 96.7 | 0.4 | 0.4 | 94.3 | 0.4 | 0.5 | 86.4 |
| Acetic acid | 0.2 | 0.2 | 94.0 | 0.2 | 0.2 | 94.3 | 0.2 | 0.2 | 94.2 |
| **Phosphates:** | | | | | | | | | |
| MAP, DAP[(1)] | 2.0 | n/a | n/a | 2.0 | n/a | n/a | 1.9 | n/a | n/a |
| Feed phosphates | 0.4 | 0.4 | 86.1 | 0.3 | 0.4 | 75.8 | 0.3 | 0.4 | 85.1 |
| **Complex fertilisers**[(1)] | 1.9 | n/a | n/a | 1.8 | n/a | n/a | 1.8 | n/a | n/a |

(1) For some types of products manufactured by separate plants factual production volumes were used for calculation because maximum capacity cannot be calculated as within the same workhouse different types of products are manufactured.

*Nevinnomysskiy Azot*

History and Development

Nevinnomysskiy Azot is located in the town of Nevinnomyssk in the Stavropol Krai in southern Russia. According to Azotecon Plus, Nevinnomysskiy Azot was the fourth largest producer of nitrogen fertilisers in Russia as at 30 September 2018, and the country's only producer of melamine and acetic acid. The Group believes Nevinnomysskiy Azot to be one of the most technologically advanced chemical plants in Russia.

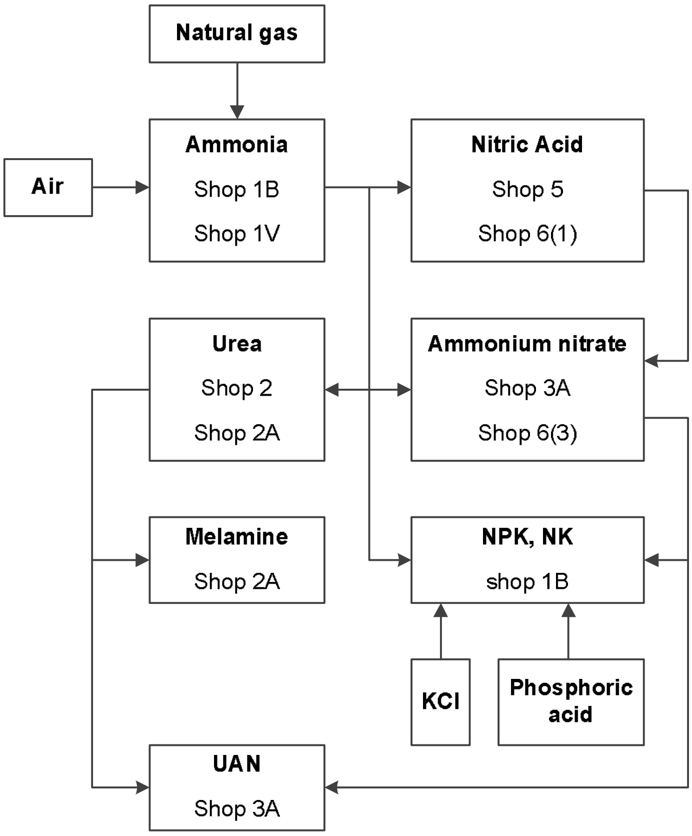
Construction of the site began in the mid-1950s, with ammonia first being produced in August 1962. Since 1965, Nevinnomysskiy Azot has been producing organically synthesised products, and launched the production of complex fertilisers in 1970. Since then and through the late 1980s, Nevinnomysskiy Azot underwent rapid development and expansion. However, in the early 1990s, due to the general downturn in the state of the Russian economy, production started to decline. In 1993, Nevinnomysskiy Azot was privatised and reorganised into an open joint-stock company. In 1998, under the relevant privatisation laws, the Russian Government obtained a certain right, a so-called "golden share", in Nevinnomysskiy Azot, stipulating that a representative of the Russian Government should be a member of the Board of Directors of Nevinnomysskiy Azot. Additionally, the golden share provided the Government with a right to veto certain shareholder resolutions on such issues as the winding-up or the reorganisation of the company or the revision of its constitutional documents.

In December 2002, EuroChem acquired a controlling stake in Nevinnomysskiy Azot and the Group began implementing its strategic programme designed to increase the production capacity of the plant.

Since its acquisition, the Group has invested a total of U.S.$1.142 million in capital expenditure in Nevinnomysskiy Azot. In 2015, the start of production at Nevinnomysskiy Azot's new 1B ammonia unit increased the plant's annual ammonia production by 19 per cent. compared to the previous year. As at 31 December 2018, Nevinnomysskiy Azot had annual production capacities of 1.4 million tonnes of ammonia, 1.0 million tonnes of urea, 1.6 million tonnes of AN, 1.1 million tonnes of UAN, 0.1 million tonnes of methanol, 0.2 million tonnes of acetic acid and 0.05 million tonnes of melamine. The plant also has capacity to produce complex fertilisers (different types of NPK and NK) within Workshop No. 18 (annual production volume of NPK and NK for the year ended 31 December 2018 was 0.6 million tonnes).

Production Processes

The following chart sets forth the Nevinnomysskiy Azot nitrogen and complex fertiliser production process:




Nitrogen fertilisers

The Nevinnomysskiy Azot nitrogen fertiliser production assets include facilities for the production of ammonia, non-concentrated nitric acid, ammonium nitrate, urea and UAN.

*Ammonia* is produced in two workshops: Workshop No. 1-B, designed by TEC (Japan) and Workshop No. 1-V, designed by GIAP Design Institute (Russia). Ammonia is produced through the catalytic steam and air conversion of methane via the cleaning of the gas mix with a CARSOL solution (Workshop No. 1-B) or diethanolamine solution (Workshop No. 1-V) and the catalytic synthesis of ammonia. The main equipment used in the ammonia shops is comprising of stripping columns, absorption columns and ammonia synthesis columns, compressors driven by a steam turbine, primary reforming tubular furnaces, secondary reforming methane converters, heat exchangers, reactors for high and low temperature carbon oxide conversion, and boilers.

*Ammonium nitrate (AN)* is produced in Workshops No. 6.3 and No. 3A. The ammonium nitrate production technology applied at Nevinnomysskiy Azot is based on the neutralisation of non-concentrated nitric acid with gaseous ammonia. The main chemical reaction of the process takes place in the neutralisation heat utilisers under 0.02 MPa pressure and at temperatures of 1,308-1,408ºC. The main equipment of the ammonium nitrate production workshop includes neutralisation heat utilisers ammonia heaters, continuous washers, evaporation pans, granulators, belt conveyors, manual packaging machines and sack loading machines.

*Urea* is produced in Workshops No. 2 and No. 2A, synthesising urea from liquid ammonia and gaseous carbon dioxide at a pressure of 13.4-14.4 MPa and a temperature of 1,838ºC. The main equipment of the urea production workshop includes a stripper, heat exchanging equipment, a synthesis column, a rectification column, a solution collector, vacuum pans with agitators, centrifuges, granulators, rail and automobile scales and packaging lines.

*Urea Ammonium Nitrate Solutions (UAN)* are produced in Workshop No. 3A. The main equipment of the UAN solutions production workshop includes mixing installations, a tubular cooler, storage tanks with agitators, 3-stage and 2-stage compressors, a rail and a truck loading facility.

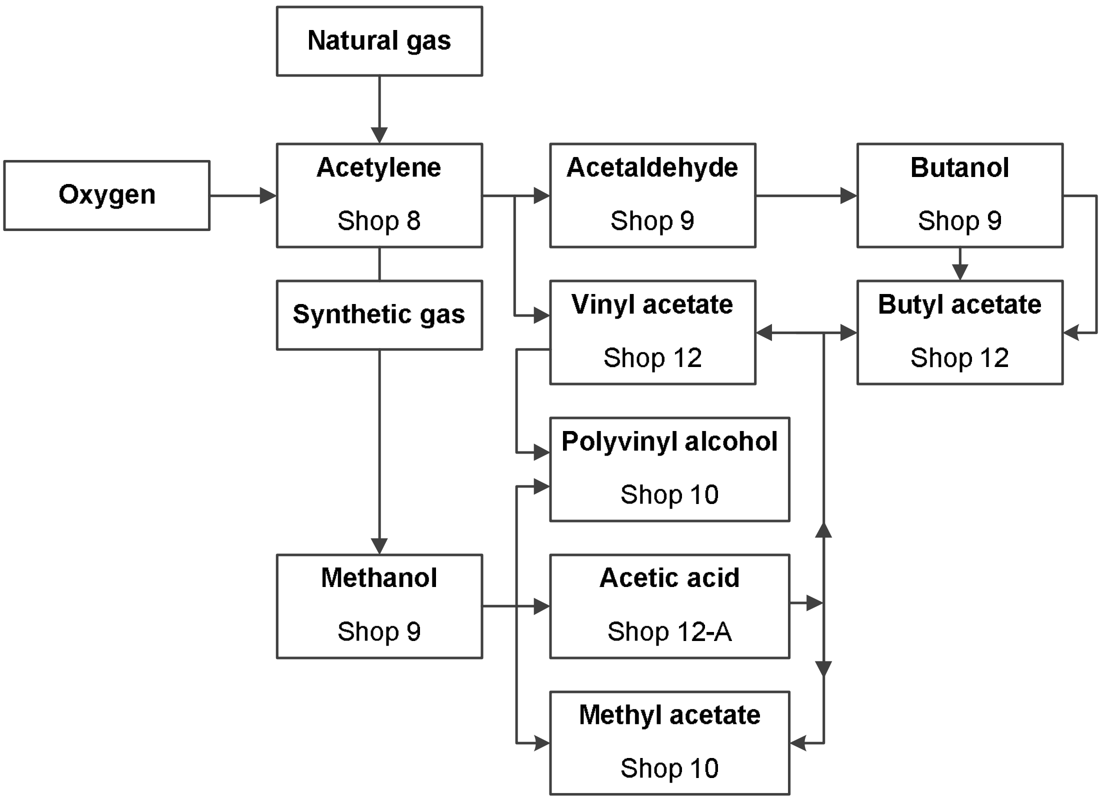
Complex Fertilisers

Complex fertilisers, including NPK (containing nitrogen, phosphate and potassium) and NK (containing nitrogen and potassium) fertilisers, are produced in Workshop No. 18. The division's main equipment includes drying and granulating drums, absorbers, scrubbers, ammonium nitrate evaporators, transporters, elevators and band conveyors, hammer crushers, ventilators, chemical, vacuum, submerged and vertical pumps and screens.

Organic Synthesis Products

The Nevinnomysskiy Azot production assets also include facilities for the production of organic synthesis products including methanol, acetic acid and melamine.

The following chart sets forth the Nevinnomysskiy Azot organic synthesis production process:



*Methanol* is produced by processing the synthesis gas generated in the course of acetylene production, the converted gas generated in the course of production of nitrogen fertilisers and the hydrogen/carbon oxide generated in the course of acetic acid production. The production process uses SNM-1 catalyst and is carried out at a pressure of 5.3 MPa and temperature of up to 573K. The main equipment of the methanol workshop includes a booster compressor, methanol synthesis reactor, rectification columns, a methanol collector and storage, separators, absorbers and heat exchangers.

*Acetic acid* is produced in Workshop No. 12-A, using catalytic steam and carbon dioxide conversion of methane with a low-temperature separation of the gas feedstock and carbonylation of methanol. Acetic acid synthesis is carried out at a temperature of 1,858ºC and a pressure of 2.8 MPa using rhodium, methyl iodide and hydroiodic acid. The main equipment of the acetic acid production workshop comprises compressors driven by electric motors and by steam, hydrogenation, rectification, condensation, separation, and dehydration columns, a tubular reforming furnace, heat exchangers, reactors, intermediate and storage tanks, pumps, air blowers, smoke removers and stand-by diesel generators.

*Vinyl acetate and zinc acetate catalyst* are produced in Workshop No. 12, using acetic acid and acetylene conversion in the gas-vapour phase in the aerated layer or static layer of zinc acetate catalyst applied to activated charcoal. The main equipment of the vinyl acetate production workshop includes air blowers, separation and rectification columns, scrubbers, contact reactors, gas holders and heat exchangers.

*Melamine* is produced in workshop No. 2A from direct synthesis of urea (see "*Organic Synthesis Products*"). The production process is based on: urea concentration, gas scrubbing, synthesis and purification, crystallisation and separation, packaging and storing, shipment of the product. The method is based on the synthesis of urea in the presence of a catalyst - aluminium hydrocilicate at a temperature of 390°C and under a pressure of 0.33 MPa. The synthesis takes place in fluidised bed of the reactor. The fluidising process is made via gas supplied to the reactor. Gas consists essentially of gas ammonia and carbon dioxide.

Production Volumes

If considered as a stand-alone producer, as at 30 September 2018, Nevinnomysskiy Azot would have ranked fourth among Russian producers in terms of nitrogen fertiliser production and fifth in terms of ammonia production according to data from Azotecon Plus.

The following table sets forth the production volumes of principal products at Nevinnomysskiy Azot for the years indicated:

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | *(thousand tonnes)* | |
| Ammonia | 1,319.2 | 1,231.5 | 1,263.8 |
| Urea | 993.1 | 922.0 | 950.7 |
| AN | 1,470.0 | 1,363.3 | 1,389.9 |
| UAN | 1,037.3 | 889.9 | 1,003.6 |
| Melamine | 49.2 | 45.7 | 47.9 |
| Methanol | 120.0 | 124.7 | 123.4 |
| Acetic acid | 162.1 | 162.6 | 163.2 |
| Complex fertilisers (NPK, NK) | 528.1 | 430.3 | 447.2 |

*Novomoskovskiy Azot*

History and Development

Novomoskovskiy Azot, located in the town of Novomoskovsk in the Tula Oblast, approximately 220 kilometres south of Moscow, was Russia's second largest producer of nitrogen fertilisers as at 30 September 2018, according to Azotecon Plus. In terms of production output, Novomoskovskiy Azot ranks second in Russia in urea and fourth in ammonia volumes according to data from Azotecon Plus.

According to the same source, for the nine months ended 30 September 2018, Novomoskovskiy Azot was responsible for approximately 13 per cent. of Russia's total nitrogen fertiliser output, 19 per cent. of urea output, 10 per cent. of ammonia output, 13 per cent. of ammonium nitrate output and 12 per cent. of UAN output in Russia.

Synthetic ammonia was first produced at the Novomoskovskiy facilities in July 1933. In the late 1950s, Novomoskovskiy Azot was the first in Russia to adopt internationally recognised technology enabling it to produce ammonia from natural gas. By 1959, all production had been fully converted to this technology, which resulted in a two-fold reduction in ammonia costs. By the 1980s, the plant had been upgraded and expanded to become a leading European producer of nitrogen fertilisers and ammonia. In the early 1990s, as a result of declines in Russia's agricultural sector and its economy, the plant shifted the bulk of its sales to the international markets. In 1992, Novomoskovskiy Azot was privatised and reorganised as an open joint-stock company.

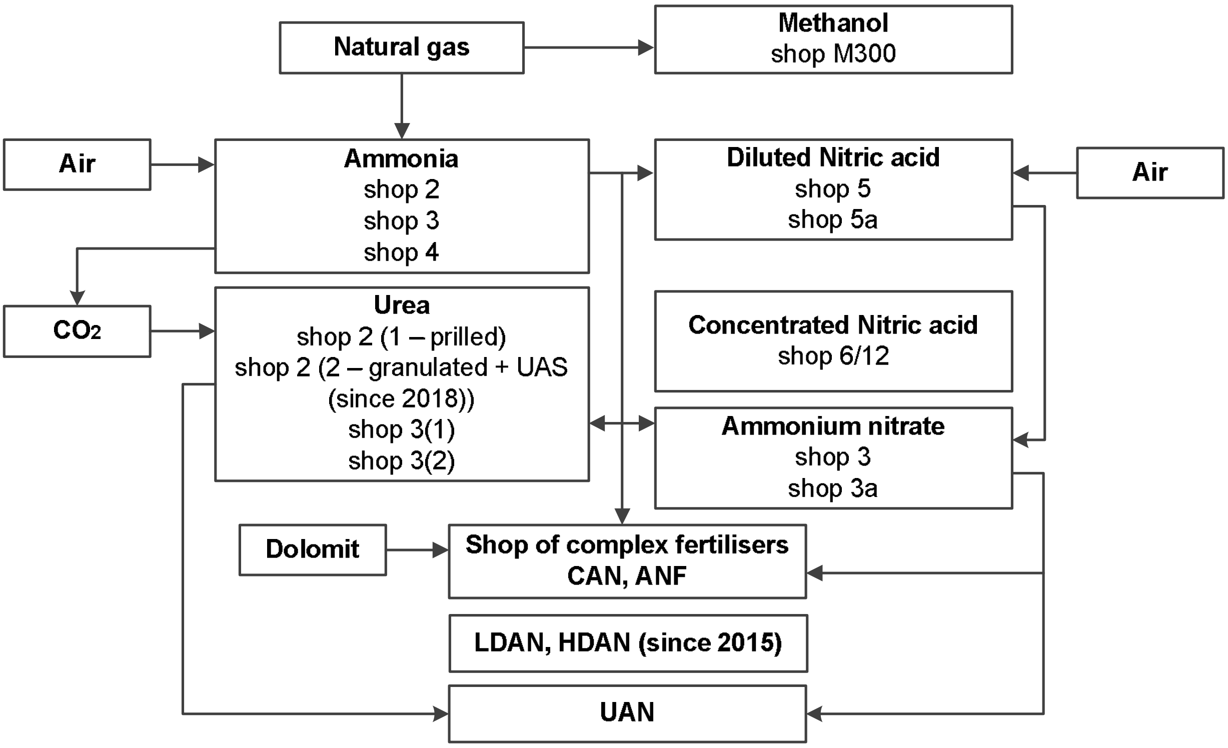
In December 2002, EuroChem acquired a controlling stake in Novomoskovskiy Azot. Since its acquisition by the Group and until 31 December 2018, the Group invested an aggregate of U.S.$1.357 billion in capital expenditure in Novomoskovskiy Azot to increase efficiency, broaden the product mix and increase capacity while bringing the production processes in line with modern environmental standards. As a result of these investments by the Group, a new 300 thousand tonne per annum methanol production facility was launched and the plant also began producing various new fertiliser products, as well as stabilised ammonium nitrate and de-icing agents. In 2004, a large-scale upgrade of the ammonia production facilities resulted in a 20.0 per cent. reduction in gas and steam consumption. In 2009, the Group began CAN production at Novomoskovskiy Azot with granulated urea production beginning later that year before being expanded in September 2010 when a second production line began operation. In parallel to capacity growth, the Group has been actively investing in environmental safeguards, while overhauling the internal water consumption system to reduce freshwater intake and upgrading effluent treatment facilities. In 2015, the Group has completed construction of a new low-density ammonium nitrate (LDAN) production unit at the facility.

In December 2018, the Group commenced production on the Russia's first Urea Ammonium Sulphate (UAS) facility at Novomoskovskiy Azot. The new facility, built in partnership with a leading urea technology developer, Stamicarbon, has a design capacity of 600 tonnes per day. Total investment in the production facility was RUB 5.4 billion (U.S.$84 million). As at 31 December 2018, Novomoskovskiy Azot had annual production capacities of 1.9 million tonnes of ammonia, 1.8 million tonnes of urea, 2.0 million tonnes of AN, 0.4 million tonnes of UAN, 0.4 million tonnes of CAN, 0.3 million tonnes of GAN and 0.3 million tonnes of methanol.

Production

Novomoskovskiy Azot has highly mechanised and automated production facilities with state-of-the-art technology and equipment.

The following chart sets forth the Novomoskovskiy Azot production processes:




Ammonia and Nitrogen Fertilisers

The ammonia and fertiliser production division includes facilities for the production of ammonia, non-concentrated nitric acid, ammonium nitrate, urea, UAN, CAN and GAN.

*Ammonia* is produced through a process of catalytic steam and air conversion of methane and catalytic synthesis of ammonia. At Novomoskovskiy Azot, ammonia is produced in the Ammonia-2, Ammonia-3 and Ammonia-4 workshops. The main equipment of the ammonia production workshops consists of stripping columns, absorption columns, ammonia synthesis columns, major compressors driven by steam turbines, primary reforming tubular furnaces, secondary reforming methane converters, heat exchangers, major reactors, an absorption and cooling installation, boilers and other related equipment.

*Ammonium nitrate (AN)* is produced in Workshops No.3 and No.3a. The ammonium nitrate production technology applied at Novomoskovskiy Azot is based on the neutralisation of non-concentrated nitric acid with gaseous ammonia. The major chemical reaction of the process occurs in the neutralisation heat utilisers at between 0.35-0.6 MPa of pressure and temperatures of 180-2,008ºC. The main equipment in place at the ammonium nitrate production workshops consists of an ammonia evaporator, neutralisation heat equipment, granulators, semiautomatic packaging machines and sack loaders.

*Urea* is synthesised from liquid ammonia and gaseous carbon dioxide at a pressure of 14-18 kg/cm$^2$. The main equipment of the urea production workshops includes steam boilers, steam-turbine-driven centrifugal compressors, a reactor for urea fusion cake synthesis, medium and low pressure distillation columns, granulators, and a portal scrapper.

*Calcium ammonium nitrate (CAN)* is produced within the workshops the main equipment of which includes decomposition and ammonisation reactors, spherodisers, cooling and conditioning drums and fertiliser loading cranes.

*Urea Ammonium Nitrate Solution (UAN)* is produced using ammonium nitrate and urea. The main stages of the UAN production process include combining the major inputs in a mixing reactor and cooling the resulting solution. The main equipment of the UAN production facilities includes mixing reactors, a UAN solution cooler, UAN storage tanks and centrifugal pumps.

*Granular Ammonium Nitrate (GAN)* is produced by adding inert fillers and additives to the ammonia nitrate solution with further homogenising, granulation, screening and drying of the product. Finished product is covered by the anticaking agent.

Organic Synthesis

*Methanol* is mainly produced in Workshop No. M300, the production is based on the processing of synthesis gas from acetylene production. The production process uses SNM-V catalyst and is carried out at a pressure of 4.5 kg/cm$^2$ and a temperature of up to 508ºC. The main equipment of Workshop No. M300 includes compressors, major columns, heat exchangers, methanol synthesis reactors and storage tanks.

Production Volumes

The following table sets forth the production volumes of principal products at Novomoskovskiy Azot for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | *(thousand tonnes)* | |
| Ammonia | 1,745.0 | 1,785.3 | 1,722.7 |
| Urea | 1,640.5 | 1,562.9 | 1,559.4 |
| AN | 1,799.8 | 1,833.5 | 1,630.0 |
| CAN | 347.4 | 115.7 | 89.5 |
| UAN | 324.2 | 255.9 | 293.0 |
| GAN | 50.1 | 252.7 | 260.6 |
| Methanol | 299.8 | 284.3 | 286.4 |

*EuroChem Antwerpen*

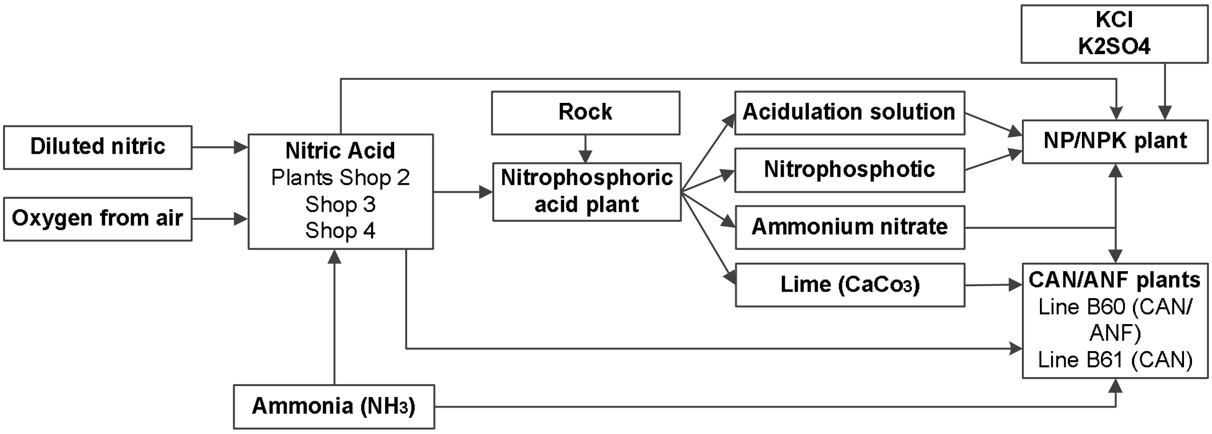
History and Development

In March 2012, the Group acquired BASF's fertiliser's assets located in Antwerp, Belgium. The plants are surrounded by the Scheldt river and Scheldt-Rhine canal and have their own warehouses for raw materials and fertilisers and unloading and loading infrastructure, facilitating the arrival of main raw materials by barges and sea-going vessels and the transportation of bulk-fertilisers, mainly via the North Sea, Rhine River and different canals. The transaction included three nitric acid workshops, a nitrophosphoric acid workshops (the so-called Odda process), a multiproduct NP/NPK plant, a multiproduct GAN/CAN plant and logistics assets. The addition of these fertilisers facilities increased the Group's production capacity of NP and NPK by approximately 1.2 million tonnes and of GAN and CAN by approximately 1.1 million tonnes, depending on production plans. Final production volumes ultimately depend on the configuration of the production units. The NPK product range produced by EuroChem Antwerpen includes traditional complex fertilisers as well as premium non-chlorine specialties with microelements and ENTEC NPKs with slow nitrogen release effect. Through the implementation of several investment projects aimed at reducing greenhouse gas emissions and optimising the process control system in 2016-2018, the Group achieved an increase in the production of nitric acid plants up to 3 per cent. with a decrease in emissions of NO2 and NOx.

EuroChem Antwerpen is located on a BASF production site. The Group owns the buildings that comprise the EuroChem Antwerpen production facility and the land on which the facility is located is leased under a long-term lease. The rest of the site comprises BASF facilities. EuroChem Antwerpen has entered into a site services agreement with BASF whereby EuroChem Antwerpen joins "Utility-Verbund" on the site of BASF Antwerpen. The "Utility-Verbund" includes water, steam and electricity. This service agreement also gives EuroChem Antwerpen access to the specialised technical departments of BASF. EuroChem Antwerpen also has an agreement with BASF for the purchase of ammonia and the use of an on-site jetty.

Production

The following chart sets forth the EuroChem Antwerpen production processes:




Nitrophosphoric Acid

The nitrophosphoric acid unit (A40 + A50) has four main parts:

- digestion of the rock phosphate with nitric acid (production of acidulation acid);
- separation of $Ca(NO_3)_2$-crystals out of the desanded acidulation acid in order to form nitrophosphoric acid;
- transformation of $Ca(NO_3)_2$ into AN-solution and lime by using $CO_2$ and $NH_3$ as raw materials; and
- preparation of NP-feed mix for the NPK-unit.

The main equipment of the nitrophosphoric acid plant includes reactors, ammonia evaporator, deep coolers, vacuum conveyor belts, scrubbers and general transport systems.

NPK/NP

The NPK/NP-unit consists of two parallel lines in one building (B50). The main parts of the NPK/NP-plant are:

- neutralisation of the prepared NP-feed mix with gaseous ammonia;
- adding of K- and Mg-salts in a mixing vessel in order to produce a NPK-slurry;
- granulation based on the spherodiser-technology; and
- drying, conditioning and cooling.

The main equipment of the unit includes a reclaimer for potassium, ammonisation reactors, scrubbers, spherodisers, furnaces, sieves and crushers, drying and cooling drums, bulk flow heat exchangers, cyclones, extruder for anticaking agent and general transport systems.

GAN/CAN

The main parts of the GAN/CAN-unit B60 are:

- AN-synthesis (where nitric acid 60.0 per cent.-solution is neutralised with gaseous ammonia at an effective pressure of 1.5 bar and a temperature of max. 180ºC);
- AN-concentration (using saturated 8 bar steam as heat medium);
- mixing with additives;
- granulation based on the pugmill-technology; and
- cooling and conditioning.

The main equipment of the unit includes the synthesis-reactor, heat exchangers, pugmill, sieves and crushers, drying and cooling drum, cyclones, scrubber and general transport systems

CAN

The main parts of the CAN-plant B61 are:

- AN-synthesis (where nitric acid 60.0 per cent.-solution is neutralised with gaseous ammonia at an effective pressure of 0.5 bar and a temperature of max. 180ºC);
- AN-concentration (using saturated 8 bar steam as heat medium);
- mixing with lime and additives;
- granulation in a drum, using ambient air as drying medium; and
- cooling and conditioning.

The main equipment of the unit includes the synthesis-reactor, heat exchangers, granulation and drying drum, sieves and crushers, bulk flow heat exchanger, fluidised bed cooler, cyclones, scrubber and general transport systems.

<u>Production Volumes</u>

The following table sets forth the production volumes of principal products at EuroChem Antwerpen for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | *(thousand tonnes)* | |
| CAN | 885.0 | 878.8 | 814.5 |
| GAN | 130.4 | 141.0 | 160.7 |
| Complex fertilisers (NPK, NP) | 1,172.6 | 1,186.7 | 1,165.9 |

*EuroChem NorthWest*

In August 2015, the Group initiated construction of the new ammonia plant in Kingisepp, Russia – EuroChem NorthWest. The site is strategically located within the territory of Phosphorit phosphate facility in close proximity to the Group’s Sillamae and Ust-Luga transhipment terminals at Baltic Sea. The EuroChem NorthWest project is expected to be commissioned and reach its 2,700 metric tonnes per day design capacity in 2019. The project is partially financed through EUR 557 million non-recourse 13.5-year project finance facility attracted by the Group in 2015. For additional information, see “— *Investment Programmes and Capital Expenditure — EuroChem NorthWest*”.

*Phosphorit*

History and Development

Phosphorit is located in the city of Kingisepp in the Leningrad Oblast in Northwestern Russia. According to Azotecon Plus, Phosphorit is one of the leading regional producers of phosphate fertilisers and feed phosphates and accounted for approximately 13 per cent. of Russia's total phosphate fertiliser production for the nine months ended 30 September 2018.

Phosphorit's facilities are located approximately 120 kilometres southwest of St. Petersburg, approximately 25 kilometres from the Estonian border. The site has immediate access to the local road and rail networks, both of which are used for raw material and finished product shipments. The Phosphorit facility benefits from a convenient location close to the ports of Tallinn and St. Petersburg. In the 1950s, deposits of phosphorus-containing sands and sandrocks were discovered in the Kingisepp district. In December 1963, the company produced its first fertiliser, ground phosphate rock. Following the launch of the open pit, a processing plant, electric workshop, instrumentation and control workshop, transportation shop and mechanical repair workshop were constructed. Given the low value of ground phosphate rock as mineral fertiliser, the construction of a chemical plant began in 1969 to enable it to produce more complex mineral fertilisers. Phosphorit, which was established during the course of privatisation in 1990s, operated the phosphate fertilisers facilities located in Kingisepp, including workshops for the production of wet-process phosphoric acid, MAP, sulphuric acid as well as a pilot workshop for phosphogypsum processing.

The Kingisepp phosphate fertiliser plant originally consisted of mining and dressing facilities built in the 1960s. Major additions to, and modernisations of, the facilities since then include the expansion of the phosphoric flour production capacity in 1965, construction of the ammophos workshop (from 1973 to 1980) for the production of fertilisers from phosphoric powder, construction of a workshop for the production of phosphoric acid (from 1973 to 1980), construction of the sulphuric acid production Workshop No. 1 (from 1972 to 1974) and Workshop No. 2 (in 1979) and the commencement of fluorine-free feed phosphates production in the late 1970s.

The present day Phosphorit was established as a limited liability company in November 2001. In June 2003, EuroChem acquired a 100.0 per cent. stake in Phosphorit. Since becoming part of the Group, Phosphorit has undergone a series of investments targeting increases in production quality, launching DAP production capacity and installing turbine generators capturing and utilising heat generated from the facility's production processes. In terms of environmental investments, particular attention was given to the plant's effluent treatment system given its proximity to the Baltic Sea. As at 31 December 2018, annual effluent discharge had decreased by approximately 4 per cent., from 1.04 $m^3$ of effluent per tonne of production output in 2017 to 1.0 $m^3$ in 2018.

The following table sets forth the effluent discharge per tonne of production output at Phosphorit for the years indicated:

| | For the year ended 31 December | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** |
| | *($m^3$ per tonne of production output)* | | | | | | | |
| Effluent discharge .............................. | 1.0 | 1.04 | 1.15 | 1.27 | 1.50 | 2.04 | 1.83 | 1.41 |

As at 31 December 2018, Phosphorit had annual production capacities of 0.23 million tonnes of feed phosphates and also had a multiproduct capacity producing MAP and DAP (annual production volume of MAP and DAP for the year ended 31 December 2018 was 0.8 million tonnes and 0.1 million tonnes, respectively.

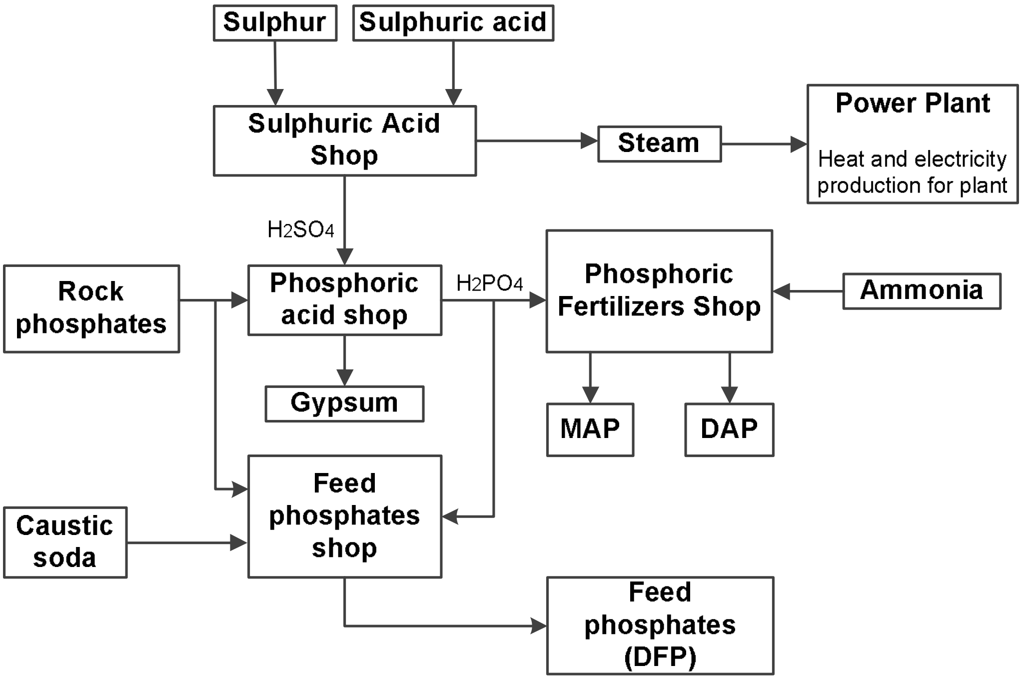
Production

Until 2006, Phosphorit operated an open-pit mine and a concentrating plant that produced phosphorite concentrate, which is, as well as the apatite concentrate, one of the main raw materials used for fertiliser production. The open pit was closed in 2006, and currently the raw materials are being supplied by Kovdorskiy GOK and (to a lesser extent) by outside suppliers from South Africa and Kazakhstan. Phosphorit includes several main production divisions and auxiliary divisions.

Phosphate Fertilisers

Phosphorit produces MAP using a production process involving neutralisation of extracted phosphoric acid with ammonia, concentration of ammonia slurry, granulation and drying. The dried material is screened and the granules are cooled, coated and transferred to a warehouse.

The following charts provide a brief technological overview of the production processes at the Phosphorit plant:




Animal Feed Phosphates

Phosphorit produces fluorine-free (defluorated) calcium phosphate, which is used as a mineral additive in feed for livestock. The production is based on the hydrothermal treatment of apatite concentrates (defluorination) with the addition of extractive phosphoric acid and NaOH in a rotary calciner. The resulting substance, clinker, is then crushed, cooled and packed as a final product.

Sulphuric Acid

Phosphorit produces technical sulphuric acid with a concentration of 92.5 per cent. and above, which is used for the production of fertilisers (phosphoric acid), man-made fibres and other chemical products. The sulphuric acid production workshop has an annual production capacity of approximately 1 million tonnes. It is produced from liquid or lump sulphur using double conversion technology, involving the treatment of sulphur in sulphur burners, the conversion of sulphur dioxide into sulphur trioxide in a catalyst converter, and the intermediate absorption of sulphur anhydrate in absorption columns. The heat of the absorption process can be used to produce steam (through heat recovery system HRS).

Phosphoric Acid

Phosphorit produces extractive phosphoric acid for use in the production of compound phosphate fertilisers and animal feed phosphates. The phosphoric acid production workshop has an annual production capacity of approximately 520 thousand tonnes of 100 per cent. $P_2O_5$ grade. Phosphoric acid is produced by the decomposition of apatite concentrate (or its mixture with Kirovskiy apatite concentrate and other phosphates) by sulphuric acid in a hemihydrate process. The process comprises two stages: reaction and filtration. The reaction of apatite concentrate with sulphuric acid produces phosphoric acid and calcium sulphate hemihydrate. The phosphoric acid is separated using vacuum filters.

The auxiliary production facilities of Phosphorit include utilities (including electricity supply, water supply, industrial wastes treatment and detoxification, steam supply facilities), various maintenance workshops, transport workshops, control equipment and an automation workshop, and a laboratory. Electricity is supplied through the high voltage lines of Lenenergo and two of the facility's own turbo generators. The water needed for the production process is taken from the Luga River. From 2016 to 2018, a total aggregate amount of approximately U.S.$9.9 million was invested in phosphorite environmental safeguards.

Production Volumes

The following table sets forth the production volumes of principal products at Phosphorit for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | *(thousand tonnes)* | |
| MAP | 812.4 | 759.0 | 620.4 |
| DAP | 77.5 | 21.3 | 111.9 |
| Feed phosphates | 169.7 | 159.0 | 160.7 |

*Lifosa*

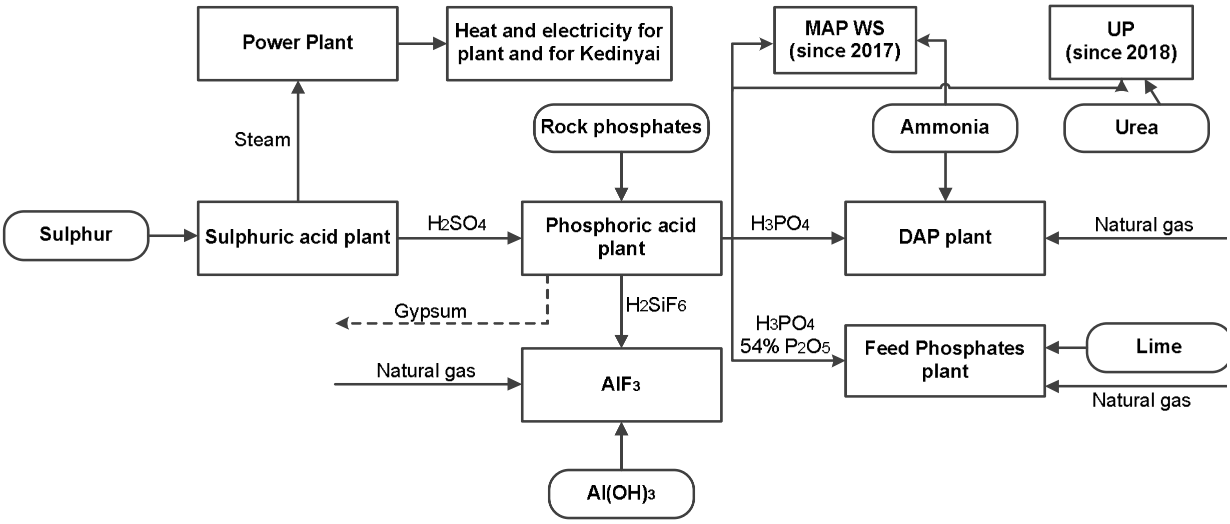
History and Development

Lifosa is located in Kedainiai, Lithuania. The Group considers Lifosa to be the largest producer of phosphate fertilisers in Lithuania and one of the leading producers of phosphate fertilisers within the European Union. Lifosa benefits from a convenient location close to the port of Klaipeda. The plant was established in 1959 as the Kedainiai Chemical Plant. Sulphuric acid was first produced at the plant in January 1963. Also in 1963, a powdered superphosphate production facility was commissioned, followed by a granular superphosphate and aluminium fluoride facility in 1964. In 1969, ammophos and wet-process phosphoric acid plants were commissioned, with the second line of granular superphosphate entering production in 1970. In 1972, the blending of phosphorus and potassium fertilisers commenced. In the 1980s, the second wet-process phosphoric acid shop, a new aluminium fluoride workshop and the third process line for MAP were constructed and installed. In 1989, the old sulphuric acid production facility was shut down and a new SK-50 facility was commissioned to produce sulphuric monohydrate. In 1996, the Kedainiai Chemical Plant was reorganised into Lifosa. In 1998, Lifosa started DAP production and in 2000, it upgraded its sulphuric acid workshop. This upgrade resulted in an increase in production capacity in excess of two-fold and the new 25 MWe turbo generator reduced the consumption of electricity and heat from third parties. In 2001, the company began the production of feed phosphates. In 2007, Lifosa commissioned a heat recovery system utilising surplus heat to generate electricity. A feed phosphate production line with an annual capacity of 150,000 tonnes was installed in partnership with the European Union and launched in 2009. Lifosa was acquired by EuroChem in 2005. In December 2011, EuroChem increased its interest in Lifosa from 99.1 per cent. to 100.0 per cent., following a minority shareholder squeeze-out and has fully consolidated Lifosa since then.

In October 2018, the Group opened a new production plant for water-soluble fertilisers at its Lifosa subsidiary in Lithuania. The EUR 14 million (U.S.$16 million) facility has the capacity to produce 25 thousand metric tonnes per year of crystalline urea phosphate. Crystalline urea phosphate is a soluble, chlorine-free fertiliser that contains no heavy metals and is suitable for use on various soils. As it is soluble in water, it can be applied through a sprinkler system and provides plants with the necessary nitrogen and phosphorous nutrients needed for growth.

As at 31 December 2018, Lifosa had annual production capacities of 0.95 million tonnes of DAP, 0.2 million tonnes of feed phosphates and 0.03 million tonnes of WS MAP.

The following chart provides a brief technological overview of the production processes at the Lifosa plant:




Production

Lifosa operates fertiliser production, granulation and maintenance facilities. Lifosa's production site the immediate access to both the rail and local road networks, which in turn are directly connected to the Klaipeda port infrastructure. Lifosa is a phosphate fertiliser producer, mainly producing DAP and animal feed phosphates. The main raw materials consumed by Lifosa include apatite concentrate (supplied by Kovdorskiy GOK and third-party suppliers), ammonia (supplied mainly by Novomoskovskiy Azot) and sulphur (supplied from outside sources).

Sulphuric Acid

Lifosa produces technical sulphuric acid with a concentration of 92.5 per cent. and above using double conversion technology. The sulphuric acid facility of Lifosa has an annual production capacity of approximately 1.24 million tonnes of sulphuric acid monohydrate. The main production equipment of the sulphuric acid plant comprises an air blower, two sulphur burners with waste heat boilers, a five-layer catalyst converter, a drying tower, two absorption columns, heat exchangers, pumps, a water treatment system, sulphur filters, and storage and operating tanks. The heat of the absorption process can be used to produce steam (through heat recovery system HRS).

Phosphoric Acid

Lifosa produces extractive phosphoric acid using a hemihydrate process introduced at the plant in place of the conventional dehydrate process in 1997. The phosphoric acid production plant has a total annual production capacity of two product lines of approximately 480 thousand tonnes of $P_2O_5$. The main production equipment of one of the product lines includes an extractor, two phosphoric acid pulp reactors, two carousel vacuum filters, two vacuum-evaporating systems, and tanks, pumps, heat exchangers, absorbers and condensers.

Feed phosphates

Feed phosphates (monocalcium phosphate) production in Lifosa is based on interaction of fluorine free extracted phosphoric acid (made from Kovdor's apatite concentrate) with lime and further granulation, drying and screening of the product as a part of the process.

DAP

Lifosa produces DAP by neutralisation of phosphoric acid with liquid ammonia in a pipe reactor. The stages of the production process include neutralisation, granulation and drying of the obtained pulp in a granulator-dryer, screening the dried material using sieves and cooling and coating of the granules in a spouted bed cooler before storage and shipment. The plant also has an absorption system to clean the dust, fluorine and ammonia gas formed during the production process.

Production Volumes

The following table sets forth the production volumes of principal products at Lifosa for the years indicated:

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | *(thousand tonnes)* | |
| DAP | 727.0 | 807.3 | 788.1 |
| Feed phosphates | 203.4 | 165.2 | 189.2 |
| WS MAP | 30.4 | 12.3 | n/a |
| UP | 4.1 | 0.0 | n/a |
| ALF | 13.1 | 11.9 | n/a |

*EuroChem-BMU*

History and Development

EuroChem-BMU's facilities are located in Belorechensk, approximately 80 kilometres southeast of the city of Krasnodar in southern Russia. The company is a major producer of phosphate and complex fertilisers with MAP and NP as key components.

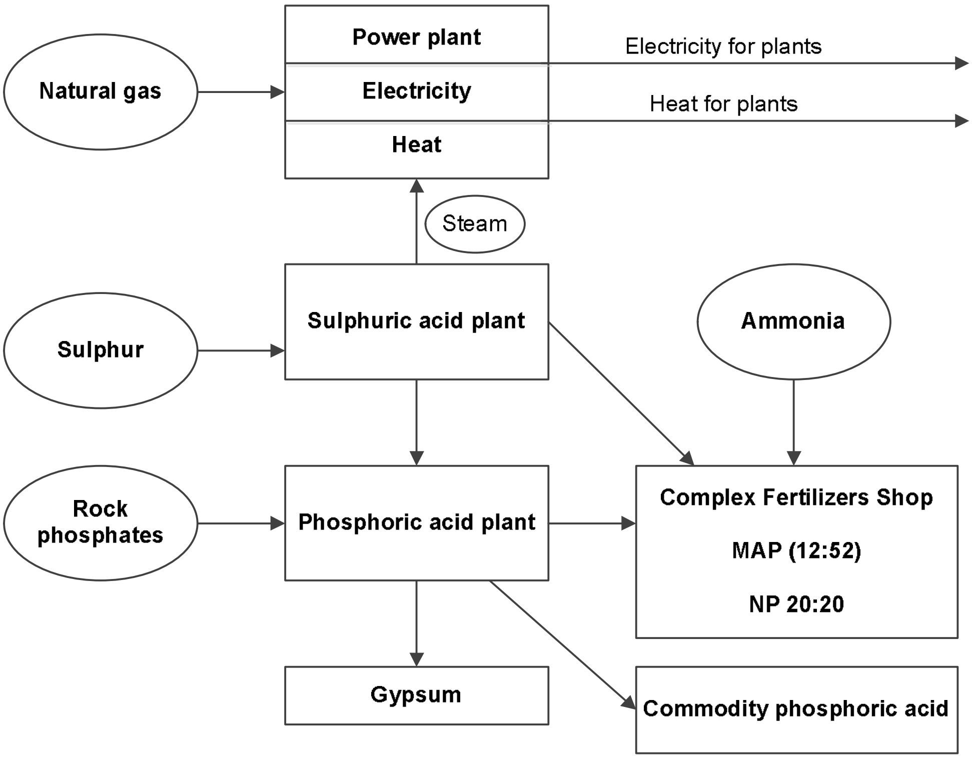
The phosphate fertilisers production facilities in Belorechensk have been producing commercial-grade products since 1977. The facilities were originally designed to produce liquid fertilisers. Between 1982 and 1988, the facility underwent major expansion and added MAP, phosphoric acid, additional sulphuric acid, phosphate feeds and various other production facilities. The present-day EuroChem-BMU was established in the form of an open joint-stock company in October 2002. Since the establishment of EuroChem-BMU, EuroChem has been its sole shareholder. EuroChem-BMU has acquired phosphate fertiliser production assets through a number of sales contracts concluded with, and in connection with the insolvency proceedings of, its predecessor, OJSC Belorechenskie Mineralnye Udobrenia. In September 2006, EuroChem-BMU was reorganised into a limited liability company. Following the acquisition by EuroChem-BMU of the fertiliser production assets, the Group embarked on an investment programme to upgrade the company's facilities and improve its production process. As part of the investment programme, a series of equipment upgrades were implemented: a phosphogypsum storage facility upgrade, a major overhaul and retrofitting of the sulphuric and phosphoric acid production facilities and an increase in granular fertiliser output. The main production site has immediate access to the rail network and the local road network. Raw materials and finished products are shipped by rail.

As at 31 December 2018, EuroChem-BMU had capacity to produce MAP and NP (annual production volume of MAP and NP for the year ended 31 December 2018 was 401.8 thousand tonnes and 240.9 thousand tonnes, respectively) and capacity to produce new water-soluble NPK (annual capacity of 50 thousand tonnes).

Production

EuroChem-BMU's output is primarily represented by phosphate-based fertilisers, including MAP, sulphoammophos, silicofluoric sodium, phosphoric acid and sulphuric acid. The main raw materials consumed by the plant include apatite concentrate (supplied mainly from Kovdorskiy GOK), phosphates (supplied mainly from EuroChem Karatau) ammonia (supplied mainly by Nevinnomysskiy Azot) and sulphur (supplied by Gazprom subsidiaries and Tengizchevroil.

The following chart sets forth EuroChem-BMU's main production divisions and auxiliary divisions:




MAP/NP

EuroChem-BMU produces MAP and NP through neutralisation of phosphoric acid with ammonia, granulation and drying. The dried material is screened and the granules are cooled, coated and transferred to a warehouse. EuroChem-BMU can also produce DAP fertilisers.

Sulphuric Acid

EuroChem-BMU produces technical sulphuric acid with a concentration of 92.5 per cent. and above. The annual production capacity of the sulphuric acid workshop is approximately 780 thousand tonnes. The main production equipment of the sulphuric acid production workshop includes a sulphur burner, a two-stage five layer converter with an utilisation boiler and absorption columns. The heat of the absorption process can be used to produce steam (through heat recovery system HRS).

Phosphoric Acid

EuroChem-BMU produces extractive phosphoric acid, which is used for the production of compound phosphate fertilisers. The phosphoric acid production workshop has a production capacity of 300 thousand tonnes of $P_2O_5$ per year.

The auxiliary production divisions of the plant include a heat and power plant, various maintenance divisions, transport divisions, a communication workshop, a laboratory and other divisions. The heat and power plant's equipment includes natural-gas-fired boilers and steam boilers. Natural gas is supplied to the plant from the regional network. The plant's electricity is supplied through high voltage lines from the regional high-voltage grid and the plant also uses electrical energy produced internally by the power plant. BMU's transportation equipment includes locomotives, buses, cars, trucks, fire-fighting trucks, mobile laboratories, containers and cargo railway cars.

Production Volumes

The following table sets forth the production volumes of principal products at EuroChem-BMU for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | *(thousand tonnes)* | |
| MAP | 401.8 | 407.7 | 400.7 |
| Compound fertiliser (NP) | 240.9 | 195.5 | 200.6 |
| WS NPK | 4.4 | n/a | n/a |

*EuroChem Migao (JV)*

History and Development

In 2014, the Group established a joint venture with the Migao Corporation, a Yunnan-based manufacturer of potash and complex fertilisers, as well as a leading producer of potassium sulphate and potassium nitrate, a premium fertiliser. In January 2014, the EuroChem-Migao JV started a production line with an annual capacity of 100 thousand tonnes of NPK. A 60 thousand tonnes potassium nitrate (NOP) line operation started in the second half of 2015. In 2018, the Group completed a modernisation of the potassium nitrate production line (NOP) increasing its production capacity to 80 thousand tonnes per year.

As at 31 December 2018, EuroChem Migao (JV) had an annual production capacity of 0.1 million tonnes of NPK, 0.08 million tonnes of NOP and 0.05 million tonnes of WS NPK.

Production

NPK production is based on the granulation of the raw materials in a granulator using steam and ammonia nitrate solution, drying (using dryers) and screening of the final product.

NOP production is based on ammonia nitrate and KCL reaction in the presence of water with crystallisation of potassium nitrate, its extraction from the mother solution in a centrifuge and drying.

Production Volumes

The following table sets forth the production volumes of principal products at EuroChem Migao (JV) for the periods indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | *(thousand tonnes)* | |
| NPK | 55.8 | 43.7 | 48.5 |
| NOP | 73.0 | 70.4 | 60.6 |
| Ammonium chloride | 43.0 | 40.7 | 35.4 |
| WS NPK | 2.6 | 0.3 | n/a |

Production volumes of EuroChem Migao (JV) are not included in the Group's total production volume due to its joint-venture nature.

*EuroChem Karatau*

History and Development

In May 2010, EuroChem-Fertilizers won an open tender for the development of Kok-Jon deposit area (Aral-Tobe and Kesik-Tobe deposits) and Gimmelfarbskoye deposit held by the Government of Republic of Kazakhstan. EuroChem Karatau comprises of a mining complex for the extraction and production of ground phosphate rock containing 29 per cent. of $P_2O_5$ from the high-grade ore without beneficiation mined at Kok-Jon deposit area. Starting February 2016, the facility has begun production of the phosphate flour.

As 31 December 2018, EuroChem Karatau had annual production capacities of 0.67 million tonnes of phosphate flour.

Production

Ground Phosphate rock is produced by milling the phosphate rock using “Loesche” mill.

Production Volumes

The following table sets forth the production volumes of principal products at EuroChem Karatau for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| | | *(thousand tonnes)* | |
| Phosphate flour | 575.7 | 563.3 | 356.3 |

### *Logistics Division*

The Group’s Logistics Division covers all supply chain operations including transportation services, the purchase and delivery of raw materials and finished goods, as well as freight forwarding and other logistics services. Transportation costs represent a significant proportion of the cost of mineral and chemical products and the Group aims to minimise these costs to achieve more competitive pricing for its products. The Group’s transportation and logistics infrastructure also provides it with a reliable means of supplying raw materials to, and delivering products from, its production facilities. The Group’s external sales attributable to the Logistics Division amounted to U.S.$46,298 thousand for the year ended 31 December 2018, representing 0.8 per cent. of the Group’s total external sales.

As at 31 December 2018, the Group’s logistics assets included three wholly-owned port facilities (the Murmansk bulk terminal in Russia on the Barents Sea, the Sillamae liquid terminal in Estonia on the Gulf of Finland and the Tuapse transhipment terminal in Russia on the Black Sea), its rolling stock comprised approximately 6 thousand rail cars and 47 locomotives, as well as dedicated rail service and repair centres. The Group also benefits from direct jetty access in the port of Antwerp in Belgium.

The Tuapse transhipment terminal began operating in July 2011. Located on the Black Sea coast, this terminal is intended to handle potash shipments from VolgaKaliy Potash Project when it is launched, and is capable of handling 2.3 million tonnes of fertilisers per year. To support potash exports from the Usolskiy Potash Project, the Group is launching a construction project for a 5.0 million tonne per annum bulker terminal in the Russian Baltic Sea port of Ust-Luga (expected launch in 2022).

Shipments of iron ore from Kovdorskiy GOK to Asian markets are despatched from the Group’s Murmansk bulk terminal, which has an annual capacity of 2.0 million tonnes of fertilisers, 2.0 million tonnes of apatite concentrate and 3.0 million tonnes of iron ore concentrate, and by Russian Railways. The Group also operates a terminal in Sillamae, Estonia, that has the capability to handle 0.6 million tonnes per year and uses a third party's terminal at Sillamae port for dry fertilisers storage and transhipment. Additionally, the Group uses the Klaipeda, Lithuania, port facilities, which have an annual capacity of 3.7 million tonnes of bulk fertilisers and 1.5 million tonnes of phosphate rock.

In addition, the Group's benefits from logistics services of its subsidiaries Harvester Shipmanagement Ltd (which provides sea shipment services) and EuroChem Logistics International UAB (which provides cargo transportation, cargo handling and customs broker services).

In April 2016, the Group acquired Agrosphere (subsequently merged into Murmansk Bulkcargo Terminal, LLC in 2017), a terminal used for mineral fertilisers transhipment located at Murmansk port. The purchase of this entity finished the consolidation process of 3rd cargo area of Murmansk’s commercial sea port and gave the Group the opportunity to increase its transhipment capacities.

### *Sales Division*

*Overview*

The Group's Sales Division is responsible for the sale of the complete range of products produced by the Group as well as third-party products through the Group's global distribution network spanning across Europe, Russia, the CIS, North, Central and South America, and Asia. The Group's Sales Division incorporates Ben-Trei, Fertilizantes Tocantins, distributors in Russia, Argentina, Mexico, China, an agency in Singapore, EuroChem Agro in Europe and Turkey, as well as the Group's trading companies in Switzerland, Unites States and Brazil. In addition to providing advisory services to local farmers and promoting the efficient use of fertilisers to increase yields, certain distribution centres offer seeds, crop protection products and soil analysis services. The Group also sells its products to third-party distributors. The Group's external sales attributable to the Sales Division amounted to U.S.$5,450,384 thousand for the year ended 31 December 2018, representing 97.7 per cent. of the Group's total external sales.

The following table sets forth the Group's sales by regions for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | *(U.S.$ thousands)* | |
| Europe | 1,600,106 | 1,534,840 | 1,590,461 |
| Russia | 1,062,519 | 965,249 | 804,327 |
| Asia Pacific | 526,780 | 490,088 | 444,772 |
| North America | 841,997 | 618,099 | 678,851 |
| Latin America | 1,154,193 | 780,256 | 443,108 |
| CIS | 262,158 | 362,579 | 350,968 |
| Africa | 129,719 | 114,553 | 62,603 |
| **Total sales** | **5,577,472** | **4,865,664** | **4,375,090** |

*Distribution network*

In July 2012, the Group expanded its distribution network with the acquisition of a mineral fertilisers distributor K+S Nitrogen (now EuroChem Agro in Europe and Turkey) as well as distributors in Mexico and China with an agency in Singapore. As at the date of this Prospectus, EuroChem Agro in Europe and Turkey has annual sales volumes of approximately 4.8 million tonnes, distribution agreements with EuroChem Antwerpen (AN/CAN, NPK and Enhanced Efficiency Fertiliser) with an annual volume of 1.6 million tonnes, Lifosa (DAP, MAP and MCP) with an annual volume of 0.9 million tonnes and BASF Ludwigshafen (Nitrogen and Sulphur products, e.g. AS and ASN) with an annual volume of 0.9 million tonnes. EuroChem Agro sells products to 64 countries, provides a strong brand portfolio, including Nitrophoska, Entec and UTEC, among others, and has developed distribution and logistics processes to serve all customers along the distribution chain down to farm level. As at the date of this Prospectus, EuroChem Agro operates nine regional offices in Europe and Turkey and has more than 276 employees. EuroChem Agro sells its products to all types of customers within its distribution chain, such as local wholesalers, cooperatives, retailers and farmers. In the Mediterranean and Turkey, EuroChem Agro sells significant volumes of high premium products to be used for intensive farming of fruits, vegetables, vineyards, among others, which requires greater customer interaction and product diversification.

In October 2015, in order to further develop its distribution capacity and expand its presence in the U.S. market, the Group completed the acquisition of Ben-Trei, a U.S.-based fertiliser distributor with a wide network of warehouses and established relationships with local customers. Ben-Trei mainly distributes a variety of dry fertilisers and feed products and has a strong presence in the key agricultural regions of United States. In 2018, Ben-Trei's sales volumes were approximately 1.68 million metric tonnes of fertiliser product (1.85 million of short tonnes) to more than 670 customers.

In August 2016, the Group completed the acquisition of a controlling interest in Fertilizantes Tocantins, a leading fertiliser distribution company in Brazil. This acquisition has allowed the Group to further develop its global distribution network in line with its strategy. Fertilizantes Tocantins' annual sales reached 1.78 million tonnes in 2018. To further support its presence in Eastern Europe, the Group established a distribution centre in Hungary in September 2016 and acquired distribution assets in Bulgaria in February 2017. Additional distribution facilities have been established in Romania, a representation office of EuroChem Agro in August 2017, and in Serbia in May 2017.

In 2018, the Group opened two new blending units at Fertilizantes Tocantins: one at Sinop in the commercially important northern region of Mato Grosso, and the second in the city of Catalão in Goias State. Located in the Brazilian Midwest, the region accounts for about 3.2 million tonnes of fertiliser per year. Fertilizantes Tocantins has six other plants across the country: in Porto Nacional, São Luis, Querência, Rondonópolis, Barcarena, and Anápolis.

In the second half of 2018, the Group extended its North American distribution network by acquiring dry and liquid fertiliser transportation and storage assets from international merchandising and trading firm Trammo, Inc. This resulted in a significant increase in the Group's fertiliser storage capacity in the U.S., also enabling the Group to strengthen its presence on the East Coast as well as in Western Canada. The Group operated 25 warehouses in the U.S. with a storage capacity of approximately 500,000 metric tonnes as at 31 December 2018.

See "— *Strategy — Expanding the Distribution Network and Increasing Proximity to Customers*".

*Customer Base*

The Group has an established and diversified customer base in the domestic and international markets in which it operates. For the year ended 31 December 2018, the Group's ten largest customers accounted for a total of 12.3 per cent. of the Group's total sales. The Group's three largest customers represented 2.3 per cent., 1.6 per cent., and 1.4 per cent., respectively, of the Group's total sales. Most of the Group's key customers have been purchasing the Group's products for several years and the Group believes these relationships with key customers to be stable.

The following table sets forth the percentage of the Group's sales volumes outside Russia by primary product for the years indicated:

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | *(%)* | |
| Urea | 97.8 | 98.0 | 96.4 |
| Ammonia | 70.0 | 96.7 | 87.2 |
| MAP | 90.7 | 88.7 | 85.1 |
| DAP | 100.0 | 100.0 | 99.7 |
| UAN | 72.6 | 68.5 | 76.9 |
| CAN | 96.5 | 99.3 | 98.4 |
| AN | 39.3 | 38.3 | 42.4 |
| NPK | 92.8 | 92.3 | 90.7 |
| Feed phosphates | 90.5 | 88.7 | 87.2 |
| Methanol | 50.6 | 58.6 | 61.2 |
| Melamine | 31.9 | 27.7 | - |
| Acetic acid | 21.2 | 31.8 | 20.6 |
| Other organic base chemicals | 46.5 | 54.8 | 46.5 |
| Baddeleyite concentrate | 91.1 | 93.7 | 96.2 |
| Apatite concentrate | - | 100.0 | 85.1 |
| Iron ore concentrate | 24.0 | 50.5 | 51.5 |

The following table sets forth the Group's geographical distribution of sales by product for the year ended 31 December 2018:

| | **Russia** | **Europe** | **Asia** | **North America** | **Latin America** | **CIS** | **Africa** |
|---|---|---|---|---|---|---|---|
| | | | | *(%)* | | | |
| Urea | 2.2 | 22.1 | 9.4 | 37.7 | 21.9 | 2.0 | 4.7 |
| Ammonia | 30.0 | - | - | 70.0 | - | - | - |
| MAP | 9.3 | 14.1 | - | 28.5 | 35.4 | 10.5 | 2.1 |
| DAP | - | 70.9 | - | 19.9 | 8.7 | - | 0.5 |
| UAN | 27.4 | 15.9 | 15.1 | 33.2 | 4.3 | 4.1 | - |
| CAN | 3.5 | 85.5 | 2.3 | 2.7 | 4.0 | 0.5 | 1.5 |
| AN | 60.7 | 1.9 | 0.6 | 7.2 | 10.8 | 13.7 | 5.2 |
| NPK | 7.2 | 25.7 | 21.0 | 3.2 | 38.0 | 4.4 | 0.5 |
| Feed phosphates | 9.5 | 53.7 | 0.2 | 32.5 | 0.1 | 3.5 | 0.5 |
| Methanol | 49.4 | 31.2 | - | - | - | 19.3 | - |
| Melamine | 68.1 | 17.0 | 1.0 | 0.7 | 0.1 | 13.1 | - |
| Acetic acid | 78.8 | 20.5 | - | - | - | 0.7 | - |
| Other organic synthesis products | 53.5 | 42.0 | - | - | - | 4.5 | - |
| Baddeleyite concentrate | 8.9 | 28.9 | 51.1 | 11.0 | - | - | - |
| Iron ore concentrate | 76.0 | - | 24.0 | - | - | - | - |

The following sections provide further details on the sales of mineral fertilisers, organic synthesis products iron ore concentrate, baddeleyite concentrate and speciality fertilisers.

*Mineral Fertilisers*

*Sales of Mineral Fertilisers in Russia and CIS*

The Group's own distribution network handles sales in Russia and the CIS through EuroChem Trading Rus (which was incorporated in 2015 in order to consolidate all Russian agrocentres of the Group) and through Agrocenter EuroChem SRL in Moldova. The Group's distribution network supplies farmers with a full range of fertilisers as well as advisory services. The Group also sells its products to 13 wholesale distributors who are not affiliated with the Group.

*Export Sales of Mineral Fertilisers*

EuroChem Trading GmbH (Switzerland) functions as the global hub for overseas distribution, for example, in export sales, the Group's Russian production subsidiaries mainly sell their products to EuroChem Trading GmbH on an FOB Russian port basis (for carriage by sea). If export goes through a non-Russian port or is a land based direct delivery to countries outside Russia, the risk and title transfer takes place on an FCA Russian plant basis. The Group occasionally operates vessels on a time-charter basis.

Lifosa and EuroChem Antwerpen sell their products to customers in the EU and Turkey through EuroChem Agro and oversees through EuroChem Trading GmbH. EuroChem Trading GmbH, in turn, sells products directly to customers or through distributors and agencies in the U.S., Mexico, Brazil, Argentina, China and Singapore.

*Organic Synthesis Products*

Methanol and melamine sales on the Russian market are typically priced on a contractual basis with one-year pricing formulae with a smaller portion of sales attributable to monthly spot contracts. with premium prices. Pricing formulae are linked to quotes published monthly in ICIS, an online pricing service for global and regional chemicals markets. Export sales of methanol are typically made on the basis of one-year contracts. The price is typically based on a formula and linked to quotes published monthly in ICIS. Melamine export sales are typically made on a spot basis.

Russian market sales for acetic acid are based on monthly spot contracts, export sales contracts are based on spot quarterly basis and all sales are linked to quotes published monthly in ICIS.

*Iron Ore Concentrate*

The majority of the Group's domestic sales of iron ore concentrate are made to Severstal. Sales are on the basis of an annual contract. Export sales are effected through EuroChem Trading GmbH, which, in turn, sells the product to distributors and ultimate customers mainly in China. Sales are conducted on a spot basis. For the year ended 31 December 2018, the largest sales markets for the Group's iron ore concentrate were Russia and Asia, which represented 76.0 per cent. and 24.0 per cent., respectively, of the Group's total iron ore concentrate sales volumes.

*Baddeleyite Concentrate*

Russian sales of baddeleyite concentrate are made on a spot and annual contract basis. Export sales are considerably superior to domestic sales, target markets include but not limited by Japan, Germany, U.S. and China. Sales are typically made on the basis of one-, two- or three-year contracts, with prices fixed in U.S. dollars. Spot sales are also possible.

*Premium Fertilisers*

The Group produces a variety of premium fertilisers (under premium brand umbrella names such as Nitrophoska, ENTEC and UTEC). The premium fertilisers are customised to particular crops and soils, which is cost effective for customers and encourages sustainable agriculture practices by providing optimal nutrition with minimal application. The share of premium product revenue in total fertiliser sales was 17.8 per cent. in the year ended 31 December 2018, 19.2 per cent. in the year ended 31 December 2017 and 18.0 per cent. in the year ended 31 December 2016. Upon MOP production ramp-up, the share of premium products in the overall sales portfolio is expected to decline.

**Investment Programmes and Capital Expenditure**

Over the last few years, the Group has been investing in its existing core business (namely the nitrogen, phosphate and mining operations) as well as extensively in the development of potash and ammonia production, its logistics and distribution infrastructure and acquisition of an additional railcar fleet. For the years ended 31 December 2016, 2017 and 2018, the Group's aggregate capital expenditure on property, plant and equipment and intangible assets and purchase of mineral rights and other payment related to mineral rights acquisition was U.S.$3,941.4 million (comprising cash outflows as reflected in the Group's consolidated statements of cash flows for the years ended 31 December 2016, 2017 and 2018). For the years ended 31 December 2016, 2017 and 2018, execution capital expenditure was U.S.$4,392.5 million, of which expansion capital expenditure amounted to U.S.$3,719.7 (including U.S.$2,115.8 million in potash developments and U.S.$663.1 million in ammonia developments) and sustaining capital expenditure amounted to U.S.$672.8 million.

For the year ended 31 December 2018, the Group's capital expenditure on property, plant and equipment and intangible assets and other payment related to mineral rights acquisition was U.S.$1,111.4 million (comprising cash outflows as reflected in the Group's consolidated statements of cash flows for the year ended 31 December 2018). For the year ended 31 December 2018, execution capital expenditure was U.S.$1,284.8 million, of which expansion capital expenditure amounted to U.S.$1,030.2 (including U.S.$588.7 million in potash developments and U.S.$154.9 million in ammonia developments) and sustaining capital expenditure amounted to U.S.$254.6 million.

***Mining Division***

In accordance with its investment plan, over the period from 2019 to 2023, the Group plans to invest up to U.S.$2.8 billion in its Mining Division. The Group plans to fund planned capital expenditure through operating cash flows, bank borrowings and other loans received, bonds issued, project finance and pre-export finance facilities.

*Kovdorskiy GOK*

The Group plans to invest approximately U.S.$365 million in its Kovdorskiy GOK mining and production facility between 2019 and 2023. The proposed investments during this five-year period include development plans (to invest *inter alia* approximately U.S.$64 million in increasing ore processing capacity and approximately U.S.$301 million in research and development, engineering and maintenance (including replacement of equipment).

*EuroChem-Fertilizers (Kazakhstan)*

The Group plans to invest approximately U.S.$11 million in its Kazakhstan phosphate rock project between 2019 and 2023.

***Potash Projects***

Over the period from 2019 to 2023, the Group plans to invest approximately U.S.$ 2.4 billion in its Potash product segment to develop the VolgaKaliy Potash Project and Usolskiy Potash Project. See "*— Production — Mining — Potash Projects*".

*VolgaKaliy Potash Project*

As at 31 December 2018, total investments in connection with the VolgaKaliy Potash Project were approximately U.S.$2.5 billion. Between 2019 and 2023, the Group estimates that capital expenditure in connection with the VolgaKaliy Potash Project will be up to U.S.$1.3 billion, to be invested in a range of development activities including further shaft sinking, research and development, design, construction, developing the main utility networks on the site and other development activities.

*Usolskiy Potash Project*

As at 31 December 2018, total investments in connection with the Usolskiy Potash Project were approximately U.S.$2.1 billion. Between 2019 and 2023, the Group estimates that capital expenditure in connection with the Usolskiy Potash Project will be up to U.S.$1.1 billion, to be invested in a range of development activities including shaft sinking, research and development, design, construction, developing the main utility networks on the site and other development activities.

***Fertilisers Division***

Over the period from 2019 to 2023, the Group plans to invest approximately U.S.$704 million in its Fertilisers Division. The Group plans to fund planned capital expenditure through operating cash flows, bank borrowings and other loans received, bonds issued, project finance and pre-export finance facilities.

*Nevinnomysskiy Azot*

The Group plans to invest approximately U.S.$145 million in its Nevinnomysskiy Azot facility between 2019 to 2023, including U.S.$60 million in development-driven and U.S.$85 million in maintenance-related capital expenditure.

*Novomoskovskiy Azot*

The Group plans to invest approximately U.S.$111 million in its Novomoskovskiy Azot production facility between 2019 to 2023, including U.S.$49 million in development-driven and U.S.$62 million in maintenance-related capital expenditure. The proposed investments during this period include, *inter alia,* plans to invest approximately U.S.$29 million in revamping of Weak Nitric acid production.

*EuroChem Antwerpen*

The Group plans to invest approximately U.S.$125 million in EuroChem Antwerpen between 2019 to 2023, in upgrading and expansion of certain production lines.

*EuroChem NorthWest*

As at 31 December 2018, total investments in connection with the EuroChem NorthWest ammonia plant were approximately U.S.$853 million, including project financing and additional bonus to the contractor from the sponsor. Between 2019 and 2023, the Group estimates that capital expenditure in connection with the EuroChem NorthWest ammonia plant will be up to U.S.$72.3 million, to be invested in a range of development activities (with the construction completed in 2018 and performance testing to be conducted in 2019, as per a notice of intention provided by Tecnimont to EuroChem NorthWest), and U.S.$29 million, to be invested in maintenance-related projects (between 2019 and 2023).

*Phosphorit*

The Group plans to invest approximately U.S.$78 million in its Phosphorit production facility between 2019 to 2023, including U.S.$8 million in development-driven and U.S.$70 million in maintenance-related capital expenditure. The proposed investments during this five-year period include, *inter alia,* plans to invest approximately U.S.$4 million in phosphoric acid workshop.

*Lifosa*

The Group plans to invest approximately U.S.$83 million in its Lifosa production facility between 2019 to 2023, including U.S.$18 million in development-driven and U.S.$65 million in maintenance-related capital expenditure.

*EuroChem-BMU*

The Group plans to invest approximately U.S.$61 million in its EuroChem-BMU production facility between 2019 to 2023, including U.S.$34 million in development-driven and U.S.$27 million in maintenance-related capital expenditure.

***Logistics Division***

Over the period from 2019 to 2023, the Group plans to invest approximately U.S.$179 million in its Logistics Division (for terminals and ports). The Group plans to fund planned capital expenditure through operating cash flows, bank borrowings and other loans received, bonds issued and pre-export finance facilities.

***Sales Division***

Over the period from 2019 to 2023, the Group plans to invest approximately U.S.$26 million in its Sales Division for renovations and development of its distribution and sales centres. The Group plans to fund planned capital expenditure through operating cash flows, bank borrowings and other loans received, bonds issued and pre-export finance facilities.

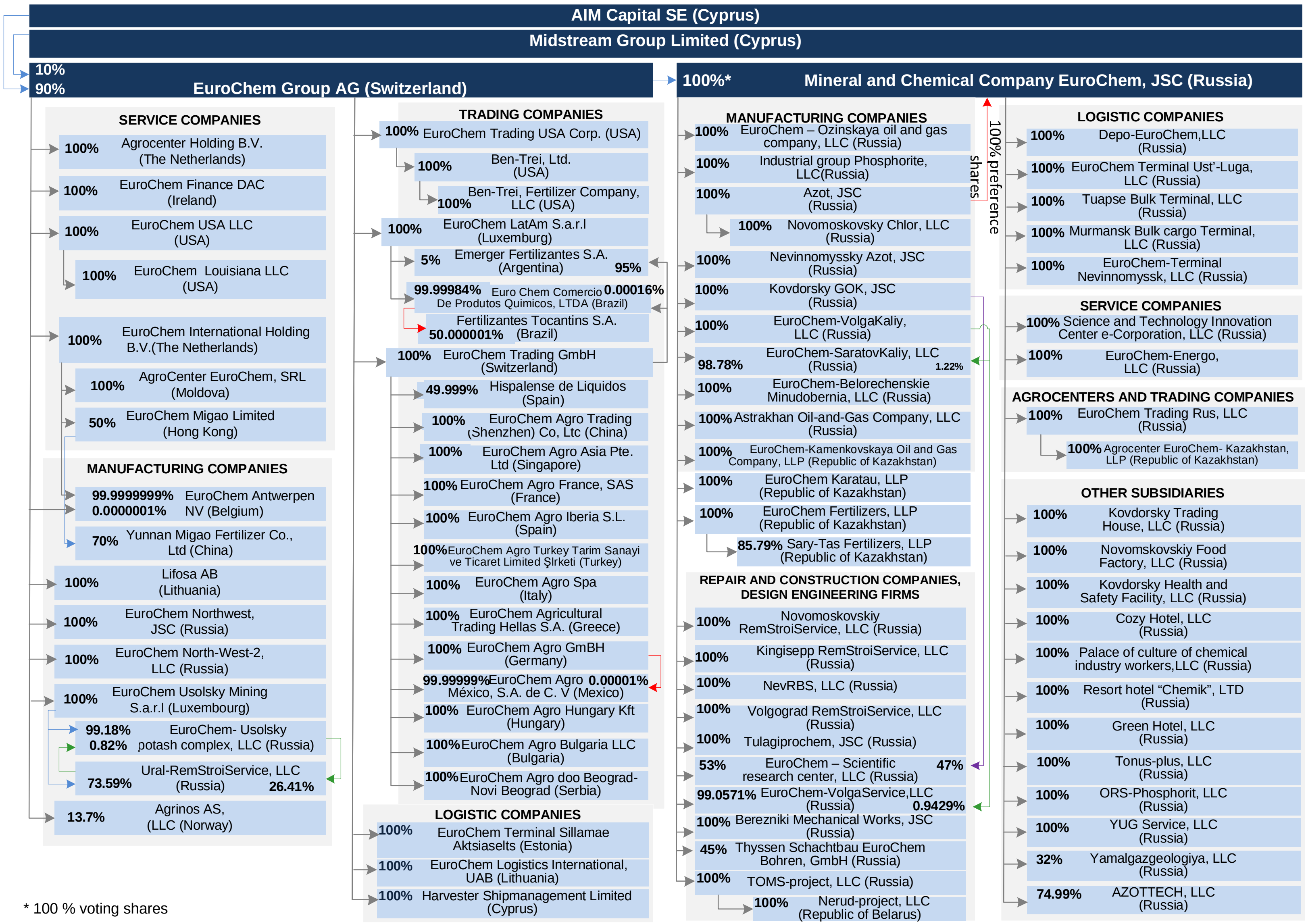
## Corporate Organisation

All production, sales, marketing and other operations are conducted through the Group's subsidiaries.

In 2016-2018, EuroChem completed a reorganisation of its Russian trading companies (agrocentres) by way of an accession merger of trading companies located at Novomoskovsk, Orel, Nevinnomyssk, Krasnodar, Volgograd and Lipetsk into EuroChem Trading Rus, LLC.

The following chart sets forth the Group's main production, trading and services companies (and certain other core and non-core assets), including effective ownership interest in these companies, as at 15 January 2019:

## EUROCHEM GROUP STRUCTURE




* 100 % voting shares

## Raw Materials and Energy

*Raw Materials*

The most important raw materials used by the Group in its production processes are natural gas, apatite, sulphur and ammonia.

*Natural Gas*

Natural gas is the primary raw material used by the Group to produce ammonia, the main building block for nitrogen-based fertilisers, as well as for heating and other production related purposes. The Group sources natural gas from third-party suppliers at market prices. For its Russian operations, the Group purchases natural gas from third-party suppliers, including Rosneft, which supplies natural gas to Novomoskovskiy Azot, the subsidiaries of Gazprom, Novatek and, to a lesser extent, from the Saint-Petersburg International Mercantile Exchange (SPIMEX) at spot prices. Natural gas for EuroChem Antwerpen is mainly secured via BASF suppliers.

*Apatite*

The Group produces approximately 69 per cent. of its phosphate rock requirements from its Kovdorskiy GOK apatite mine in Russia and EuroChem-Fertilizers mining operations in Kazakhstan. The Group purchases the remainder of its apatite requirements from third-party suppliers.

*Sulphur*

Sulphur is an important raw material consumed by the Group's fertiliser production facilities. Sulphur accounted for 3.1 per cent. the Group's costs of sales for the year ended 31 December 2018. The Group purchases the majority of its sulphur requirements from Gazprom subsidiaries with the remaining portion supplied by Tengizchevroil, Rosneft and Orlen Lietuva.

*Ammonia*

Ammonia is sourced externally when the Group's internal production capacities are not sufficient to meet high demand. For the years ended 31 December 2018, 2017 and 2016, externally sourced ammonia accounted for 23 per cent., 22 per cent. and 21 per cent. of the Group's needs. Ammonia accounted for 8.5 per cent. of the Group's costs of sales for the year ended 31 December 2018.

*Energy*

The Group's total energy costs accounted for 5.4 per cent. of the Group's cost of sales for the year ended 31 December 2018. In addition, the Group also has power generation capabilities at some of its phosphate facilities. By installing heat recapturing systems to its sulphuric acid production unit, the Group is capable of harnessing the steam generated by the unit to subsequently generate electric power.

## Intellectual Property, Research and Development

The Group regularly seeks to improve the operations of its production, mining, logistics and marketing facilities, principally by improving operating efficiency, reliability and capacity. Most of these efforts constitute incremental improvements to current activities, and are undertaken in connection with regular operational maintenance and monitoring. The modernisation programme that is currently being carried out by the production subsidiaries and the technical upgrades of the manufacturing assets are largely based on the implementation of advanced technological and information processes and the installation of modern equipment and machinery. The Group outsources a variety of research and engineering works to a wide range of specialised contractors.

Where appropriate, the Group seeks to register any intellectual property rights that may result from research and development activities. As at 31 December 2018, the Group owned numerous patents and trademarks and also used a variety of patents under licensing agreements. For instance, Lifosa uses three trademarks registered by EuroChem with the Lithuanian State Patent Bureau concerning fertilisers and chemical products for industrial needs under the Nice classification. In addition, the acquisition of EuroChem Antwerpen, EuroChem Agro provided the Group with the patents and registered trademarks for, amongst others, Nitrophoska, UTEC and ENTEC (UTEC and ENTEC are special products treated with inhibitors which can reduce evaporation and lower $N_2O$ emissions in nitrogen products). EuroChem Agro owns several patents on production pathways, field application of new active ingredients of EEF fertilisers, their combination and formulation.

**Market Share and Competition**

In 2018, the Group was among the world's largest nitrogen fertiliser producers by primary product capacity (ammonia), according to CRU. The Group is Russia's second largest manufacturer of fertilisers in terms of total production and had a 23 per cent. nitrogen fertiliser market share and a 20 per cent. phosphates fertiliser market share for the nine months ended 30 September 2018), according to Azotecon Plus.

The following table sets forth the largest fertiliser producers in terms of ammonia content as at 31 December 2018:

| | **Range of major Ammonia producers(1)(2)** |
|---|---|
| | *(MMT per year)* |
| CF Industries | 9.9 |
| Yara | 9.1 |
| Nutrien | 7.8 |
| OCI | 4.6 |
| Sabic/Safco | 3.5 |
| EuroChem | 3.3 |
| UralChem | 3.1 |
| TogliattiAzot | 3.0 |
| QAFCO | 2.9 |
| Acron | 2.7 |
| IFFCO | 2.6 |
| PhosAgro | 2.0 |

Note: taking into account shares in JV plants

(1) Million metric tonnes (physical weight).
(2) Excluding Chinese companies.
*Source: Company data, CRU.*

In the nitrogen product group of the mineral fertiliser market, Acron, PhosAgro and UralChem are the Group's main competitors in Russia. In the phosphate product group of the mineral fertiliser market, PhosAgro is the Group's main competitor in Russia. In the potash product group of the mineral fertiliser market, Uralkali is the largest Russian producer.

In the global market for nitrogen fertilisers in 2018, CF Industries (United States) was the world's largest producer in terms of nutrient capacity (ammonia), followed by Yara (Norway) and Nutrien (Canada), according to CRU and company data. In the global market for phosphate fertilisers in 2018, OCP was the largest producer in terms of nutrient capacity (phosphoric acid, $P_2O_5$), followed by Mosaic and PhosAgro.

The following table sets forth the largest fertiliser producers in terms of phosphoric acid capacity as at 31 December 2018:

| | **Range of major phosphoric acid producers(1)** |
|---|---|
| | *(MMT $P_2O_5$ per year)* |
| OCP | 7.1 |
| Mosaic | 6.9 |
| PhosAgro | 2.3 |
| Nutrien | 2.3 |
| Ma'aden | 1.9 |
| GCT | 1.7 |
| EuroChem | 1.3 |
| IFFCO | 1.1 |

Note: taking into account shares in JV plants

(1) Excluding Chinese companies.

Source: Company data, IFA.

## Health Safety and Environment (HSE)

In the years ended 31 December 2016, 2017 and 2018, the Group experienced 154 work-related lost-time injuries, involving 118 employees and 36 contractors, including two incidents with employees in 2016 (one incident), 2017 (one incident) and 2018 (no incidents) and seven incidents with contractors in 2016 (one incident), 2017 (four incidents), 2018 (two incidents), respectively, resulting in fatalities.

In order to reduce occupational health and safety risks and ensure environmental compliance the Group has continually been improving its safety culture, developing HSE management systems and promoting HSE awareness and competencies. In December 2013, the Group adopted a new HSE Policy and Framework, which was revised in September 2016 and which applies to all its plants and operations, employees and contractors. The policy implementation is overseen by the Group's management and the Board of Directors.

Each of the Group's production plants is certified in accordance with ISO 14001 (environmental management) and OHSAS 18001 (occupational health and safety) management systems standards and has undertaken ongoing measures aimed at incident, accident and occupational illnesses prevention, efficient resource use, product stewardship, emissions reduction, waste management, environmental monitoring, personnel training, as well as external stakeholder engagement.

The Group is an active member of International Fertiliser Association, Fertilisers Europe, Russia's Union of Industrialists and Entrepreneurs and other reputable industry groups seeking to embrace and implement best HSE practices and to respond in a timely fashion to changes in state and market driven HSE regulatory standards.

The Group reports on its HSE performance, along with the other suitability aspects, on a regular basis. The Group's annual sustainability reporting is prepared and disclosed in accordance with the Global Reporting Initiative (GRI) guidelines.

For the past 15 years, the Group has also focused on developing sustainable, long-term benefits for the communities neighbouring and supporting its operations. This focus is exemplified by the Group's investments in modernising community infrastructure, working with universities to deliver training programmes for young engineers from Russia's regions, building sports arenas and supporting children's ice hockey programmes.

The community investment programmes are overseen by the Group's Board of Directors. In 2016-2018, the Group invested over U.S.$ 45.56 million in community infrastructure, services and organisations. In Russia, a new austerity policy has made these investments in social and environmental services even more significant. As a result, the Group's corporate and plant managers have worked closely with community representatives to define investment priorities. The investments are often made on a co-financing basis (public-private and private NGO) and projects are ongoing in all of Russia's regions where the Group operates. For instance, in Novomoskovsk and Kotelnikovo the Group has cooperated with the city authorities to improve water and sewerage systems, and sport facilities, and to renovate an iconic meeting place for city residents.

As a part of its commitment to local communities the Group provides stable employment, meets all local tax and environmental obligations and pays competitive salaries. Its commitment to local communities is open to scrutiny from both within and outside the Group, including from local stakeholders, international experts, academics and all relevant government authorities. Some of the Group's investments, particularly those in recreation, sports and rehabilitation facilities for employees, are also open to local residents. In addition, the Group's energy generation, transport infrastructure and environmental monitoring systems also serve to assist and protect local communities.

**Employees**

The following table represents the average number of permanent employees of the Group by function as at the dates indicated below:

| | January-December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Production | 11,494 | 10,716 | 10,269 |
| Service | 9,280 | 9,524 | 9,226 |
| Logistics | 2,208 | 2,206 | 2,228 |
| Sales, administrative and other | 3,308 | 3,347 | 3,052 |
| **Total** | **26,290** | **25,793** | **24,775** |

As at 31 December 2018, 65 per cent. of the Group's employees were the members of the trade unions. Each of the production subsidiaries has entered into collective bargaining agreements with its trade unions. There have been no strikes or other cases of industrial action at any of the production subsidiaries since the Group acquired each of those entities.

The Group makes defined contribution to state pension funds for its employees in accordance with the applicable legislation, and provides pension and other post-employment benefits to its employees under the collective bargaining agreements. In general, there are no corporate non-state pension programmes within the Group. However, a number of the Group's subsidiaries that were acquired such as EuroChem Antwerpen and EuroChem Agro continue to have their historic corporate pension plans on the basis of the community undertakings made by the Group as part of the acquisition. The Group also provides various benefits programmes and maintains the social facilities for its employees.

The Group's programmes include critical illness insurance programmes for all employees; professional illness advanced care that includes medical check-ups and medical resorts treatment; medical special care meal plans for the personnel exposed to hazardous working conditions.

The Group's Russian subsidiaries make the defined contribution on behalf of their employees to the Russian state pension, social insurance and medical insurance funds at the applicable rates (average annual effective rate is approximately 29 per cent.) based on the gross salary payments. These contributions are expensed as incurred and the Group has no legal or constructive obligation to make any further payment in respect of such statutory social and pension contributions. Furthermore, the Group's subsidiaries provide certain pension and other post-employment benefits to their employees in accordance with the collective bargaining agreements. In addition, the Group and each of its

Russian plants are parties to agreements with each of the regional authorities in the regions in which the Group's Russian plants operate, which cover certain aspects of activities in the respective regions. In particular, the Group, following the signed agreements, contributes to the social infrastructure of the localities where each of the Group's production facilities are located, including providing assistance to schools and medical facilities.

Over the last few years, the Group has been seeking to optimise further its personnel structure, primarily through a controlled headcount reduction. The Group has been managing its workforce reductions gradually and in a controlled manner. At the same time, organic growth and strategic expansion have resulted in considerable personnel intake. The Group estimates that over 800 employees will be required with regard to the development and operation of the Group's potash segment between 2019 and 2020.

**Insurance**

The Group obtains risk insurance cover as mandated by statutory requirements. The Group also holds voluntary insurance policies covering directors' and officers' liability (D&O insurance), physical property and business interruption insurance at some production plants (Novomoskovskiy Azot, Nevinnomysskiy Azot, Kovdorskiy GOK, Novomoskovskiy Chlor LLC), construction risk insurance (EuroChem NorthWest and EuroChem - Usolskiy Potash Complex), third-party liability (general liability and production), as well as insurance policies related to trade operations, including export shipments and in some cases credit insurance of trade debtors. The Group also carries voluntary life and accident insurance for employees.

As part of the Usolskiy Potash Project, the Group has voluntarily insured construction risks of all mining and surface facilities related to this project including third-party liability during construction works. The insurance covers the risks of destruction and damage related to all facilities including those previously constructed starting from November 2014 to July 2020, including a two-year guarantee period.

At its new ammonia project in Kingisepp, the Group has voluntarily insured construction risks of all facilities related to this project.

**Material Contracts**

For its Russian operations, the Group has one-year gas supply contracts with Gazprom subsidiaries (which provide for prices regulated by the FAS).

***Kovdorskiy GOK***

On 20 December 2011, Kovdorskiy GOK entered into the framework iron ore concentrate supply agreement with Severstal. Under the agreement, Kovdorskiy GOK undertakes to supply Severstal with iron ore concentrate on FCA Kovdor basis until 2022.

In November 2008, Kovdorskiy GOK entered into the framework agreement with EuroChem-BMU for the supply of apatite concentrate.

In February 2018, Kovdorskiy GOK entered into an agreement with the Federal State Reserve Agency for the sale of iron-ore concentrate.

***EuroChem VolgaKaliy***

Between 2011 and 2015, EuroChem VolgaKaliy entered into a number of agreements with Novomoskovsk RSS (the Group's subsidiary) as the general contractor for the construction of the Gremyachinskiy GOK's surface facilities.

Between 2013 and 2017, EuroChem VolgaKaliy entered into a number of agreements with US-30 for the sinking Shaft No. 2 sinking and for the development of the Gremyachinskiy GOK.

During 2013–2016, EuroChem VolgaKaliy entered into a number of agreements with Thyssen Schachtbau GmbH for performing works and services, as well as developing design documentation in relation to Gremyachinskiy mining-and-processing integrated works.

In 2016, EuroChem VolgaKaliy entered into an agreement with Veolia for the design and supply of processing equipment for the Group's White Plant.

***EuroChem Usolskiy Potash Complex***

In 2015, EuroChem Usolskiy Potash Complex entered into agreement with Renaissance Heavy Industries LLC for provision of construction works and services relating to development of Usolskiy Potash Project mining-and-processing integrated works for the aggregate amount of U.S.$270 million to be completed by 2018. This agreement was subsequently amended in June 2018 and January 2019 to fix the contract price at the level of U.S.$319 million (excluding VAT) and to move the completion dates for third and fourth technological lines of the facility to the end of March and April 2019, respectively.

In 2015, EuroChem Usolskiy Potash Complex entered into an agreement with US-30 for the sinking and lining services to be provided to the Group's Shaft No. 3.

In 2016 and 2017, EuroChem Usolskiy Potash Complex entered into a number of agreements with UK Uralenergostroy for the construction of ore crushing facilities and finished product loadout area (excluding finished product storages).

In October 2018, EuroChem Usolskiy Potash Complex entered into an agreement with Trading and Purchasing Company OVK LLC for the purchase and sale of new model 19-9835-01 TU 3182-052-71390252-2010 hopper wagons for mineral fertilisers.

In July 2018, EuroChem Usolskiy Potash Complex entered into an agreement for the supply of Usolskiy Potash Project products for export with EuroChem Trading GmbH.

***Novomoskovskiy Azot***

On 18 December 2015, Novomoskovskiy Azot signed the contract with Chemoproject Nitrogen a.s. for the delivery of production equipment to modernise production base of Novomoskovskiy Azot.

In 2014, Novomoskovskiy Azot entered into long-term gas supply agreements with subsidiaries of each Gazprom and Rosneft for gas supplies until 31 December 2019.

In October 2017, Novomoskovskiy Azot entered into an agreement with Novatek for the supply of gas.

***Nevinnomysskiy Azot***

On 15 November 2010, Nevinnomysskiy Azot entered into an agreement with OJSC Uralkali for the supply of "Silvin" mineral concentrate until 31 December 2013. The agreement was subsequently prolonged until 31 December 2017.

***EuroChem Agro GmbH***

In 2015, EuroChem Agro GmbH entered into long-term framework marketing and distribution agreement with Toros Agri, Turkish fertiliser producer, for marketing and distribution of the Group's urea products in Turkey.

***EuroChem Northwest***

In June 2015, EuroChem Northwest signed a contract with Tecnimont Russia LLC and Tecnimont S.p.a. for the construction of an ammonia production chemical plant in Kingisepp, Russia.

***EuroChem-Fertilizers (Kazakhstan)***

In October 2018, EuroChem-Fertilizers entered into an agreement with Onyx-R for Geological Exploration of the Kesik-Tobe Kok-Jon Deposit (ore reserve evaluation blocks X and XI) in the Sarysu District of the Zhambyl Province.

**Financing Agreements**

For descriptions of certain of the Group's financing agreements, see "*Operating and Financial Review — Indebtedness — Borrowings*".

**Legal Proceedings**

The Group's entities have been and continue to be the subject of legal proceedings arising from time to time in the ordinary course of business. During the 12 months preceding the date of this Prospectus, neither the Parent, nor any of the Group's consolidated subsidiaries is or has been subject to any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) which may have, or have had in the recent past a material adverse effect on the Group's financial position or profitability.

*Claims against Former Managers of EuroChem*

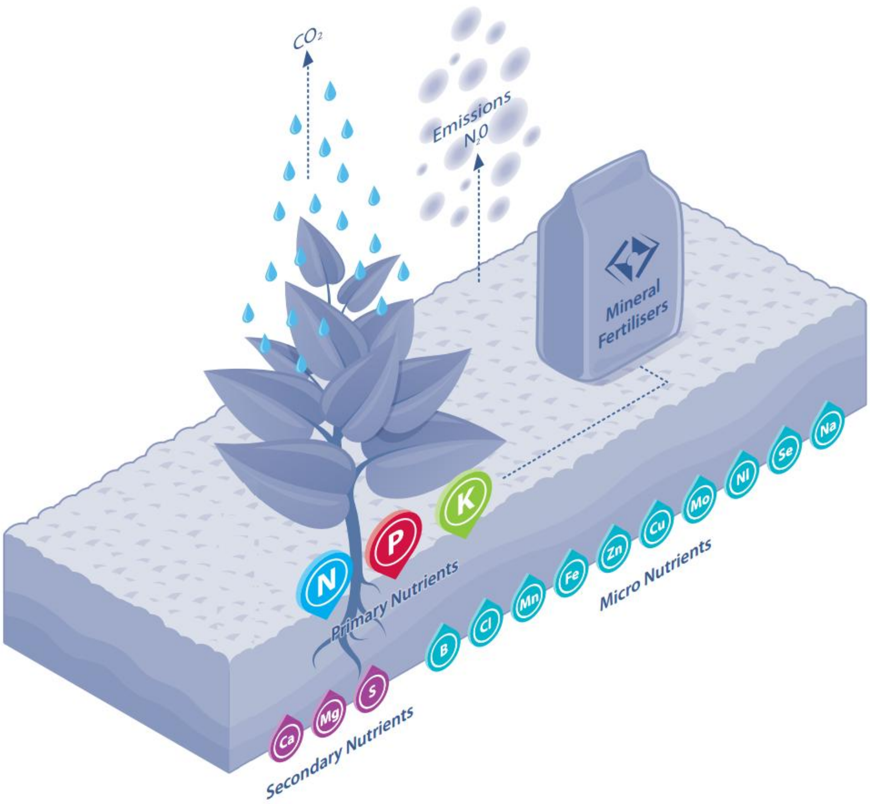
In 2014, the Group was informed by its counterparty, a publicly-traded global producer of nitrogen-based fertilisers, that two senior managers of EuroChem, who were responsible for sales, had received concealed commission payments from such counterparty's trading subsidiary. Following an internal investigation, EuroChem identified a number of third-party trading companies that had been involved in similar payments to the Group's former managers primarily for preferential treatment in dealings with such trading companies. The Group has engaged international experts to ascertain losses caused to the Group. Based on their estimates, the managers' conduct has had no material adverse effect on the Group's business. Nevertheless, the Group has instituted a number of legal proceedings in various jurisdictions against the relevant former managers, their relatives involved in the scheme and companies under their control, as well as certain parties involved in effecting such payments. Recently, the Court of Appeals for the BVI ("**CoA**") stayed the Group's claims against certain (but not all) appealing defendants, which include few companies which made concealed commission payments and recipients thereof, declining to exercise jurisdiction over those claims in view that Russia was a more convenient forum. However, the CoA subsequently found such decision involved important public policy issues and should be reviewed by the Privy Council in the U.K. Based on the U.K. counsel advise, the Group believes that there is a substantial likelihood that the CoA decision will be reversed by the Privy Council, which would result in continuation of the BVI action against all defendants. In the meantime, the BVI action continues against the non-appealing defendants and the Group is considering additional actions in other jurisdictions. Separately, the Group commenced arbitration proceedings against one of the commission paying trading counterparties in the LCIA and ICC (the arbitration forum was determined pursuant to the relevant agreement entered into by the Group and the relevant commission paying trading counterparties; such agreements stipulating the agreed upon arbitration forum). As at the date of this Prospectus, the LCIA arbitration is continuing and the final hearing is scheduled to proceed in London in March 2019. The ICC arbitration has been temporarily suspended pending the resolution of the LCIA arbitration.

**OVERVIEW OF THE FERTILISER INDUSTRY**

Since man first began growing crops, the goal has always been to improve soil quality and plant nutrition to both increase the quality and quantity of crops cultivated. This drive to increase crop yields took several forms and evolved throughout the ages into various systems and techniques such as manuring, liming, crop rotation, and more recently, chemical fertilisers.

Agricultural chemistry emerged some 150 years ago and is key in addressing the issues brought on by a growing population in a finite world.

Fertilisers can be solid, liquid or gaseous and contain a specific quantity of one or more of the three essential nutrients. When added to the soil, these nutrients provide nutrition for the growth and development of crops, allowing farmers to increase soil and crop efficiency. While a variety of nutrients are necessary, the fertiliser industry focuses on the three primary nutrients and three secondary nutrients. The primary nutrients are Nitrogen (N), Phosphorus (P), and Potassium (K). The secondary nutrients, which are required for optimum crop growth, are Sulphur (S), Calcium (Ca), and Magnesium (Mg).




Although every nutrient provides its own respective benefits to crops, nitrogen remains the most important of the nutrients. Globally, in 2018, the production of primary nutrients was estimated by the IFA to amount to 187.9 million tonnes nutrient, split as 56 per cent. N, 24 per cent. $P_2O_5$, and 20 per cent. $K_2O$. While N is manufactured through a chemical process, the other two primary nutrients, P and K, are both obtained by mining operations.

**Primary Nutrients**

*Nitrogen*

Nitrogen, N in the periodic table, is essential for the development and growth of plants and is particularly crucial for growth, vigour, colour and yield. It is produced from natural gas and may be applied in both gaseous form (ammonia) or more commonly solid form (urea, AN) or in aqueous solution (nitrogen solutions). It is a major component of proteins, hormones, chlorophyll, vitamins and enzymes essential for plant. Nitrogen deficiencies reduce yields and lead to a yellowing of the leaves and stunt growth, while too much can delay flowering and fruiting. As a result of leaching (water runoff) and wind erosion, nitrogen must be applied every growing season, especially for corn, but for certain crops, such as soybeans, which capture nitrogen from the atmosphere. Common nitrogen-based fertilisers include ammonia ($NH_3$), urea ($CO(NH_2)_2$), and AN ($NH_4NO_3$) as well as ammonium sulphate. Nitrogen represents approximately 82 per cent. of the content of ammonia, 46 per cent. of urea, and 34 per cent. of AN. CAN varies in nitrogen content from approximately 25 to 28 per cent, and UAN solutions include nitrogen content of approximately 28 to 32 per cent.

*Phosphorus*

Phosphorus, which is measured in units of phosphoric pentoxide ($P_2O_5$), is the second most consumed plant nutrient after Nitrogen. Phosphorous is vital to root development, cell division and essential for flower and fruit formation, seed production, and almost all aspects of growth and metabolism in plants. Phosphorus deficiencies are mainly characterised by purple stems and leaves, and delayed growth rates with decreased flower and fruit yields. Given its importance to root development, phosphorus must be applied close to root systems so as to be properly absorbed and utilised. Common phosphorus-based fertilisers are MAP and DAP. P should be multiplied by 2.29 to be converted to $P_2O_5$ - DAP is 46.0 per cent. $P_2O_5$ and MAP is 52.0 per cent. $P_2O_5$.

*Potassium*

Potassium is used by plants improvement of crop quality through plant growth, starch activation, protein formation and other physiological functions. The most common form of potassium is potash (salt mined directly from underground and marine deposits) is necessary for formation of sugars, starches, carbohydrates, protein synthesis and cell division in roots and other parts of the plant. It helps to adjust water balance, improves stem rigidity and cold hardiness, enhances flavour and colour on fruit and vegetable crops, increases the oil content of fruits and is important for leafy crops. Deficiencies result in low yields, mottled, spotted or curled leaves, or scorched and burned looks to leaves. Potassium is measured in units of potassium oxide ($K_2O$). Potash is a term typically used to denote potassium-based fertiliser. Most potash fertiliser is potassium chloride (KCl), also called muriate of potash ("**MOP**"). To convert KCl product tonnes to $K_2O$ tonnes, multiply by 0.61.

*Average nutrient content of major fertiliser product*

**Average nutrient content** (% of weight)

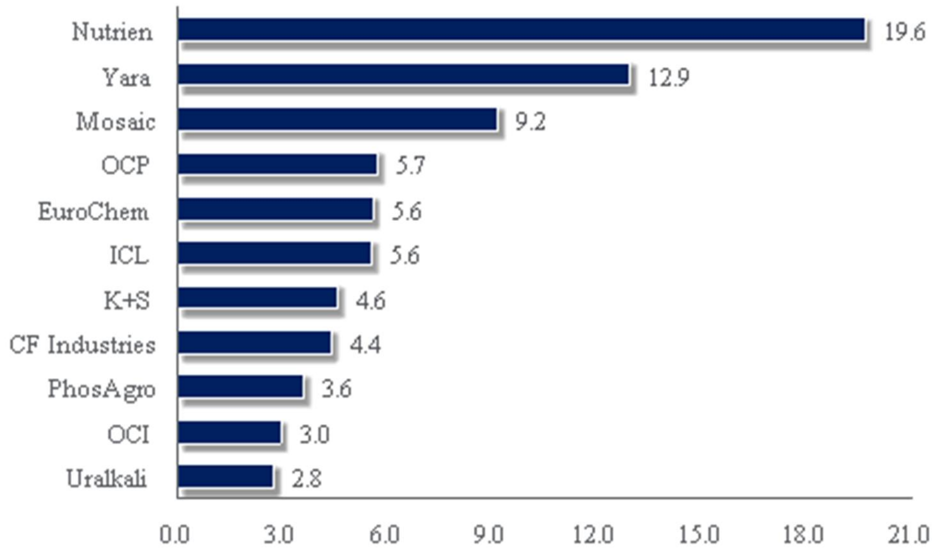
| | Primary | | | Secondary | | |
|---|---|---|---|---|---|---|
| | N | $P_2O_5$ | $K_2O$ | S | Mg | Ca |
| Ammonia | 82% | – | – | – | – | – |
| Urea | 46.2% | – | – | – | – | – |
| Ammonium nitrate (AN) | 34±1% | – | – | – | – | – |
| CAN | 27±1% | – | – | – | 1.2% | 4% |
| Ammonium sulphate (AS) | 21% | – | – | 24% | – | – |
| UAN | 32% | – | – | – | – | – |
| MAP | 12±1% | 52±1% | – | – | – | – |
| DAP | 18% | 46% | – | – | – | – |
| NP 20-20 | 20±1% | 20±1% | – | 8% | – | – |
| NP 14-34 | 14±0.5% | 34±1% | – | 8% | – | – |
| NP 16-20 | 16.5% | 20% | – | 14% | – | – |
| SSP | 6±1% | 26±1% | – | 8-10% | >0.5% | 9-12% |
| Potash (MOP) | – | – | 60-62% | – | 0.1% | 0.1% |
| Potash (SOP) | – | – | 50% | 18% | 1% | 0.7% |
| NPK 16-16-16 | 16% | 16% | 16% | – | – | – |

**Market and Drivers**

The most significant companies present in the fertiliser market include: Nutrien (Canada), Yara (Norway), Mosaic (U.S.), OCP (Morocco), ICL (Israel), EuroChem (Switzerland), K+S (Germany), CF Industries (U.S.), PhosAgro (Russia), OCI (Netherlands), Uralkali (Russia).

Nutrien is the largest fertiliser company globally, while EuroChem is among the leading fertiliser market players by revenues.

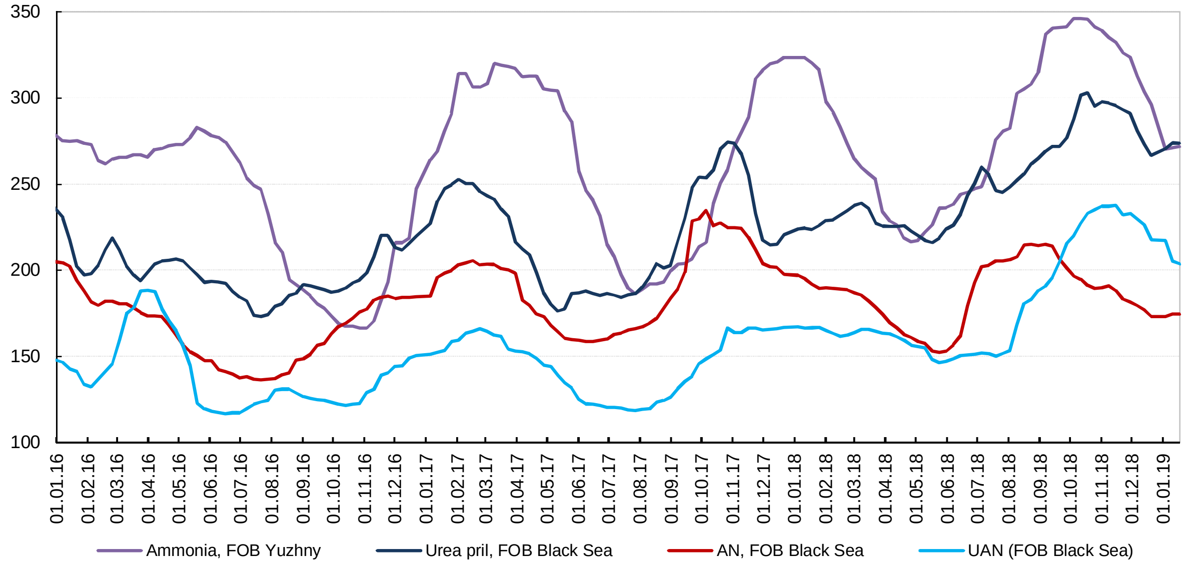
The following chart presents a comparison of selected fertiliser companies by revenues over the latest reported twelve-month period (U.S.$ in billions):




*Source: Company filings as of the latest reporting date.*
*Note: Revenue of Nutrien, Yara, ICL and the Group were presented for the twelve-month period ended 31 December 2018, while revenue of the other entities set out in the table above were presented for the twelve-month period ended 30 September 2018.*

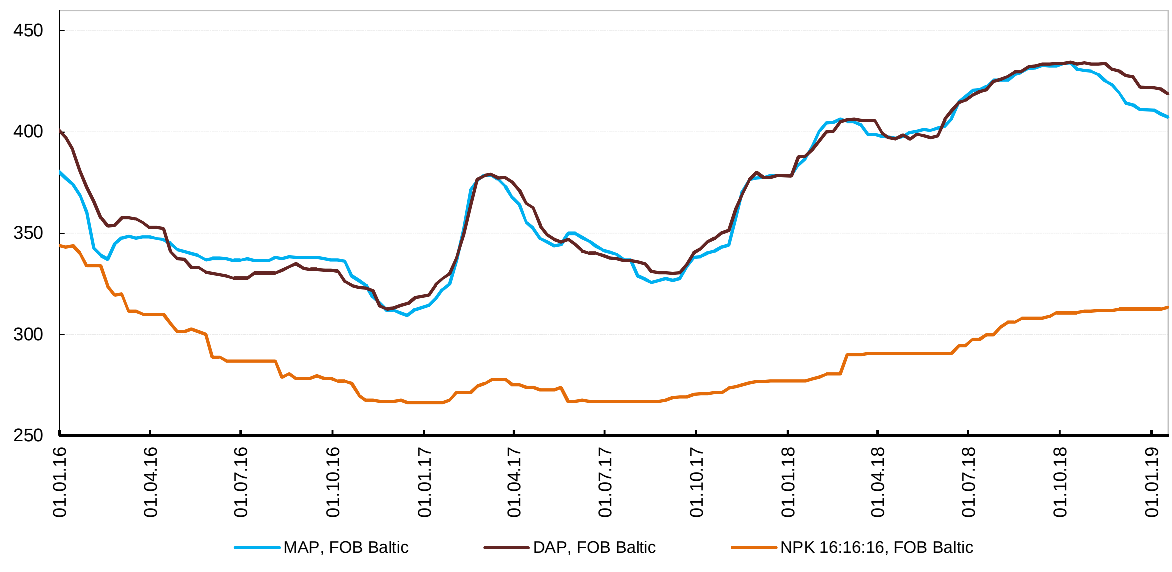
*Fertiliser prices*

The following chart presents main nitrogen fertiliser indicative market prices:



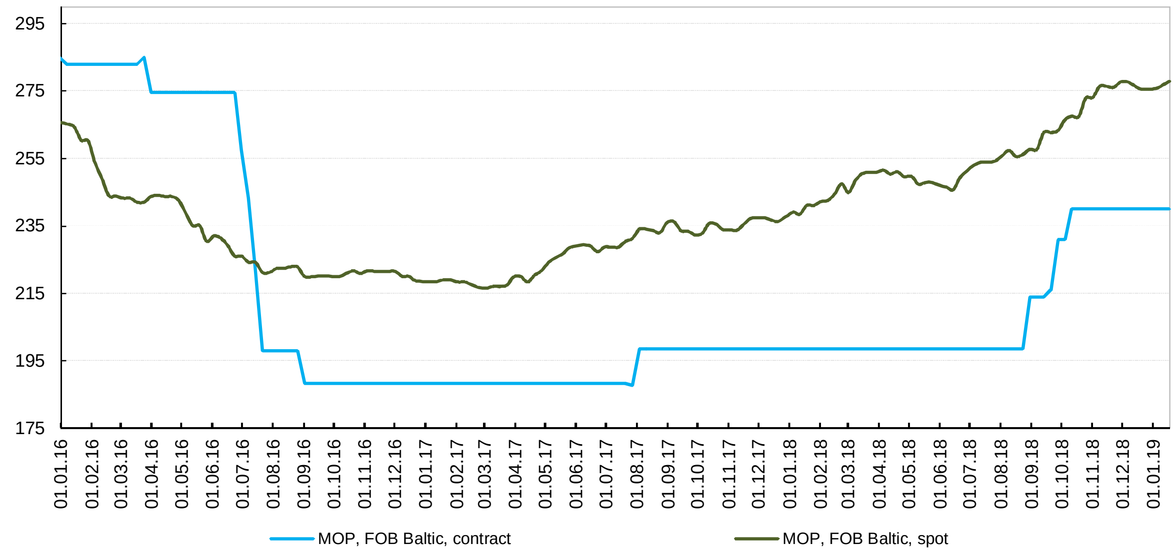

*Sources: Fertilizer Week, FMB, The Market, Fertecon, Profercy.*

The following chart presents main phosphate fertiliser indicative market prices:




*Sources: Fertilizer Week, FMB, The Market, Fertecon, Profercy.*

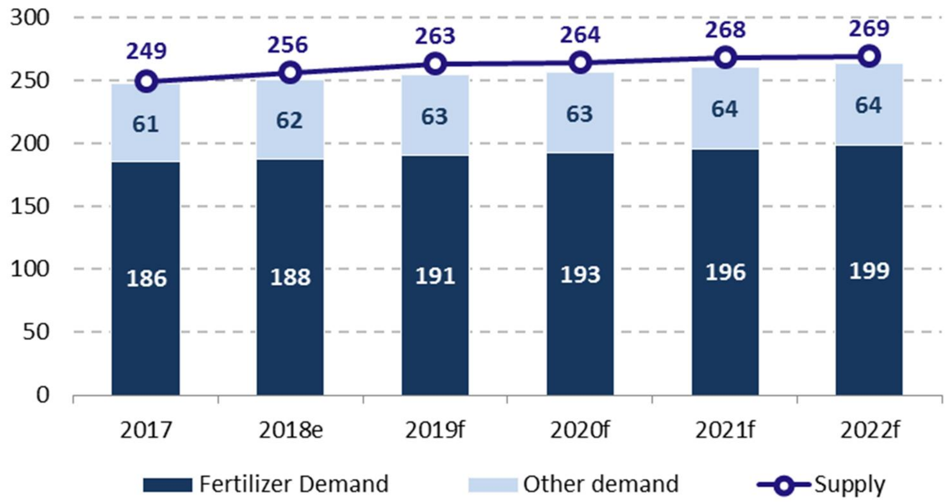
The following chart presents main potash fertiliser indicative market prices:




*Sources: Fertilizer Week, FMB, The Market, Fertecon, Profercy.*

According to the IFA, the global fertiliser supply/demand balance is expected to show moderate surplus between 2015 and 2020 and will grow to 6 million tonnes nutrient in 2020, the increase being driven mainly by new production capacities expected to be launched in various fertiliser segment.

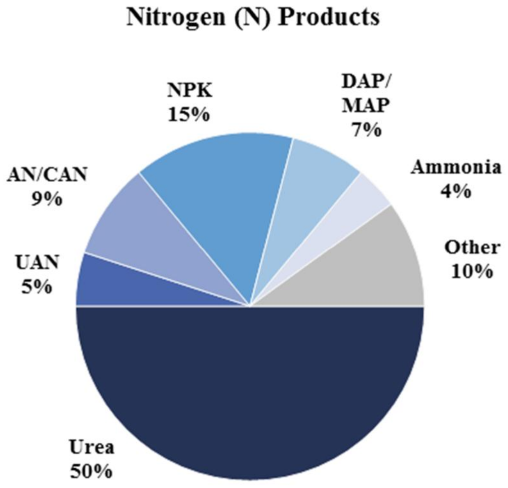
The following chart sets forth global nitrogen, phosphorous and potassium supply(1)/demand balance (nutrient in millions of tonnes):

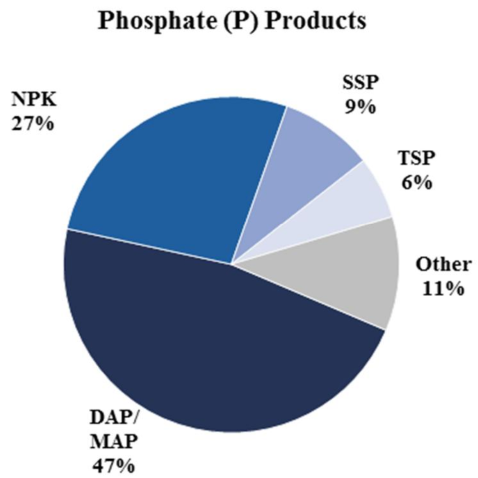



(1) Supply is defined as the maximum achievable production capability. It is derived by multiplying capacity by the highest achievable operating rate.

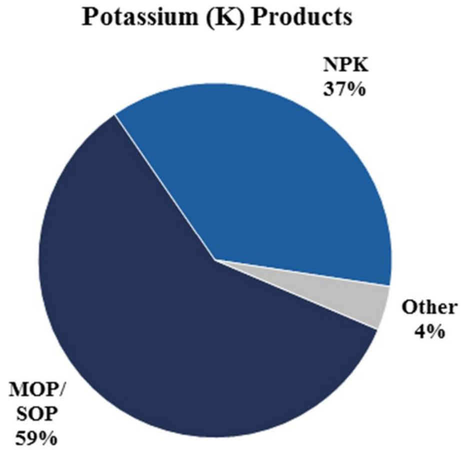
*Source: Prud'homme, IFA.*

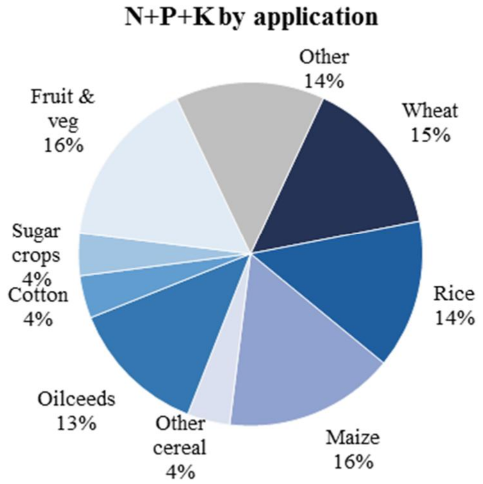
The main nitrogen, phosphate and potash based products are urea, DAP and MOP, respectively. These are key products to follow price developments for the corresponding fertiliser segment.




*Source: IFA, Yara Fertiliser Industry Handbook 2018.*



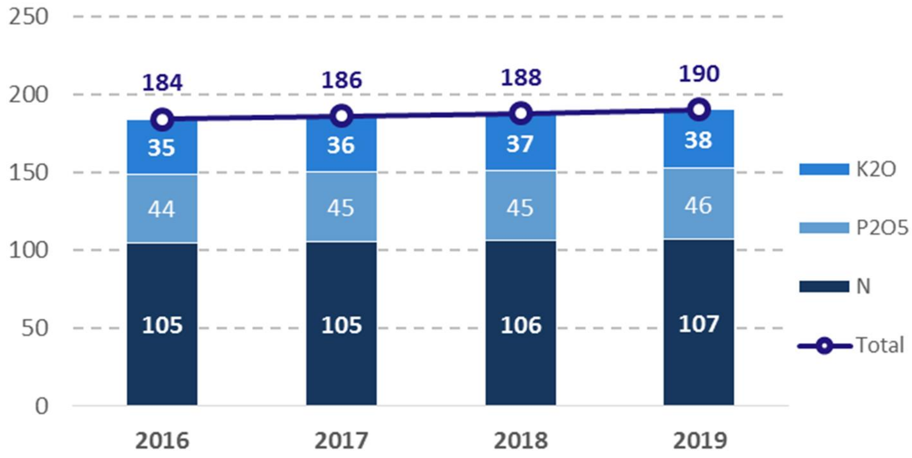




*Source: IFA, Yara Fertiliser Industry Handbook 2018.*

In 2018, the IFA estimated global fertiliser consumption at 187.9 million tonnes of nutrient, including 56 per cent. N, 24 per cent. $P_2O_5$, and 20 per cent. $K_2O$. Grains are the largest end-market for fertilisers with wheat, corn, and rice consuming over 45 per cent. of all fertilisers used in agriculture.

*Fertiliser consumption*

The following chart sets forth fertiliser consumption (in MMT, nutrient):




Source: IFA.

Demand for fertilisers is significantly dependent on the demand for crops and foodstuff, changes in which are reflected by population growth and the dietary shifts within populations brought on by economic growth. Given limitations in available arable land, fertilisers play a key role in the drive to improve both the quality of the harvest and crop yields per acre. Putting further pressure on crop yields is the quest for renewable energy, which over the last few years has been displacing acreage traditionally used for crops in favour of biofuel production, especially in the United States.

**Fertiliser Supply Trends**

According to estimates from CRU, global production of urea was 162 million tonnes in 2018, which represented an insignificant increase of 0.1 per cent. compared to 2017. The three main urea producing countries were China, India and Russia (82.3 million metric tonnes, or 50.8 per cent.) whose production volumes were 49.8 million metric tonnes, or 30.7 per cent. of global urea production, 24.4 million metric tonnes, or 15.1 per cent. and 8.2 million metric tonnes, or 5.1 per cent., respectively. Production in China decreased by 7.6 per cent. in 2018 primarily due to a combination of higher production costs and more stringent environmental regulations and monitoring.

CRU estimated global MAP/DAP production at 59.7 million metric tonnes in 2018, which represented a 2.5 per cent. decline compared to 2017. In 2018, MAP/DAP production in China, which represents 41.8 per cent. of global MAP/DAP production, declined by 4.6 per cent to 24.9 million metric tonnes.

According to CRU estimates, global MOP production was 66.8 million metric tonnes, which represents a 1.5 per cent. increase compared to 2017. The three main MOP producing countries were Canada, Russia and Belarus (45.3 million metric tonnes, or 67.8 per cent.) whose production volumes were 21.4 million metric tonnes, or 32.1 per cent. of global MOP production, 12.5 million metric tonnes, or 18.7 per cent. and 11.3 million metric tonnes, or 16.9 per cent., respectively.

| | Main regions of fertiliser production | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | (MMT) | (% of global production) | (MMT) | (year-on-year change, %) |
| **Ammonia** | | | | |
| China | 53.7 | 29.5 | 56.3 | (4.6) |
| Russia | 17.8 | 9.8 | 17.0 | 5.0 |
| US | 15.9 | 8.7 | 14.0 | 13.3 |
| **World total** | **181.8** | **100** | **179.6** | **1.2** |
| **Urea** | | | | |
| China | 49.8 | 30.7 | 53.9 | (7.6) |
| India | 24.4 | 15.1 | 23.7 | 2.8 |
| Russia | 8.2 | 5.1 | 7.9 | 3.4 |
| **World total** | **162.0** | **100** | **161.8** | **0.2** |
| **MAP/DAP** | | | | |
| China | 24.9 | 41.8 | 26.1 | (4.6) |
| US | 7.4 | 12.4 | 8.6 | (13.7) |
| Morocco | 5.9 | 9.8 | 5.3 | 10.3 |
| | **59.7** | **100** | **61.2** | **(2.5)** |
| **Potash (KCL)** | | | | |
| Canada | 21.4 | 32.1 | 20.8 | 3.1 |
| Russia | 12.5 | 18.7 | 12.1 | 3.3 |
| Belarus | 11.3 | 16.9 | 11.6 | (2.0) |
| **World total** | **66.8** | **100** | **65.8** | **1.5** |

*Source: CRU.*

Lower urea and MAP/DAP output from Chinese producers was mitigated by the commissioning of additional capacity and higher levels of production in other regions.

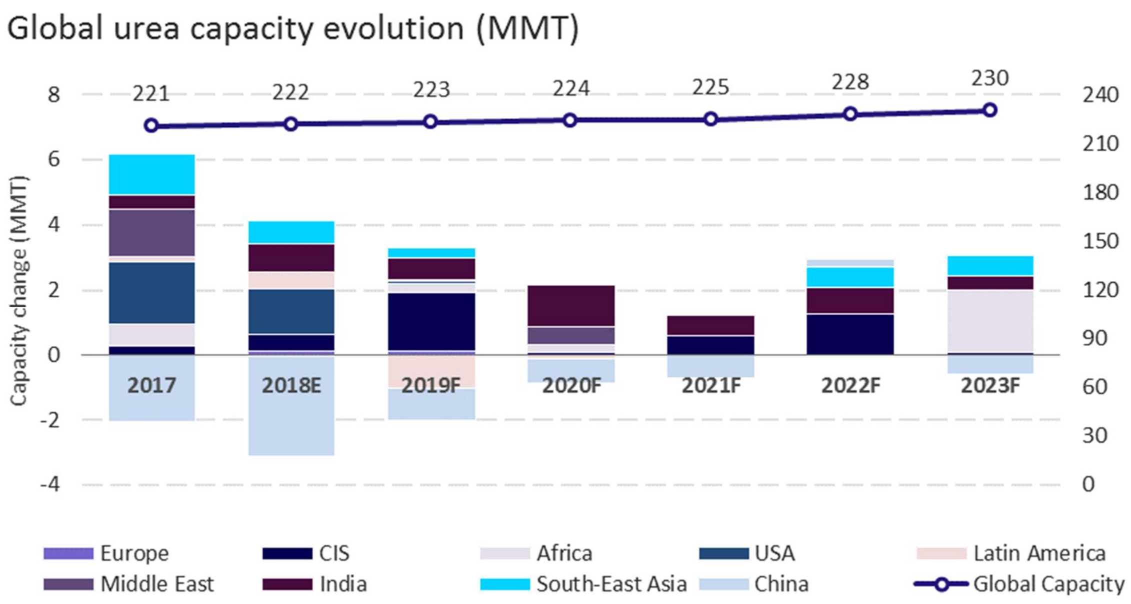
*Fertiliser Capacity Development*

*Nitrogen - urea*

According to CRU estimates, annual urea capacity increased by 1.0 million metric tonnes in 2018, pushing global capacity to 221.6 million metric tonnes. While a further increase by 1.3 million metric tonnes of urea capacity is planned for commissioning in 2019, the rate of capacity growth is expected to decline by 2021.

| | Urea capacity change | | | | | | |
|---|---|---|---|---|---|---|---|
| **Region** | **2017** | **2018** | **F2019** | **F2020** | **F2021** | **F2022** | **F2023** |
| | | | | (KMT, product) | | | |
| Europe | 0 | 105 | 105 | 0 | 0 | 0 | 0 |
| CIS | 282 | 501 | 1,829 | 55 | 577 | 1,238 | 66 |
| Africa | 660 | 0 | 264 | 264 | 0 | 0 | 1,931 |
| USA | 1,924 | 1,440 | 58 | 0 | 0 | 0 | 0 |
| Latin America | 171 | 512 | -1,044 | -108 | 0 | 0 | 0 |
| Middle East | 1,433 | -48 | 54 | 536 | 0 | 0 | 0 |
| India | 433 | 867 | 660 | 1,295 | 635 | 847 | 423 |
| **Total annual change (net)** | **4,629** | **1,028** | **1,298** | **1,282** | **483** | **2,938** | **2,463** |
| **Global urea capacity (MMT)** | **220.6** | **221.6** | **222.9** | **224.2** | **224.7** | **227.6** | **230.1** |

*Source: CRU.*




*Source: Fertecon.*

*Phosphates - DAP/MAP*

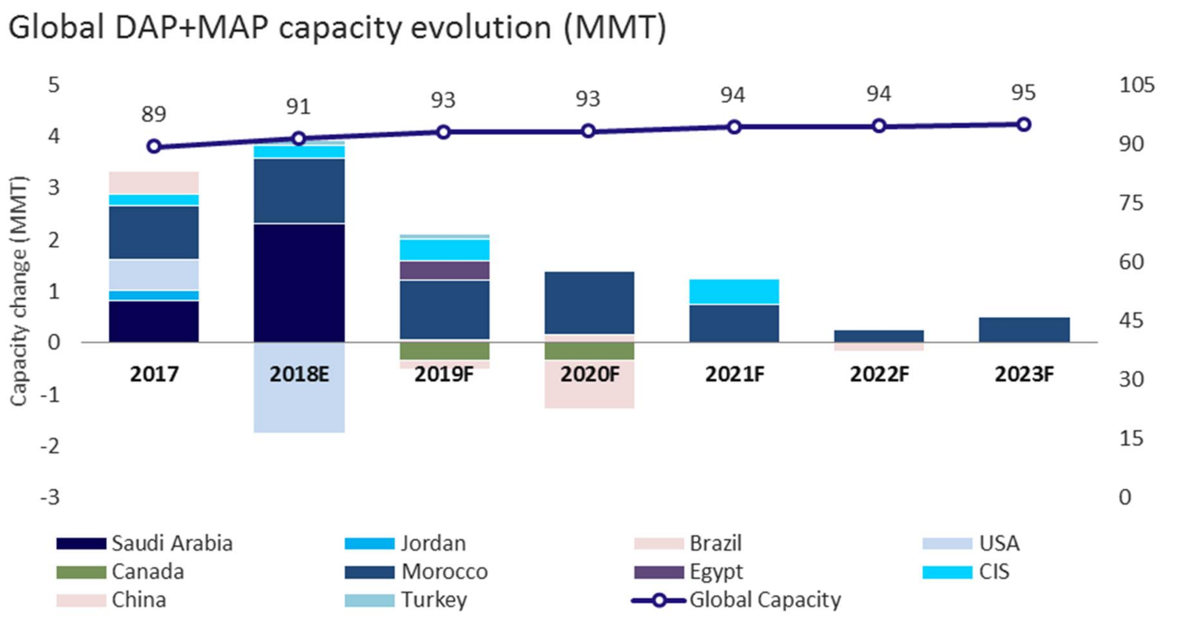
According to CRU data, global MAP/DAP production capacity increased in 2018, to 91.3 million metric tonnes. Following the two consecutive years of growth, MAP/DAP capacity is expected to increase by approximately 1.6 million metric tonnes in 2019 due to commissioning of projects in Morocco and Egypt. A further production capacity increase by 0.2 million metric tonnes (net of closures) is expected in 2020.

| | DAP capacity change | | | | | | |
|---|---|---|---|---|---|---|---|
| **Country** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** |
| | | | | *(KMT, product)* | | | |
| Russia | 52 | 89 | 126 | 13 | 0 | 0 | 0 |
| Egypt | 0 | 0 | 360 | 0 | 0 | 0 | 0 |
| Morocco | 432 | 666 | 598 | 625 | 375 | 200 | 400 |
| USA | 0 | -1,543 | 0 | 0 | 0 | 0 | 0 |
| Jordan | 196 | 0 | 0 | 0 | 0 | 0 | 0 |
| Saudi Arabia | 750 | 2,087 | 0 | 0 | 0 | 0 | 0 |
| Turkey | 0 | 100 | 100 | 0 | 0 | 0 | 0 |
| China | 1,154 | 0 | 0 | -350 | 0 | 0 | 0 |
| **Total annual change (net)** ......................... | **2,584** | **1,398** | **1,184** | **288** | **375** | **200** | **400** |
| **Global DAP capacity (MMT)** .................. | **53.3** | **54.7** | **55.9** | **56.2** | **56.6** | **56.8** | **57.2** |

*Source: CRU.*

| | MAP capacity change | | | | | | |
|---|---|---|---|---|---|---|---|
| **Region** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** |
| | | | | *(KMT, product)* | | | |
| CIS | 163 | 173 | 295 | 13 | 500 | 0 | 0 |
| Morocco | 606 | 596 | 587 | 625 | 375 | 50 | 100 |
| Canada | 0 | 0 | -332 | -332 | 0 | 0 | 0 |
| USA | 602 | -202 | 0 | 0 | 0 | 0 | 0 |
| Brazil | 0 | 0 | 48 | 144 | 0 | 0 | 0 |
| Saudi Arabia | 75 | 216 | 0 | 0 | 0 | 0 | 0 |
| China | -710 | 0 | -192 | -592 | 0 | -169 | 0 |
| **Total annual change (net) ....................** | **737** | **784** | **406** | **-141** | **875** | **-119** | **100** |
| **Global MAP capacity (MMT).............** | **35.8** | **36.6** | **37.0** | **36.8** | **37.7** | **37.6** | **37.7** |

*Source: CRU.*



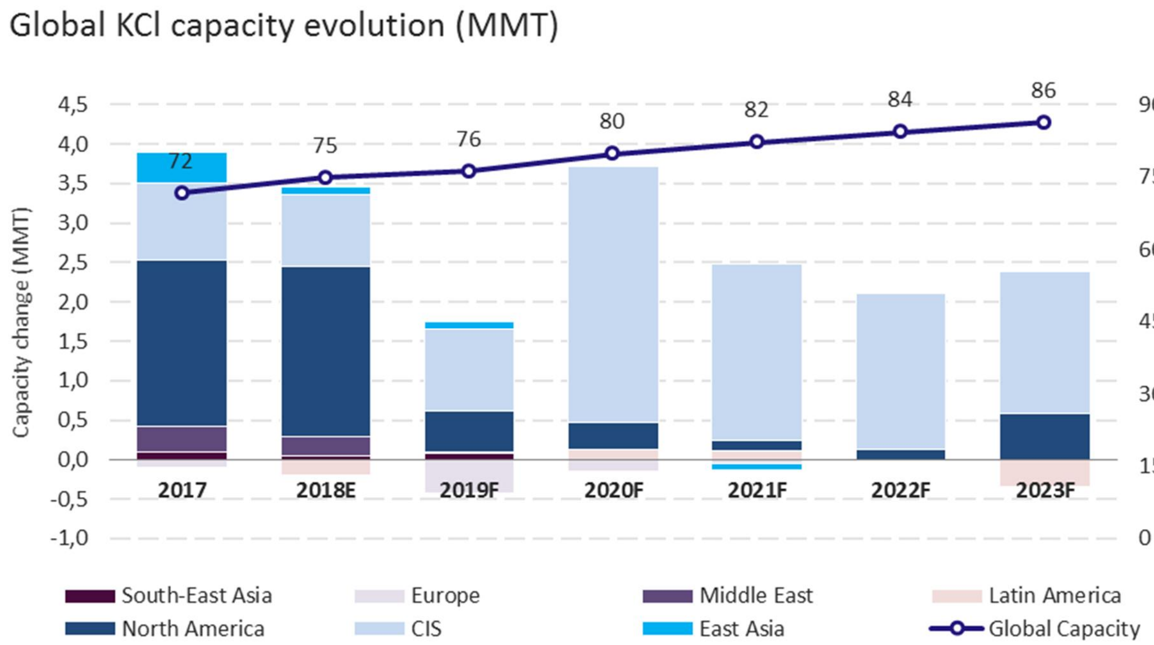

*Source: CRU.*

*Potash - MOP*

According to CRU data, global MOP production capacity increased in 2018, to 74.9 million metric tonnes. Following this growth, MOP capacity is expected to increase by approximately 1.3 million metric tonnes in 2019 due to commissioning of projects in CIS region. A further production capacity increase by 3.6 million metric tonnes is expected in 2020.

| | KCl effective capacity change | | | | | | |
|---|---|---|---|---|---|---|---|
| **Region** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** |
| | | | | *(KMT, product)* | | | |
| Europe | -105 | 3 | -433 | -143 | -48 | 0 | 0 |
| CIS | 969 | 912 | 1,040 | 3,242 | 2,250 | 1,980 | 1,800 |
| North America | 2.,115 | 2,170 | 510 | 339 | 126 | 126 | 585 |
| Latin America | 0 | -201 | 30 | 130 | 108 | 0 | -344 |
| Middle East | 319 | 240 | 0 | 0 | 0 | 0 | 0 |
| East Asia | 399 | 84 | 105 | 0 | -84 | 0 | 0 |
| South-East Asia | 96 | 40 | 72 | 0 | 0 | 0 | 0 |
| **Total annual change (net)** | **3,793** | **3,248** | **1,325** | **3,568** | **2,352** | **2,106** | **2,041** |
| **KCl effective capacity (MMT)** | **71.7** | **74.9** | **76.2** | **79.8** | **82.2** | **84.3** | **86.3** |

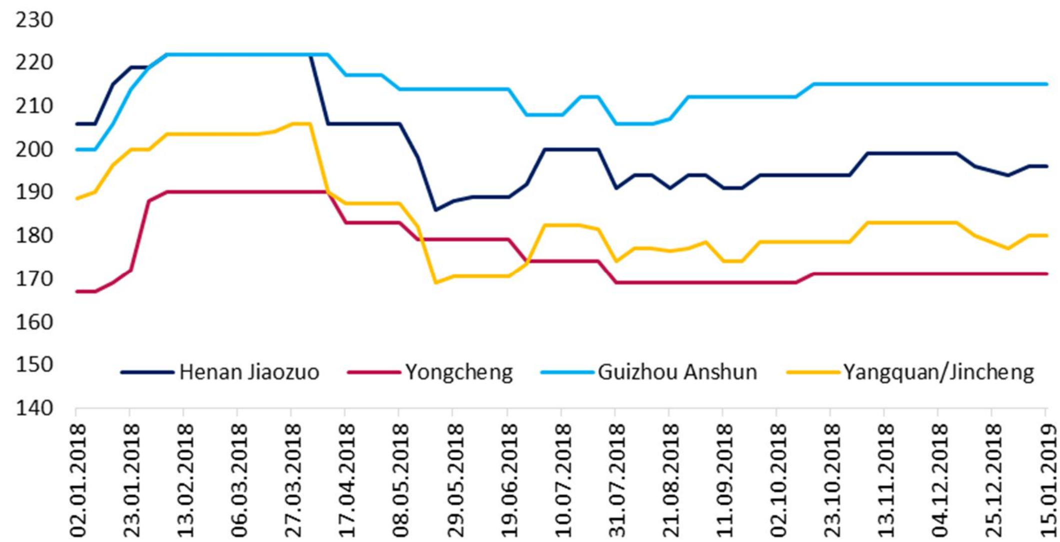
*Source: CRU.*



*China*

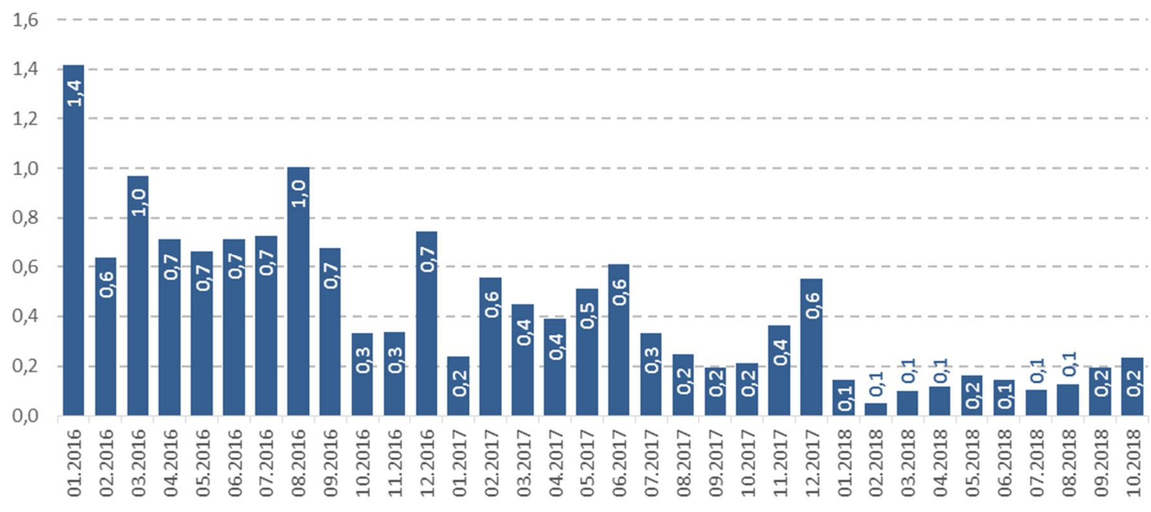
China has the largest urea and MAP/DAP production capacity globally. Chinese capacity movements influence global fertiliser markets. The increasing pressure on production costs and stricter environmental regulation were primarily responsible for the decrease in urea production in China in 2018.

Chinese urea and MAP/DAP production facilities primarily use coal as energy source. Changes in coal prices, such as in 2018, can adversely affect production output in China.

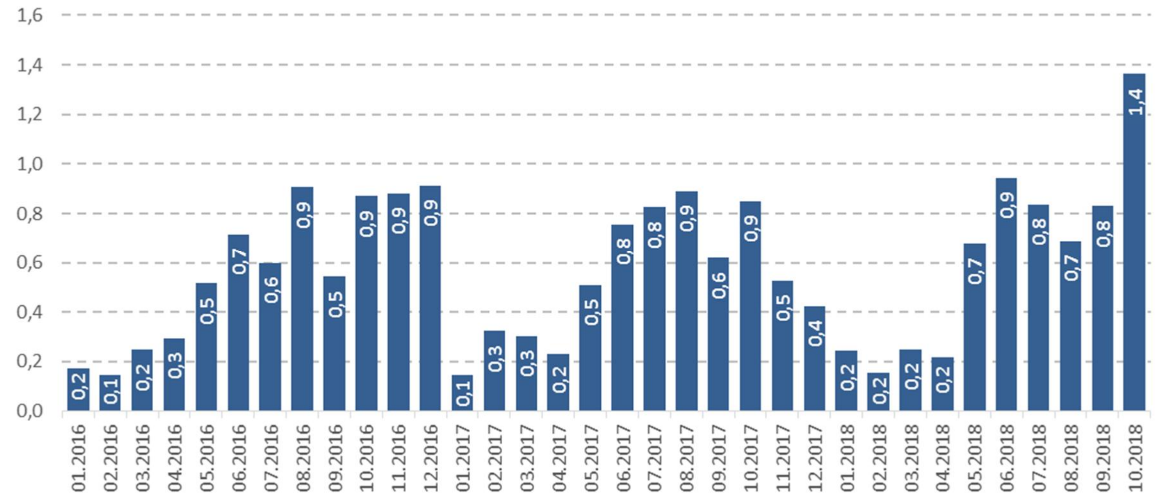



*Source: China Fertilizer Market Weekly.*

An increase in the price of coal in China resulted in an increase in prices of fertilisers produced by Chinese plants using coal as energy source and resulted in a decrease in exports of urea and somewhat limited significant export growth of MAP/DAP from China.




*Source: China Customs.*




---

*Source: China Customs.*

## Fertiliser Demand Trends

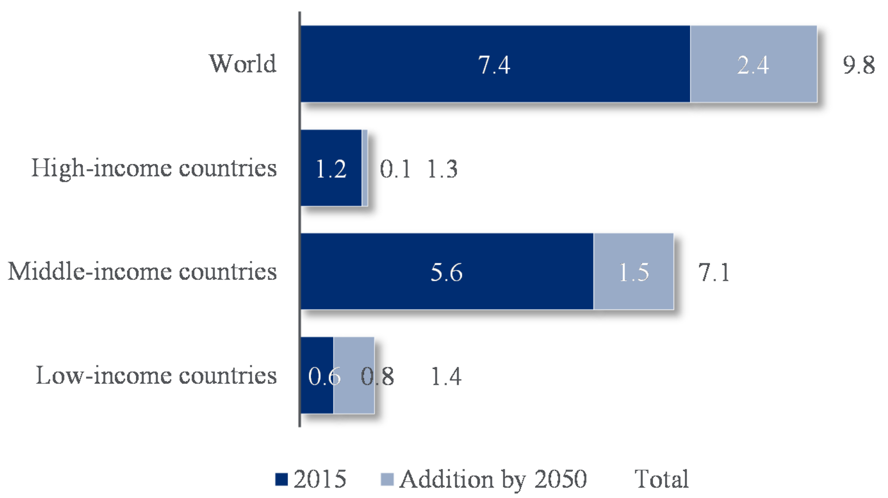
*Population growth*

Global population growth continues to act as the principal long-term driver behind global fertiliser demand. Feeding the world's growing population is an ongoing – and formidable – long-term challenge. It is made more complex by increasing pressures on limited arable land and more frequent extreme weather events.

With the world's population growing by more than 200,000 every day, the UN estimates it will total 9.8 billion by 2050 implying a higher burden on the required growth rate of food production. Improved trade links and better crop yields could help to close any potential gaps and meet the demand.

The following chart presents global population in 2015 and the expected addition by 2050:

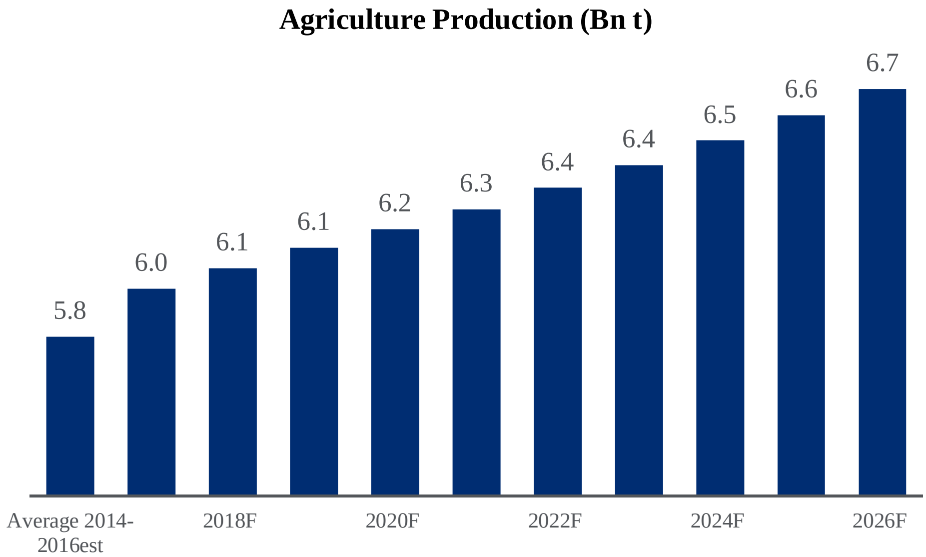
**Global Population (Bn)**




---

*Source: UN World Population Prospects Report.*

The following chart presents agriculture production of cereals (including wheat, maize, rice, other coarse grains), oilseeds (including soybean, vegetable oils, protein meals, other oilseeds) and sugar (including sugar, sugarbeet, sugarcane):




*Source: FAO-OECD Agricultural Outlook 2017-2026.*

*Soil productivity*

Increasingly intensive farming methods have a direct impact on soil fertility. The loss of topsoil to erosion also contributes to a loss in soil nutrients, which leads to a decline in potential crop yield. Fertilisers play a vital role in replenishing nutrients lost to intensive agriculture and shorter fallow periods. It is widely acknowledged however, that a combination of improved management, advanced products and more precise application is required to drive better yields.

*Dietary shifts*

Growing prosperity leads to significant dietary changes. The populations of emerging economies increasingly demand protein-rich foods such as red meat, poultry and dairy products, which are resource-intensive to produce. At the same time, the amount of food consumed in developed countries has also risen.

Global meat and fish consumption is expected to grow by 15 per cent. by 2027, while per capita consumption rises by only 3 per cent. with stark variations across regions. The strongest per capita consumption of meat in absolute terms is expected in the developed world (+2.9 kg/capita by 2027), while least developed countries may add moderate 0.3 kg/capita due to slow growth in disposable income. Meat and dairy are resource-intensive sources of protein and approximately 37 per cent. of global cereal output is used annually to produce animal feed, according to OECD-FAO Agricultural Outlook 2016-2025.

In addition to population growth, changing consumption patterns are requiring more food to be grown. Developing economies, excluding the least developed, exhibit the greatest increase in total caloric intake per capita, rising to almost 2,800 kcal per person per day by 2024, only marginally below the caloric intake projected for developed regions, where further expansion of total caloric intake remains limited.

The following table sets forth global and regional per capita food consumption (kcal per capita per day):

| Region | 1984 - 1986 | 1997 - 1999 | 2015 | 2030 |
|---|---|---|---|---|
| World | 2,655 | 2,803 | 2,940 | 3,050 |
| Developing countries | 2,450 | 2,681 | 2,850 | 2,980 |
| Near East and North Africa | 2,953 | 3,006 | 3,090 | 3,170 |
| Sub-Saharan Africa(1) | 2,057 | 2,195 | 2,360 | 2,540 |
| Latin America and the Caribbean | 2,689 | 2,824 | 2,980 | 3,140 |
| East Asia | 2,559 | 2,921 | 3,060 | 3,190 |
| South Asia | 2,205 | 2,403 | 2,700 | 2,900 |
| Industrialised countries | 3,206 | 3,380 | 3,440 | 3,500 |
| Transition countries | 3,379 | 2,906 | 3,060 | 3,180 |

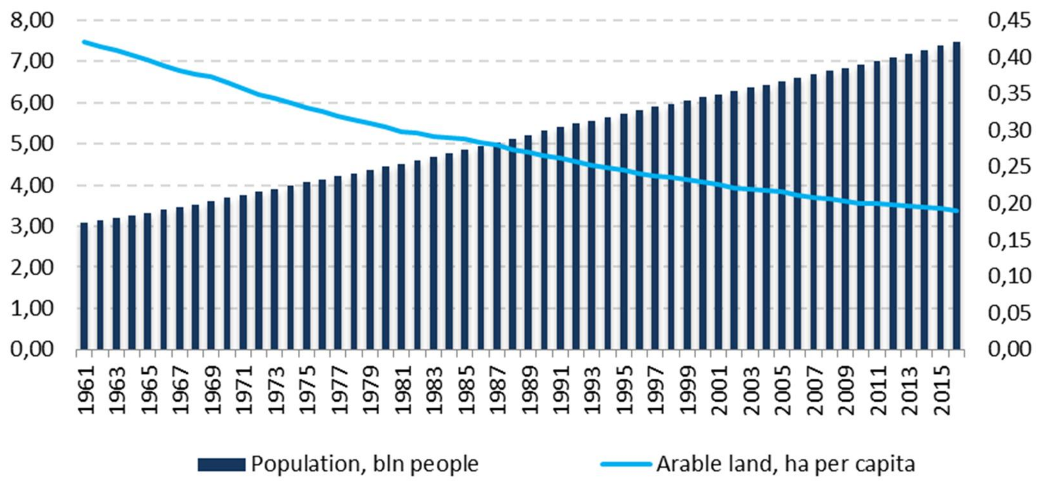
(1) Excludes South Africa.

*Source: FAO.*

*Arable land per capita shrinking*

The amount of land that can be used for farming is limited. Between 1961 and 2016, while the global population increased by over 140 per cent., arable land increased by only 10 per cent., according to FAOSTAT. This diverging trend signifies that if one hectare of land fed 2 people in 1961, that same hectare must now feed more than 5 people.

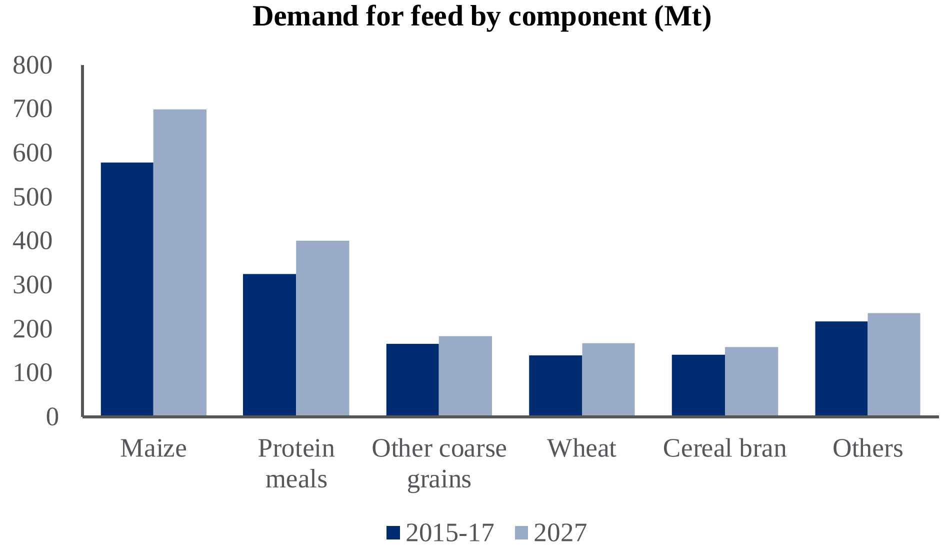
The following chart sets forth world population (left axis) and arable land per capita (right axis) evolution:




*Source: FAO.*

*Non-food uses*

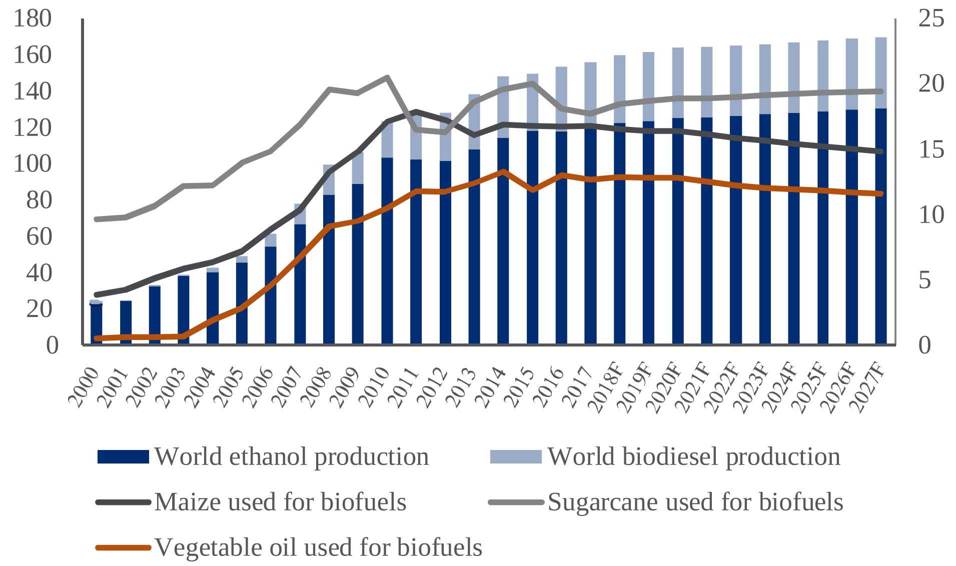
While the demand for food is a primary determinant of overall demand for majority of agricultural commodities, non-food uses, particularly feed and fuel, also constitute important drivers. Non-food uses often demonstrate faster growth rates than food demand, which is expected to remain true for feed in the coming decade.




*Source: OECD-FAO Agricultural Outlook for 2018-2027.*

Biofuels in turn were among the major factors facilitating demand for agricultural commodities over the past decade, however the growth is expected to slow down and stabilize in the coming decade, while remaining sensitive to changes in the policy environment.

The following chart presents world ethanol and biodiesel production (left axis, Bn L) and proportion of biofuels in total use of Maize, Sugarcane and Vegetable oil (right axis, per cent.):

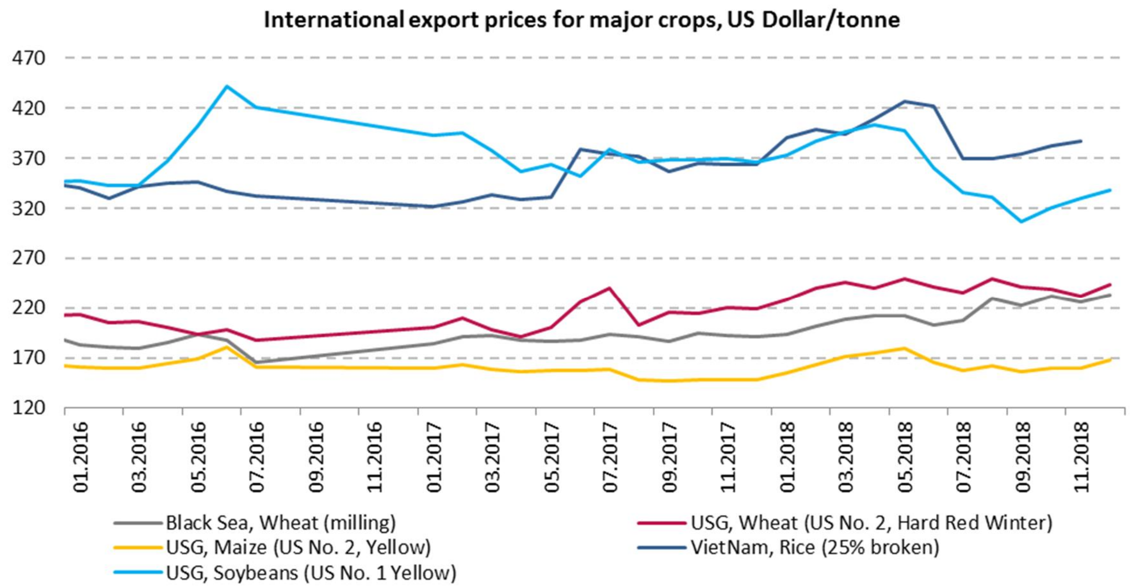



*Source: OECD-FAO Agricultural Outlook for 2018-2027.*

Soft commodity prices are the main drivers behind the short-term demand and subsequent financial performance of fertiliser producers. Higher soft commodity prices incentivise farmers to increase both acreage and yield.

**Crop prices and production costs**

The following chart set forth crop historical price dynamics:



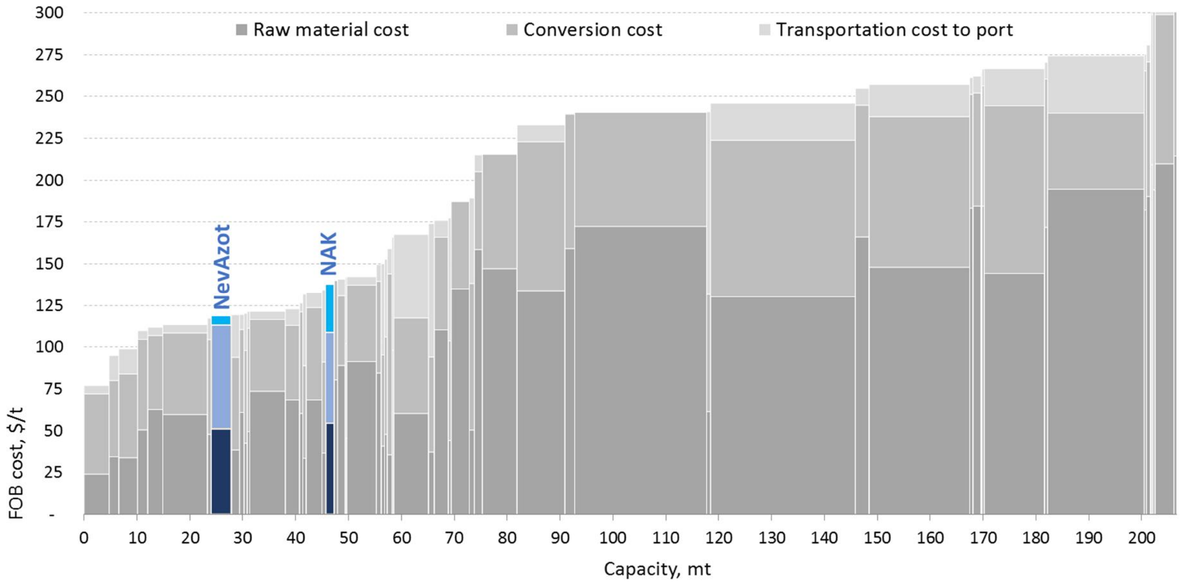

*Source: FAO.*

Population expansion and economic growth are likely to push the cost of food up over the next decade, according to the FAO. With food producers also facing the challenges of energy price volatility and natural resource constraints, the use of new fertiliser compounds and technologies will deliver improvements in crop productivity.

*Production costs*

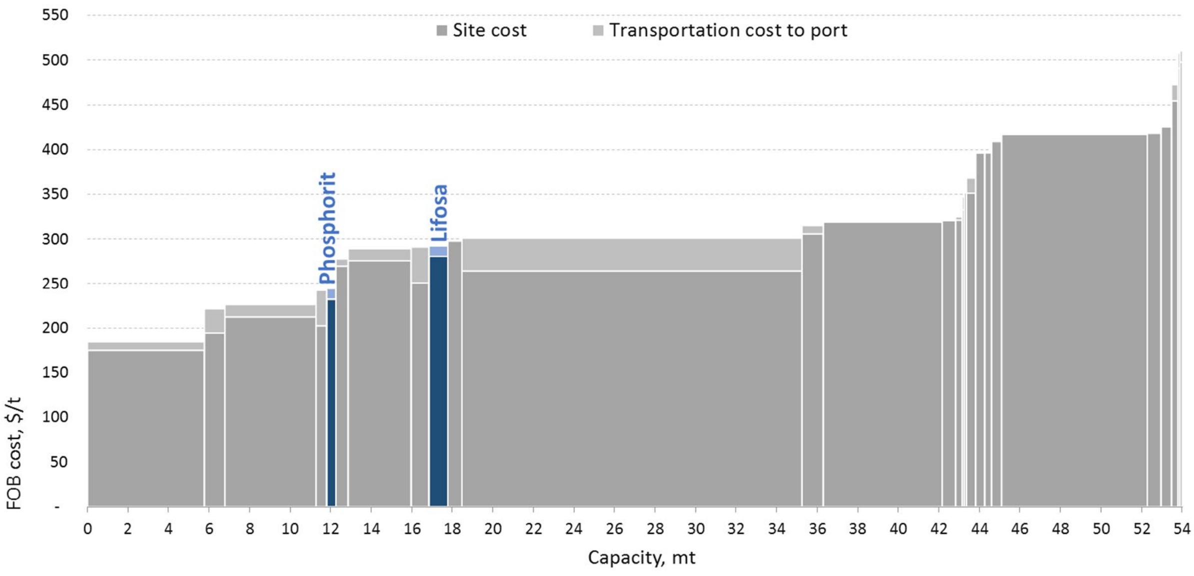
Although nitrogen and phosphate supply from low cost gas production regions (such as the Middle East and North America for nitrogen or the Middle East and Northern Africa for phosphate) resulted in a flatter global cost curve, favourable currency exchange rates continued to have a positive effect on the Group's urea and DAP/MAP production costs. Cost curve on the potash market is also rather flat due to further devaluation of EM currencies as well as capacity optimisations in Canada after the merger of PotashCorp and Agrium into Nutrien. Still, the Group has a leading position on the potash cost curve.

The following chart set forth an urea global export cost curve:



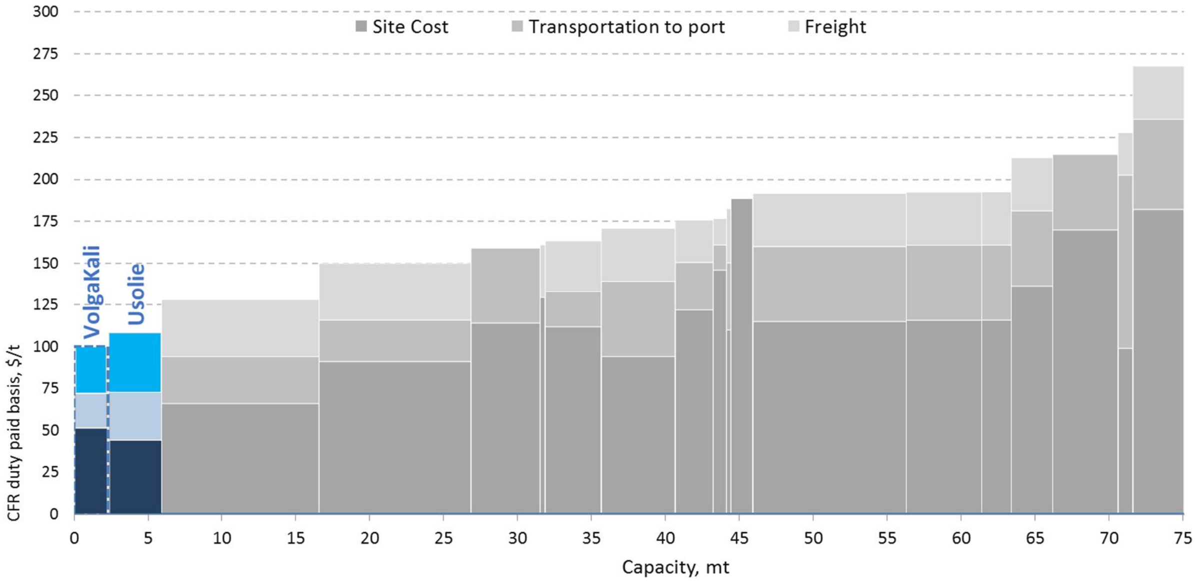

*Source: Company data as at 31 December 2018.*

The following chart presents a DAP global export cost curve:




*Source: Company data as at 31 December 2018. Cost of DAP production in relation to Lifosa is shown on the basis of its own resources.*

The following chart presents a MOP global export cost curve:



## REGULATION OF MINING AND MINERAL INDUSTRY IN RUSSIA

### Applicable Laws, Rules and Regulations

Russia has not enacted any specific legislation governing the fertiliser industry or the activities of mineral fertiliser producers. The production, sale and distribution of mineral fertilisers in the Russian Federation are regulated by general civil legislation and special legislation relating to quality standards, industrial safety rules, the environment and other issues.

The legislation regulating mining, processing and the use of minerals in Russia is based on the Russian Constitution and Law No. 2395-1 "On Subsoil" dated 21 February 1992, as amended (the "**Subsoil Law**"). The Subsoil Law allocates jurisdiction in the mining sector between federal, regional and local authorities, sets out the basic principles and features of the licence-based regulatory framework, and outlines the rules governing the issuance, transfer, suspension and termination of subsoil licences and subsoil use. There are also a number of regulations issued by the Russian federal government through its ministries and agencies that regulate certain aspects of mineral mining.

On 8 April 2014, the Ministry of Industry and Trade of the Russian Federation ("**Minpromtorg**") and the Ministry of Energy of the Russian Federation enacted the "Strategy for Development of the Chemical and Petrochemical Industry until 2030". This document, among other things, determines key ways to develop the chemical industry and sets out steps to implement them. It also proposes measures aimed at phasing out imports in the chemical and petrochemical sectors, increasing the industry's production capacity, enhancing the quality of life of the general population by attaining a level of consumption of chemical and petrochemical products on par with other industrially developed countries, creating new high-efficiency workplaces in the chemical industry and transferring to an economic model based on innovation and investment.

Federal Law No. 184-FZ "On Technical Regulation" dated 27 December 2002, as amended (the "**Technical Regulation Law**"), sets forth rules and requirements relating to the development, enactment, application and enforcement of mandatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation.

On 18 May 2016, the Government of the Russian Federation approved the "Plan for Implementation of the strategy for Development of the Chemical and Petrochemical Industry until 2030". The Plan provides for technical upgrade and modernisation of existing chemical and petrochemical production facilities in the period from 2016 to 2030, as well as construction of new cost effective, resource-and energy-saving and environmentally-friendly facilities. The plan is aimed at boosting the domestic demand for products of Russia's chemical and petrochemical industry.

### Federal, Regional and Local Regulatory Authorities

At the federal level, regulatory supervision over the Group's operations is divided primarily among the Russian Government, the Ministry of Economic Development, the Ministry of Natural Resources and Environment and Minpromtorg. The Russian Government ensures the implementation of a general state policy in the area of geological study, use and trade of nitrogen and phosphate fertilisers; it also determines licensing procedures for the use of subsoil in connection with the exploration and extraction of natural resources. The Ministry of Economic Development is responsible for encouraging investment, foreign trade and support of scientific research. The Ministry of Natural Resources and Environment is responsible for the development of government policy and regulation in the sphere of exploration, use, restoration and protection of natural resources and environment. Minpromtorg is responsible for the development of government policy in the areas of industrial development, energy consumption effectiveness, standardisation and metrology.

The federal ministries in Russia are not, however, responsible for compliance control or management of state property and provision of state services, which is within the jurisdiction of federal services and federal agencies, respectively. The main Federal services and agencies that regulate the Group's operations in Russia include: Rosnedra, the Federal Supervisory Natural Resources Management Service ("**Rosprirodnadzor**"), the Federal Service for Environmental, Technological and Nuclear Supervision ("**Rostekhnadzor**"), the Federal Service for Supervision of Consumer Rights Protection and Human Welfare ("**Rospotrebnadzor**"), the Federal Labour and Employment Service ("**Rostrud**"), and the Federal Agency for Technical Regulation and Metrology ("**Rosstandart**").

In particular, Rosnedra issues and oversees subsoil licences, approves project design documentation for geological exploration and controls protection of subsoil and implementation of geological exploration.

Rosprirodnadzor issues and oversees environmental permits and licences, establishes limits for waste disposal, monitors and enforces compliance with emission and waste management standards, and provides official ecological examination of relevant project design documentation.

Rostekhnadzor oversees and enforces compliance with certain mandatory industrial safety rules, which include safety procedures relating to the installation, deployment and operation of technical devices and machinery used in the Group's business, and the production and technological processes. It also (i) issues licences for certain industrial activities and activities relating to safety and environmental protection, such as licences for exploitation of inflammable facilities and conduct of operations involving the use of explosives, surveyors' works and use of dangerous wastes and (ii) maintains a register of dangerous facilities.

Rospotrebnadzor oversees and enforces compliance with public health and safety standards as well as consumer rights protection.

Rostrud controls and enforces compliance with labour legislation and occupational health and safety standards.

Rosstandart determines and oversees compliance with mandatory general technical and industrial standards (where applicable) and implements technical regulations.

The FAS implements the state policy relating to promoting the development of the commodity markets and competition, enforcing antimonopoly legislation, and preventing and curbing anti-competitive behaviour, unfair competition practices and other actions restricting competition. The FAS, among other things, oversees acquisitions of controlling stakes in companies meeting certain criteria and the achievement of dominant market position by business enterprises.

In addition to the above-listed federal executive bodies, which are directly involved in the supervision and regulation of the Group's business, there are a number of other governmental bodies and agencies with authority over general issues relating to EuroChem's business, including the Ministry of Justice of the Russian Federation, and transportation and tax collection agencies.

Under the Subsoil Law, the jurisdiction of the regional authorities in the exploration industry includes, among other things, establishment and execution of local programmes aimed at the development of subsoil plots in the region, maintenance a local database of geological information, the establishment of state funds of mineral resources for the Russian regions, and regulation, along with federal authorities, of the activities of organisations in the mining industry within the territory of the relevant constituencies of the Russian Federation.

In addition, regional and local authorities control land-use allocations and exercise certain taxation powers.

**Licensing**

EuroChem is required to obtain licences, permits and authorisations from Russian governmental authorities to conduct its operations. Federal Law No. 99-FZ "On Licensing of Certain Types of Activities" dated 4 May 2011, as amended (the "**Licensing Law**"), and other laws and regulations list activities which can only be performed under a licence and/or a permit issued by the relevant Russian authorities and establish the procedures for the issuance of such licences. In order to conduct its operations, the Group requires licences and permits for, among other things:

- exploration, evaluation and development of subsoil deposits, as described in more detail in "– *Subsoil Licensing*";
- use of water resources;
- pollutant emissions into the environment;
- handling of waste (generation, collection, transportation, storage, processing, disposal and recycling);
- the storage and use of explosive materials;
- the operation of explosive, flammable and chemically hazardous production facilities (explosives, chemicals and fire hazards); and
- transportation of hazardous materials by railway or river and sea transport.

Under the licensing regulations and the terms of its licences and permits, EuroChem must comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality control, maintain insurance coverage, monitor operations, make appropriate filings and, upon request, submit information requested by the licensing authorities that oversee and inspect its activities. A licence may be suspended in case of (i) imposition of administrative sanctions on the licensee for a gross breach of licensing requirements; and (ii) administrative suspension of activities for gross breach of the licensing requirements. A licence may also be cancelled by the court in case of repeated breach of the licensing requirements after suspension of the licence.

According to the Urban Planning Code of the Russian Federation No. 190-FZ dated 29 December 2004, as amended, design, construction and reconstruction of permanent structures and facilities, including those used in mining, are subject to permits for construction and review of the design documentation by the respective authorities and commissioning permits.

*Subsoil Licensing*

*Overview*

Each mining operation requires a subsoil licence issued by Rosnedra with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the subsoil plot where such licensed mineral deposit is located. In addition, operating permits are required for specific mining activities.

Subsoil licences are issued in accordance with the Subsoil Law, the Russian Civil Code and the Procedure for the Licensing of Subsoil Use adopted by Resolution of the Supreme Soviet of the Russian Federation No. 3314-1 dated 15 July 1992, as amended. A licence granted under the Subsoil Law is accompanied by a licensing agreement, which sets out the terms and conditions for use of the subsoil.

There are two main types of licences related to the extraction of minerals: general geological exploration licence and mining licence. A general geological exploration licence allows its holder to conduct deposit exploration and evaluation. This licence only allows to conduct exploration of those mineral resources that are specified in the licence. It does not provide for any priority to the holder of an exploration licence in obtaining a mining licence. A mining licence allows its holder to conduct a detailed exploration and development of deposits. It also allows to conduct waste treatment (relating to waste generated by mining operations and related facilities) unless otherwise is stated in the licence. A licence for detailed exploration is not issued separately and the right to conduct detailed exploration is covered by the mining licence. In practice, combined licenses for general and detailed geological exploration and mining may be issued. The boundaries of a licensed area are set out in the licence (and expressed in terms of latitude, longitude and depth). Currently, mining licences and combined exploration and mining licences are awarded by tender or auction conducted by special auction commissions of Rosnedra. While such auction or tender may involve a representative of the relevant region, a separate consent of regional authorities is generally not required in order to issue subsoil licences. The winning bidder in a tender is selected in particular on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets the published tender terms and conditions. At an auction, the success of a bid is determined by the attractiveness of the financial proposal. A general geological exploration licence may be issued without holding an auction or tender, for example, pursuant to an application made by the interested party, if there are no discovered reserves or mineral resources in the targeted area, or in some other limited cases (wings of the deposit under development and layers beneath and above the deposit). Regional authorities may issue production licences for “common” mineral resources, such as clay, sand or limestone. The Russian Government may establish certain limits for companies with foreign ownership on participation in the auctions at which licences for exploration of subsoil plots of federal significance are awarded.

Pursuant to the Subsoil Law, a subsoil plot is provided to a subsoil user as a “mining allotment”, i.e. a geometric block of subsoil. Preliminary mining allotment boundaries are determined at the time the licence is issued. Exact mining allotment boundaries are established upon the approval of a development plan by a special commission comprised of representatives from the Ministry of Natural Resources and Environment, Rosnedra, Rosprirodnadzor and Rostekhnadzor. These exact boundaries are certified in the mining allotment plan issued to the licensee thereafter. The exact mining allotment boundaries are incorporated into the licence as an integral part. Pursuant to Resolution No. 118 of the Russian Government dated 3 March 2010, the special commission, and, in certain cases, local authorities have the authority to approve development plans. In addition, a development plan provides for other material issues relating to the development of the deposits, including, *inter alia*, safety and environmental measures, sustainable utilisation of deposits, conservation and liquidation procedures and reclamation of land.

The term of each licence is set forth in the licence. Prior to January 2000, exploration licences had a maximum term of five years, mining licences a maximum term of 20 years, and combined exploration, evaluation and mining licences a maximum term of 25 years. Following the amendment of the Subsoil Law in January 2000, ordinary exploration licences now have a maximum term of five years; mining licences are generally granted for a term of the expected operational life of the field based on a feasibility study; and combined licences can be issued for the term of the expected operational life of the field based on a feasibility study. In addition, the licence for the extraction of the subsoil waters is granted for a 25-year period. These amendments do not affect the terms of licences issued prior to January 2000, but permit licensees to apply for extensions of such licences for the term of the expected operational life of the field, provided the licensee complies with the licence terms. The term of a subsoil licence runs from the date the licence is registered with Rosnedra.

A licensee has the right to develop and sell extracted mineral resources from the area indicated in the licence. The Russian Federation, however, retains ownership of all unextracted subsoil resources at all times, and the licensee only has rights to the minerals or other relevant types of mineral resources when extracted.

A subsoil exploration and production licence gives its holder exclusive subsoil use rights with respect to an identified licence area, including subsurface zones (however, land plots used for developing deposits are leased separately and in accordance with the Land Code) for the term of the licence.

*Extension of Licences*

The Subsoil Law permits a subsoil licensee to request an extension of a mining licence in order to complete the exploration or evaluation of the minefield, extraction from the subsoil plot covered by the licence or the procedures necessary to vacate the land once the use of the subsoil is complete, provided the licensee complies with the terms and conditions of the licence, the development plan and the relevant regulations.

To extend a subsoil licence the company must file an application with the local office of Rosnedra. In order for a licence extension application to be considered, the applicant must prepare technical documentation describing the exploration and extraction activities to be conducted at the underlying deposits. Such documentation must be prepared pursuant to the relevant regulations and approved by Rosnedra.

In practice, the factors that may affect a company's ability to obtain the approval of licence amendments include (i) its compliance with the licence terms and conditions, as well as with the development plan; and (ii) its management's experience and expertise relating to subsoil issues, including experience in amending licences. The Group is periodically checked for compliance by government authorities and has historically been in material compliance with its licences and development plans.

*Transfer of Licences*

Licences may be transferred only under certain limited circumstances that are set forth in the Subsoil Law, including, among others, the reorganisation or merger of the licensee or in the event that the initial licensee transfers its licence to a subsidiary or a newly established legal entity in which it has at least a 50.0 per cent. ownership interest, provided that the transferee possesses the equipment and authorisations necessary to conduct the exploration or extraction activity covered by the transferred licence. Licences may not be transferred to a company or group of companies owned by foreign entities which (i) directly or indirectly control 10.0 per cent of voting shares comprising the share capital of such company; (ii) determine the decisions taken by such company including terms and conditions of its business; and (iii) appoint the chief executive officer and/or more than 10.0 per cent of members of the board of directors (supervisory board) or other collective management board of such company. However, the Russian Government in some exceptional cases may approve the transfer of the licences to such company.

*Maintenance and Termination of Licences*

A licence sets out the terms and conditions for the use of the subsoil licence and certain environmental, safety and production commitments. Rosnedra and the licensee also enter into a licensing agreement where they may set out the expressly agreed additional terms, such as target extraction rates; conducting certain mining and other exploratory and development activities; protecting the environment in the licensed areas from damage; providing geological information and data to the local authorities and fulfilling specified commitments with respect to the social and economic development of the region. When the licence expires, the licensee must return the land to the condition required for its future use. Although most of the conditions set out in a licence are based on mandatory provisions contained in Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties.

If the subsoil licensee fails to fulfil the licence requirements, upon notice the licence may be terminated by the licensing authorities.

The Subsoil Law and other Russian legislation contain extensive provisions with respect to the limitation, suspension or termination of the rights of a subsoil user. A licensee can be fined or its rights may be limited, suspended or terminated for repeated breaches of the law, as a consequence of a direct threat to the lives or health of people working or residing in the local area or in the event of certain emergency situations. The rights of a subsoil user may also be limited, suspended or terminated for violations of material licence terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes or failure to commence operations in a timely manner have been common grounds for limitation, suspension or termination of the rights of a subsoil user. Consistent overproduction, underproduction or failures to meet financial obligations in respect of a project (pursuant to the licensing agreement) are also likely to constitute violations of material licence terms. In addition, certain licences provide that a licensee's failure to fulfil any of its obligations may constitute grounds for limitation, suspension or termination of the rights of a subsoil user.

The Group must comply with the Subsoil Law, including the provisions governing the use of subsoil, exploration and development of mineral resources. Pursuant to the terms of the Group's licences and its developments plans, tailings and waste produced during the extraction of ore must be adequately stored and re-processed if possible and commercially justified. The Group must also ensure deep processing of the extracted ore and provide geological information in respect of the deposits underlying the Group's licences to the regional department of the Russian Ministry of Natural Resources on a quarterly basis.

*Payments*

Payments with respect to the exploration, evaluation and extraction of minerals include: (i) payments for the use of subsoil under the Subsoil Law (which may include regular payments for exploration of minerals and certain one-off payments); and (ii) the mineral extraction tax under the Russian Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil licence.

**Land Use Rights**

Russian legislation prohibits any commercial activity, including mineral extraction activities, on a land plot without appropriate land use rights. Land use rights are generally obtained for only those parts of the licence area which are actually in use, including the plot being mined, access areas, and areas where other mining-related activity is being carried out.

Pursuant to the Land Code of the Russian Federation No.136-FZ dated 25 October 2001, as amended (the "**Land Code**"), companies generally have one of the following land rights in the Russian Federation: (i) ownership; (ii) lease; (iii) right of free use. The majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities, which can sell, lease or grant other land use rights to third parties through public auctions or tenders or through private negotiations.

The Group generally has the right of ownership or has entered into long-term lease agreements in respect of its plots. A lessee generally has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease, however, it does not apply in relation to state or municipal land plots. Typically, in order to renew a land lease agreement in relation to state or municipal land plots, the lessee must apply to the lessor and participate in a tender to acquire lease rights but tender process is not required if the land plot is provided for exploration or development of a mineral deposit. Any lease agreement for a period of one year or more must be registered with the relevant state authorities.

**Subsoil Plots of Federal Importance**

In order for the Russian Federation to control subsoil resources necessary to safeguard national security, certain subsoil plots, including subsoil plots where the Group mines, have been classified as subsoil plots of federal importance and are subject to a special regulatory regime with regards to their exploration and development. Although the concept of a subsoil plot of federal importance is not new for the Russian subsoil legislation, the definition of a subsoil plot of federal importance was introduced only by amendments to the Subsoil Law which came into force in May 2008.

Subsoil plots of federal importance are plots containing deposits of (i) valuable minerals (e.g., uranium, diamonds, nickel and platinum group elements); (ii) more than 70 million metric tonnes of extractable oil; (iii) more than 50 billion cubic metres of gas; (iv) more than 50 tonnes of gold; or (v) more than 500,000 metric tonnes of copper. Subsoil plots under inland seas, territorial seas and the continental shelf of the Russian Federation, as well as under land related to national defence and security, also fall within this definition. The Subsoil Law and Resolution No. 823 dated 7 November 2008 of the Russian Government provide that a list of subsoil plots of federal importance will be officially published by Rosnedra. The current edition of the list of subsoil plots of federal importance is as at 8 August 2018.

The general rule set forth in the Subsoil Law is that subsoil plots of federal importance other than subsoil plots under inland seas, territorial seas and the continental shelf of the Russian Federation may be allocated for exploration and development only to Russian companies. However, the Russian Government may restrict participation of Russian companies with foreign investments in auctions for exploration or development of a particular subsoil plot of federal importance. In addition, allocation for exploration and development of subsoil plots of federal importance which were discovered in the course of a geological survey by a foreign investor or a Russian company with foreign investments may be denied by the Russian government on a case-by-case basis.

**Environmental Compliance**

***General***

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, and protection of flora, fauna and other wildlife. Issues of environmental protection in Russia are regulated primarily by Federal Law No. 7-FZ "On Environmental Protection" dated 10 January 2002, as amended (the "**Environmental Protection Law**"), as well as by a number of other federal laws and regulations.

***Enforcement Authorities***

Rosprirodnadzor (along with their regional branches) is the main regulatory service involved in environmental regulation, and implementation and enforcement of relevant laws and regulations. The Russian Government and the Ministry of Natural Resources and Environment are responsible for coordination of the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits claiming compensation for damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

***Environmental Permits***

According to amendments to the Environmental Protection Law, since 1 January 2019, there are four categories of production sites depending on their impact on the environment. In relation to the Group's production sites that are included in the list of category I (designated as having significant impact on the environment), a complex environmental permit must be obtained from Rosprirodnadzor between 1 January 2019 and 31 December 2022. To obtain a complex environmental permit, a company must develop technological standards of emission that comply with the technological standards of the best available technologies. If a company's technological standards are not sufficient, a temporary emission permit may be obtained from Rosprirodnadzor for a definite term to upgrade production sites to comply with such standards. The amendments also provide certain benefits for the companies that implement the best available technologies on their production sites. In particular, starting from 1 January 2020, companies that have implemented best available technologies pay no charges for a negative impact on the environment not exceeding emissions volumes as provided by technological standards of the best available technologies and may apply accelerated amortisation of the assets related to the best available technologies.

### *Environmental Liability*

If the operations of a company violate environmental requirements or cause harm to the environment or to any individual or legal entity, environmental authorities may suspend such operations or a lawsuit may be brought to limit or ban such operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. In addition to fines, courts may also impose clean-up obligations on violators in lieu of compensation.

Subsoil licences generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply are generally low and the clean-up requirements are not very onerous, but failure to comply may lead to a suspension of mining works.

### *Reclamation*

The Group conducts its reclamation activities in accordance with the provisions of the Land Code and Regulation on Reclamation and Conservation of Land enacted by the Government of the Russian Federation No. 800 dated 10 July 2018. However, most of the Group’s licences require the Group to conduct reclamation following exhaustion of the respective mines. The Group believes that it has complied in all material respects with the environmental standards of the appropriate regulatory authorities in Russia. The Group has not received any specific requests from such regulatory authorities to develop a closure plan or to establish a liquidation fund.

### *Greenhouse Gas Emissions (GHG)*

The Group’s approach to GHG emissions is tailored to satisfy both domestic and international standards. The Russian national GHG action was introduced by Decree No. 504-r of the Government of the Russian Federation dated 2 April 2014 and reflected the commitment of the Russian government to reduce such emissions to no more than 75 per cent. by 2020 (with reference to the 1990 baseline). The Russian GHG legislation is evolving and the key laws and regulations are being passed, however, currently, most of the regulation only deals with monitoring of the GHG emission, for example, the Decree of the Government of the Russian Federation No. 716-r dated 22 April 2015, the Order of the Ministry of Natural Resources and Environment No. 300 dated 20 June 2015 or the Order of the Ministry of Natural Resources and Environment No. 330 dated 29 June 2017. Accordingly, the Group intends to ensure compliance with these statutory requirements once they are officially promulgated.

## Technical Regulations

The Group is subject to various technical regulations and standards which apply to industrial manufacturing. The Technical Regulation Law introduced a new regime for the development, enactment, application and enforcement of mandatory rules applicable to production, manufacturing, storage, transportation, sales and certain other operations and processes, as well as new regulations relating to the quality of products and processes, including technical regulations, standards and certification. It was expected that these rules, or technical regulations, would replace the previously adopted state standards (the so-called “**GOSTs**”). However, most technical regulations have not yet been implemented, and, in the absence of such technical regulations, the existing federal laws and regulations, including GOSTs, that prescribe rules for different products and processes remain in force to the extent that they protect health, property, the environment and/or consumers. In addition, the federal standardisation authority has declared GOSTs and interstate standards adopted before 1 July 2003 to be the applicable national standards.

In certain circumstances, companies are required to obtain certification of compliance with applicable technical regulations, standards and terms of contracts or declaration of compliance with them. Currently, a number of the Group’s products must be certified. Where certification is not mandatory, a company may elect voluntary certification by applying for a compliance certificate from the relevant authorities. Following the issuance of such certificate, the applicant has the right to use the relevant compliance mark on its products.

**Industrial Safety**

Due to the nature of the Group's business, a substantial portion of its activities is conducted at industrial sites by large numbers of workers, and labour protection is of significant importance to the operation of these sites.

The principal law regulating industrial safety is Federal Law No. 116-FZ "On Industrial Safety of Dangerous Industrial Facilities" dated 21 July 1997, as amended (the "**Safety Law**"). The Safety Law applies to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used, where toxic, flammable, oxidisable and other hazardous substances are produced, used, processed, stored or transported. There are also certain additional safety regulations applicable to the chemical industry.

As of 1 January 2014, all regulated industrial sites are divided into 4 categories. Rostekhnadzor exercises the broadest control and supervision over sites pertaining to the first and second category, whereas sites included in the third and fourth categories enjoy a more liberal compliance regime.

Generally, any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to an industrial safety review. Any deviation from project documentation in the process of construction, reconstruction or liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Rostekhnadzor. On top of that, a company wishing to implement additional safety requirements or to substitute the requirements set forth in the legislation should file a safety case substantiating the proposed requirements. Such safety case is subject to mandatory industrial safety review.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code (as defined below). In particular, they must limit access to such sites to specialists complying with the relevant qualifications and medical requirements, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training, create systems to cope with and inform Rostekhnadzor of accidents and maintain these systems in good working order.

Companies operating industrial facilities of first and second category must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks, and use the site in accordance with the applicable industrial safety requirements. Such declaration must be adopted by the CEO of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as an industrial safety review are required for the issuance of a licence permitting the operation of a dangerous industrial facility. Dangerous industrial facilities must be registered in the state register of dangerous industrial facilities maintained by Rostekhnadzor. The registration is permanent and must be renewed only in cases of changes in the regulated industrial site's composition and the liquidation or launch of a dangerous facility.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be required to compensate the individual for lost earnings, as well as health-related damages.

**Labour Relations**

Labour relations in Russia are generally governed by the Labour Code of the Russian Federation, as amended (the "**Labour Code**"), which came into force on 1 February 2002. However, there are certain additional regulations, including, among others, Sectoral Tariff Agreement of the Entities of Chemical, Petrochemical, Biotechnological and Chemical and Pharmaceutical industries of the Russian Federation for 2019-2021, effective from 1 January 2019 until 31 December 2021 (both dates inclusive). It was concluded between the Russian Union of Enterprises and Organisations of Chemical and Related Industries on behalf of the employers (the "**Union**") and the Russian Trade Union of Employees of Chemical Industry Sectors (the "**Trade Union**") on behalf of the employees. This agreement is compulsory for the members of the Union, certain other entities that acceded to it and for entities that have not informed Russian regulatory authorities about their refusal to accede to such agreement and about the reasons for such refusal within the statutory deadline. The agreement sets out the minimum legal guarantees for the employees and governs certain labour relations. In addition, all of the Group's trade unions are part of regional chemical industry trade unions as well as part of the Russian Chemical Workers Union (except for Kovdorskiy GOK being historically a part of the Mining and Metallurgy Workers Union).

**Investments in Russian Companies of Strategic Importance**

Federal Law No. 57-FZ "On the Procedure for Making Foreign Investments in the Companies of Strategic Importance for the Defence and Security of the State" dated 29 April 2008, as amended (the "**Strategic Investments Law**") establishes certain restrictions for foreign investments into Russian companies which are deemed strategically important for the defence and security of the Russian Federation (the "**Strategic Companies**"). The Strategic Investments Law provides for the list of activities that have strategic importance for the national defence and security. This list, *inter alia,* includes exploration and production of subsoil plots of federal importance.

Under the Strategic Investments Law, an establishment by a foreign entity (or any other person that is a member of the group with the participation of a foreign entity) (a "**Foreign Investor**") of direct or indirect control over a Strategic Company requires a prior consent of the Government Commission for Control of Foreign Investments in the Russian Federation (the "**Government Commission**"). Moreover, a direct or indirect acquisition by a Foreign Investor of a stake in a Strategic Company which vests an acquirer with right to exercise a certain percentage of voting rights (ranging from 5 to over 50 per cent. depending on type of the Foreign Investor and type of the Strategic Company) in the charter capital of the Strategic Company or veto rights or 25% or more (by value) of its fixed assets, may be subject to obtaining a prior consent of the Government Commission and/or submission of a post-completion notification to the competent state authority. If an acquisition happens without obtaining such prior consent, where it was required, the transaction is void under the Strategic Investment Law and the Foreign Investor may be deprived of voting rights which correspond to the stake acquired in the Strategic Company. A failure to submit a post-completion notification may also result in depriving the Foreign Investor of voting rights which correspond to the stake acquired in the Strategic Company. Moreover, completion of the transaction without a prior consent and/or a failure to submit a post-completion notification may result in fines imposed on the Foreign Investor.

# DESCRIPTION OF THE ISSUER AND GUARANTORS

The Group is a leading vertically integrated nitrogen and phosphate fertiliser producer. The Group produces nitrogen mineral fertilisers (including urea, ammonia, ammonium nitrate, urea ammonium nitrate, calcium ammonium nitrate), phosphate mineral fertilisers (including monoammonium phosphate, diammonium phosphate and feed phosphates), as well as a growing number of complex products (variety of nitrogen phosphate and nitrogen-phosphorus-potassium grades), organic synthesis products, iron ore, apatite and baddeleyite concentrates. In 2018, the Group began test production of potassium chloride in the Usolskiy Potash Project and the VolgaKaliy Potash Project. As at the date of this Prospectus, the Group was also Russia's only producer of UAS, melamine, acetic acid and baddeleyite concentrate.

The principal activity of the Issuer is the issuance of debt securities (including bonds, notes and debentures), the proceeds of which are lent to other members of the Group. The relationship between the Parent and the Issuer is carried out in accordance with the applicable statutes and regulations of Ireland and the Issuer's Constitution.

The business address of each director of the Issuer and each Guarantor in such capacity is the registered office of the relevant entity as set out below. As at the date of this Prospectus, neither the Issuer nor any of the Guarantors is aware of any potential conflict of interests between the duties their directors owe, on the one hand, and their private interests or the duties owed by any of them to any other person, on the other.

## Guarantors' Financial Contribution

The table below sets out EBITDA and net assets of the Guarantors as a group and the non-guarantor subsidiaries of the Parent as a group as at and for the year ended 31 December 2018.

| | **As at and for the year ended 31 December 2018** | | | |
|---|---|---|---|---|
| | **EBITDA** | **% of Group** | **Net Assets** | **% of Group** |
| | *(U.S.$ millions)* | *(%)* | *(U.S.$ millions)* | *(%)* |
| Guarantors | 1,516.9 | 100 | 4,174.8 | 100 |
| Non-guarantors | 0 | 0 | 0 | 0 |
| **Total Group** | **1,516.9** | **100** | **4,174.8** | **100** |

The Group's consolidated financial position and results of operations effectively represent the Parent's consolidated financial position and results of operations and include EuroChem and non-guarantor companies.

As at and for the year ended 31 December 2018, the consolidated Parent's net assets represented more than 80 per cent. of the Group's net assets and more than 80 per cent. of EBITDA of the Group. In the Parent's consolidated financial statements for the year ended 31 December 2018, EBITDA accounted for U.S.$1,516.9 million, or 100 per cent., of the Group's EBITDA, and as at 31 December 2018 its consolidated net assets accounted for U.S.$4,174.8 million, or 100 per cent., of the Group's net assets. In the Group's consolidated financial statements for the year ended 31 December 2018, EuroChem's EBITDA accounted for U.S.$1,298.2 million, or 85.6 per cent., of the Group's EBITDA, and as at 31 December 2018 its consolidated net assets accounted for U.S.$4,561.5 million, or 109 per cent., of the Group's net assets. There are no risks specific to, or encumbrances on the assets of, EuroChem or the Parent that could materially affect its ability to meet its obligations under the Guarantee.

## Risks Relating to the Guarantors

For information on risks relating to the Guarantors, see "*Risk Factors — Risks Related to the Notes — The Issuer's or the respective Guarantor's ability to fulfil its obligations under the Notes or the Guarantee is dependent on the Group — Risks Relating to the Russian Taxation System — Payments under the Guarantee made by EuroChem may be subject to Russian withholding tax or Russian personal income tax, as applicable*".

**Issuer**

***General***

The Issuer was incorporated in Ireland as a designated activity company on 12 May 2017, registered number 604189, under the Companies Act 2014 (the "**Companies Act**"). The registered office of the Issuer is 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland and its phone number is +353 1 905 8020.

The authorised share capital of the Issuer is EUR150,000 divided into 150,000 ordinary shares of par value EUR1.00 each (the "**Shares**").

The Issuer has issued 1,000 Shares, which are fully paid and are held by EuroChem Group AG, a corporation incorporated in Switzerland.

Pursuant to the Constitution of the Issuer, the Board of Directors of the Issuer is responsible for the Issuer's management.

The relationship between the Issuer and EuroChem Group AG, the sole shareholder of the Issuer, is governed by the Constitution of the Issuer and Irish law, including the Companies Act and regulations made thereunder.

Cafico Corporate Services Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 3 July 2017 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days written notice to the other party.

The Corporate Services Provider's principal office is Palmerston House, Fenian Street, Dublin 2, Ireland.

***Business***

The principal objects of the Issuer are set forth in clause 3 of its constitution (as currently in effect) and permit the Issuer, *inter alia*, to lend money and give credit, secured or unsecured, to issue debentures, notes (including guaranteed notes and loan participation notes), enter into derivatives and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is a special purpose vehicle and was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans within the Group.

Since its incorporation the Issuer has not engaged in material activities other than those incidental to its registration as a designated activity company under the Companies Act 2014 and those related to the issue of the 2021 Notes, the Tender Offer and the issue of the Notes.

The Issuer has no employees.

***Directors and Company Secretary***

The Issuer's Articles of Association provide that the Board of Directors of the Issuer consists of at least two Directors.

The directors of the Issuer and their business addresses are as follows:

Rolando Ebuna (2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland);

Sinéad Treacy (2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland).

The Company Secretary is Cafico Secretaries Limited.

***Financial Statements***

The Issuer has published its most recent financial statements in respect of the financial year ended 31 December 2017.

The auditors of the Issuer are PricewaterhouseCoopers of One Spencer Dock, North Wall Quay, Dublin 1, Ireland, who are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practice in Ireland.

**Guarantors**

***The Parent***

| | |
|---|---|
| Legal and commercial name | EuroChem Group AG |
| Registration number | CHE-306.864.578 |
| Date and place of incorporation | Incorporated on 17 July 2014 in Zug, Switzerland |
| Duration of existence | Indefinite |
| Place of domicile | Zug, Switzerland |
| Legal form | Corporation (AktienGesellschaft) existing under the provisions of the Swiss Code of Obligations dated 30 March 1911, as amended |
| Registered office | Baarerstrasse 37, 6300 Zug, Switzerland |
| Telephone number of the registered office | +41-41-727-1600 |
| Principal place of business | Zug, Switzerland |
| Directors | *Name* |
| | Alexander Landia |
| | Andrey Melnichenko |
| | Juerg Seiler |
| | Geoffery Merszei |
| | Samir Brikho |
| | Dmitry Strezhnev |
| | Sergey Vasnetsov |

| | |
|---|---|
| Independent auditors | PricewaterhouseCoopers AG |
| Principal activities | Holding company |

***EuroChem***

| | |
|---|---|
| Legal and commercial name | Mineral and Chemical Company EuroChem, Joint Stock Company |
| Registration number | 1027700002659 |
| Date and place of incorporation | 27 August 2001, Russian Federation |
| Duration of existence | Indefinite |
| Place of domicile | Moscow, Russian Federation |
| Legal form | joint stock company under the laws of the Russian Federation |
| Registered office | 53 Dubininskaya Str., building 6, Moscow, 115054, Russian Federation |
| Telephone number of the registered office | +7 (495) 795-2527 |
| Principal place of business | 53 Dubininskaya Str., building 6, Moscow, 115054, Russian Federation |
| General Director | Igor Nechaev |
| Statutory auditors | FBK, LLC |
| | 101990, Myasnitskaya Street, 44/1, building 2AB, Moscow, Russia |
| Principal activities | Holding company |

## RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24, *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The following table sets forth the Group's significant balances outstanding with those related parties as at the dates indicated:

| | As at 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Non-current originated loans: | | | |
| Associates | - | 4,024 | - |
| Other related parties | - | 43,501 | 53,178 |
| Other non-current assets including: | | | |
| Interest receivable (other related parties) | - | 655 | 2,645 |
| Other non-current assets (other related parties) | 9,431 | - | - |
| Trade receivables: | | | |
| Trade receivables – Joint ventures | 272 | 1,018 | 6 |
| Trade receivables - Other related parties | 1,356 | 441 | - |
| Prepayments, other receivables and other current assets: | | | |
| Receivables due to sale of associate | - | - | 59,760 |
| Other receivables | 24,176 | - | - |
| Non-current bonds issued: | | | |
| Parent company | 27,864 | - | - |
| Trade payables: | | | |
| Joint ventures | 1,959 | 1,784 | 1,069 |
| Other related parties | 2,846 | 1,277 | 42 |
| Liability from contingent consideration related to business combination: | | | |
| Other related parties | 122,866 | 123,001 | 106,655 |

(1) Other related parties are represented by the companies under common control with the Group and/or by the company ultimately controlled by one of Group's shareholders and key management personnel.

The following table sets forth the Group's significant transactions with those related parties for the periods indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | | (*U.S.$ thousand*) | |
| Sales: | | | |
| Associates | - | - | 2,190 |
| Joint ventures | 7,327 | 3,533 | 171 |
| Other related parties | 16,660 | 4,593 | 2,751 |
| Distribution costs: | | | |
| Other related parties | (4,502) | (7,897) | (10,112) |
| Interest income: | | | |
| Parent company | - | - | 4,481 |
| Other related parties | 172 | 1,525 | 3,503 |
| Gain/(loss) from disposal of subsidiaries, net | 4,799 | - | 23,641 |
| Changes in fair value of foreign exchange non-deliverable forward contracts: | | | |
| Parent company | - | - | (22,849) |
| Cost of sales | (13) | (792) | (1,332) |
| Other financial gain | - | 7,356 | - |

(1) Other related parties represented by the companies under common control with the Group and/or by the company ultimately controlled by one of the Group's shareholders.

In September 2016, the Group signed a framework facility agreement with AIM Capital S.E., the Group's principal shareholder, which was subsequently amended and restated on 21 November 2016 and on 1 May 2018. Pursuant to the agreement, AIM Capital S.E. made a perpetual debt financing available to the Group with a limit of up to U.S.$1 billion and the availability period ending on 31 December 2020. In 2016 and in June 2018, the Group utilised U.S.$250 million and U.S.$600 million, respectively, from this facility. From July 2018 through 31 December 2018, the Group did not draw any additional funds from the facility. This zero-interest, non-callable, perpetual finance facility is accounted for as equity in the Consolidated Financial Statements.

In the first quarter 2018, the Group acquired from AIM Capital S.E. (the Group's principal shareholder) a company that owns a land plot for a project for construction of a nitrogen fertiliser plant, which is located in Louisiana, U.S. The Group treats this transaction as an asset acquisition.

In November 2018, the Group sold two subsidiaries, each owning a bulk carrier sea vessel, to a company, which is a related party of the Group.

The total key management personnel compensation included in the profit and loss was U.S.$16,496 thousand, U.S.$17,933 thousand and U.S.$9,977 thousand for the years ended 31 December 2018, 2017 and 2016, respectively. This compensation relates to six individuals as at 31 December 2018, who are members of the Management Board, for their services in full time positions. Compensation is made up of an annual fixed remuneration plus a performance bonus accrual.

For further information on related party transactions, see note 33 in the 2018 Financial Statements included elsewhere in these Prospectus.

# MANAGEMENT AND DIRECTORS

## Overview of the governance structure of the Parent

According to the Articles of Association of the Parent, its statutory management bodies are the General Meeting of Shareholders and the Board of Directors.

The governance of the Parent consists of various levels and sub-levels, each responsible for different aspects of the Parent's overall activities. The highest level of governance is conducted through the General Meeting of Shareholders, the ultimate decision-making body. The General Meeting of Shareholders elects the Board of Directors, which is responsible for the general governance of the Parent, including the determination of strategy, coordination and general supervision thereof. Additionally, the General Meeting of Shareholders elects the auditors (considered to be a statutory body of the Parent). The Board of Directors reports directly to the General Meeting of Shareholders.

The Board of Directors has formed the Management Board and elected the CEO and in accordance with the Organisational regulations on the Management Board and the CEO has delegated to it certain of its duties. The CEO acts as the Chairman at the meetings of the Management Board and, together with the latter, is responsible for the day-to-day operations of the Parent. The Chief Executive Officer and the Management Board report directly to the Board of Directors.

## General Meeting of Shareholders

The General Meeting of Shareholders is the Parent's supreme management body. The General Meeting of Shareholders has the power, among other things, to carry out the following matters:

- adoption and amendment of the Articles of Association;
- election and discharge of members of the Board of Directors and the auditors;
- approval of management reports and consolidated accounts;
- approval of annual statutory (standalone) and consolidated financial statements and resolutions on the use of balance sheet profits (in particular, the declaration of dividends or royalties);
- change of the purpose of the Parent;
- creation of shares with privileged voting rights;
- creation and removal of restrictions on transferability of registered shares;
- authorised or conditional capital increase;
- capital increase out of the Parent's equity, against contributions in kind or for the purpose of the acquisition of assets and granting of special benefits;
- restriction or suspension of pre-emptive rights;
- change of the Parent's registered seat;
- dissolution of the Parent;
- approval of the compensation of the members of the Board of Directors and approval of the adoption and amendments of the regulation on remuneration of the members of the Board of Directors; and
- other issues, as provided for by the law and the Articles of Association.

Decisions of the General Meeting of Shareholders are made by an absolute majority of votes cast. In case of a tie, the chairperson has a casting vote. A two-third majority of votes and an absolute majority of nominal values of the shares represented at the General Meeting of Shareholders is required for deciding on the following issues:

- amendment of the Articles of Association;
- changes in the Parent's purpose;
- creation of shares with privileged voting rights;
- creation and removal of restrictions on transferability of registered shares;
- authorised or conditional capital increase;
- capital increase out of the Parent's equity, against contributions in kind or for the purpose of acquisition of assets;
- granting of special benefits;
- restriction or suspension of pre-emptive rights;
- change of the Parent's registered seat; and
- dissolution of the Parent.

**Board of Directors**

The Board of Directors is tasked with the ultimate management of the Parent, establishment of its organisation and the structuring of the accounting system, financial controlling and financial planning. Apart from that, the Board of Directors appoints, dismisses and supervises the Management Board and the CEO, supervises other persons entrusted with the management of the company, prepares the annual report, convenes the General Meeting of Shareholders and executes its resolutions, notifies a competent judge in case of overindebtedness.

Members of the Board of Directors are elected by the shareholders by an absolute majority of votes for a one-year term. Each shareholder may nominate to the Board of Directors no more than two candidates for each 10 per cent. stake of the voting shares held by such shareholder. Persons elected to the Board of Directors may be re-elected an unlimited number of times. The Board of Directors must consist of at least five members.

At present, the Board of Directors has a one-tier structure and seven non-executive members, four of which have a status of independent directors. Other than their directorships, they do not have any relations with the Parent that could potentially influence the objectivity of their decisions. The Parent has adopted the UK Corporate Governance Code definition of an independent director, which is based on the absence of any conflicts of interest. If such actual or potential conflicts arise, independent directors are notified and are required to act appropriately. New directors are required to declare any conflicts of interest and adhere to the Regulations of the Board of Directors. As such, they are required to refrain from taking action that could lead to a conflict of interest, with the responsibility to inform the Chairman as soon as possible should a potential conflict arise. Their independent status is confirmed by the Board of Directors after each election or re-election using a standard questionnaire relating to the declaration of interests. All directors are required to inform the Company of any events which could lead to the loss of their independent status.

The Parent's most recent Annual General Meeting of Shareholders was held on 28 June 2018. As at the date of this Prospectus, the members of the Board of Directors are:

| | |
|---|---|
| **Mr. Alexander Landia** | Non-executive director, Chairman of the Board of Directors, member of the Strategy Committee and the Nomination and Remuneration Committee |
| **Mr. Andrey Melnichenko** | Non-executive director, Chairman of the Strategy Committee |
| **Mr. Juerg Seiler** | Independent director, member of the Audit Committee |
| **Mr. Geoffery Merszei** | Independent director, Chairman of the Audit Committee |
| **Mr. Samir Brikho** | Independent director, member of the Strategy Committee, member of the Nomination and Remuneration Committee |
| **Mr. Dmitry Strezhnev** | Non-executive director, member of the Strategy Committee |
| **Mr. Sergey Vasnetsov** | Independent non-executive director, member of the Strategy Committee and Chairman of the Nomination and Remuneration Committee |

The business address of the above members of the Board of Directors is Baarerstrasse 37, 6300 Zug, Switzerland.

***Mr. Alexander Landia***. Mr. Landia has been the Chairman of the Parent's Board of Directors since 2015. Mr. Landia has extensive senior management experience, leading and advising various organisations throughout his career. Between 1993 and 2001, he worked at Dresdner Bank in Frankfurt as First Vice President, Oil & Gas Global Debt. Until 2004, he was General Director of Accenture Russia and was subsequently appointed as Global Gas Lead Partner. Mr. Landia currently serves as the Chairman of the Board of Directors and a member of the Nomination and Compensation Committee of SUEK. Mr. Landia is a member of the Strategy Committee of SUEK and also serves on the Board of Directors of Lambert Energy Advisory Ltd. (UK). He is Chairman of the Board of Directors of The Mobility House AG (Switzerland). Mr. Landia is also a co-founder of Bernotat & Cie (Germany). Mr. Landia graduated from the Tbilisi State University (Hons) and has a PhD in Mathematics from the Minsk Institute of Mathematics of the National Academy of Sciences of Belarus.

***Mr. Andrey Melnichenko***. Over the past 20 years, Mr. Melnichenko has co-founded a number of successful companies including MDM-Bank, EuroChem, SUEK, Siberian Generating Company (SGC), and TMK. He is the main beneficiary of EuroChem, SUEK and SGC. Mr. Melnichenko is currently a member of the Board of Directors of SUEK and chairs the Strategy Committee. He also sits on the Board of the Russian Union of Industrialists and Entrepreneurs. Mr. Melnichenko studied physics at the Lomonosov Moscow State University and graduated from Plekhanov Russian Academy of Economics, majoring in finance and credit.

***Mr. Juerg Seiler***. Mr. Seiler held a number of key financial positions across different businesses and has over 30 years of international experience including assignments in South Africa, Hong Kong, the United States and Switzerland. From 2012 to 2014, Mr. Seiler served as CFO at Ventyx, the Enterprise Software business of ABB. Prior to this, he was global CFO at ABB Power Systems division and before CFO at ABB Lummus Global. Mr. Seiler holds a Master's degree in Economics from University of St. Gallen, Switzerland.

***Mr. Geoffery Merszei.*** Mr. Merszei has been on the board of OC Oerlikon AG since 2017. He is also the Chairman and the CEO of Zolenza AG. From 2009 to 2012, he was an executive committee member of the European Chemical Industry Council (CEFIC). From 2005 to 2009, Mr. Merszei served on the board of directors of The Dow Chemical Company, from 2005 to 2010, was a lead director of Dow Corning Corporation, and, from 2006 to 2010, was a director on the boards of the Chemical Financial Corporation and Chemical Bank. From 2001 to 2005, Mr. Merszei was an Executive Vice President and the CFO of Alcan. From 1977 to 2001 and from 2005 to 2013, he held a number of senior executive positions at The Dow Chemical Company, including as its Executive Vice President and Chief Financial Officer and as the CEO and Chairman of the Board of Dow Europe, Middle East and Africa. Mr. Merszei started his career at the Royal Bank of Canada. Mr. Merszei holds a BA in Economics from Albion College (Michigan, USA).

***Mr. Samir Brikho.*** Mr. Brikho is a non-executive director of Skandinaviska Enskilda Banken. He is a member of the Advisory Board of Stena AB. Mr. Brikho held various senior management positions at Asea and ABB Power Generation between 1983 and 2000, ultimately becoming a Senior Vice President & Global Managing Director, Steam Turbines & Generators, ABB Kraftwerke AG in Germany. In 2000, he moved to Alstom where he was the Chief International Operations Officer and Senior Vice-President, and CEO of Alstom Kraftwerke in Germany. In 2003, he became the Chief Executive of ABB Lummus Global and in 2005 he became a member of the Group Executive Committee of ABB Ltd, Head of the Power Systems Division at ABB Group. He went on to be the Chief Executive of Amec Foster Wheeler (formerly Amec) in October 2006. Mr. Brikho served at Amec Foster Wheeler until January 2016. Mr. Brikho holds a Master of Science degree in Thermal Technology from the Royal Institute of Technology in Stockholm, Sweden. He has received an honorary doctorate from the Cranfield University in the UK. He is also a graduate of the Young Managers Programme at INSEAD and the Senior Executive Programme at Stanford University.

***Mr. Dmitry Strezhnev***. Mr. Strezhnev has extensive experience in business administration, particularly in large industrial corporations. During his career, Mr. Strezhnev has served as the Head of Agrodortekhsnab and Tekhsnab-2000, which are trading companies that sell road and construction machinery and provide maintenance services. He was also deputy director of Dorstroykomplekt, a company specialising in highway engineering, before becoming the Director General of Likino Bus Plant. Prior to EuroChem, Mr. Strezhnev held executive positions in the automobile industry, including at vehicle producer GAZ Group. Mr. Strezhnev served as the CEO of the Parent from 2015 to 2018 and as the General Director of EuroChem from 2004 to 2017. Mr. Strezhnev graduated with honours from Lomonosov Moscow State University with a degree in Physics and holds an MBA from the Academy of National Economy under the Government of the Russian Federation.

***Mr. Sergey Vasnetsov***. From 2010 to 2016, Mr. Vasnetsov was Senior Vice President, Strategic Planning and Transactions at LyondellBasell, where he led a team responsible for corporate strategy, capital allocation (CapEx, M&A, JVs) and Investor Relations. In addition, he was responsible for the global polypropylene compounding business, specialty plastics unit serving automotive and consumer durable markets. From 1996 to 2010, Mr. Vasnetsov worked in New York City at several leading investment banks, including Barclays and Lehman Brothers, as the head of global chemical research team responsible for identifying and developing investment ideas for the largest global, U.S. private and public investment funds. He started his career as an industrial research scientist at Union Carbide in 1990, and authored eight U.S. and world patents in polymer technology. He previously was a member of the Texas Petrochemical Company (TPC Group) Board of Directors and its Audit and Strategy Committees. Mr. Vasnetsov was appointed to the Parent’s Board in April 2016. Mr. Vasnetsov graduated with a Master of Science degree from Novosibirsk State University and was a George Soros Scholar at Oxford University; later he earned an MBA degree (Finance) from Rutgers University (U.S.).

*Audit Committee*

The members of the Audit Committee are Mr. Juerg Seiler and Mr. Geoffery Merszei. The Committee oversees the quality of the financial and sustainability reporting process, including the integrity and reliability of information disclosure. The Committee holds discussions with PricewaterhouseCoopers AG, the Group’s external auditors, twice a year without the presence of management. In addition, the Chairman of the Committee regularly meets with the Head of Internal Audit, the General Counsel and the Chief Compliance Officer. Throughout the year, the Committee remains in regular contact with the CFO, the Head of Internal Audit, the risk management desk, the General Counsel and the Corporate Secretary.

*Strategy Committee*

The members of the Strategy Committee are Mr. Andrey Melnichenko, Mr. Dmitry Strezhnev, Mr. Alexander Landia, Mr. Samir Brikho and Mr. Sergey Vasnetsov. The Committee is tasked with reviewing and approving divisional and departmental strategy, development projects, acquisitions and significant investment decisions.

*Nomination and Remuneration Committee*

The members of the Nomination and Remuneration Committee are Mr. Alexander Landia, Mr. Samir Brikho and Mr. Sergey Vasnetsov. The work of the Committee focuses on such issues as remuneration and incentives, staffing requirements at ongoing investment projects, introduction of health and safety performance indicators within the management incentive programme, and reviewing and updating the Group's Code of Conduct.

**Auditors**

One or several persons or legal entities or partnerships may be elected as auditors. The auditors must have residence, domicile or registered branch office in Switzerland. If the company has several auditors, at least one of them has to meet the independence requirement. The auditors must be independent in accordance with art. 728 and 729 CO. The auditors are elected for a period of one business year. Their term of office ends with the approval of the last annual financial statement. Re-election is possible. Dismissal is possible at any time and with immediate effect.

As at the date of this Prospectus, the auditor of the Parent is PricewaterhouseCoopers AG, in Zug (CHE-254.525.813).

***CEO and the Management Board***

The Management Board and the CEO manage the Parent's day-to-day operations. The members of the Management Board, including the CEO, are appointed by the Board of Directors. The Management Board reports to the Board of Directors. The CEO is authorised to represent the Parent in all matters. As at the date of this Prospectus, the Management Board consisted of five members. The address of the Management Board is Baarerstrasse 37, 6300 Zug, Switzerland. In February 2019, Mr. Petter Ostbo was appointed as the Parent's CEO, effective from 1 June 2019. Prior to Mr. Ostbo's appointment, Mr. Kuzma Marchuk was the Acting Chief Executive Officer of the Group. From July 2018 to September 2018, Mr. Strashnov was the Group's CEO. From 2015 to 2018, Mr. Strezhnev (a member of the Board of Directors and a member of the Strategy Committee) served as the CEO of the Parent.

As at the date of this Prospectus, the Management Board included:

***Mr. Kuzma Marchuk.*** Mr. Marchuk is the Acting Chief Executive Officer and the Chief Financial Officer. Between 1995 and 1997, Mr. Marchuk held several financial positions in Deloitte & Touche, Rosexpertiza and Norilsk Nickel. In 1997, he joined the Protek Group and, in 1998, he was appointed as the Vice President for Finance and became a member of the management board. Between 2004 and 2010, Mr. Marchuk was the Chief Financial Officer and, from 2007, a member of the board of directors at Uralkali. He oversaw Uralkali's IPO on the London Stock Exchange in 2007, and led the sale of the company's strategic stake to a group of investors in 2010. From 2011 to 2016, Mr. Marchuk was the Deputy CEO and the Chief Financial Officer of SUEK. He was appointed to the board of SUEK in October 2016. Mr. Marchuk graduated from Plekhanov Russian Academy of Economics and from Lomonosov Moscow State University's Department of Physics.

***Mr. Stefan Judisch***. Mr. Judisch is the Deputy Chief Executive Officer and the Chief Commercial Officer. Mr. Judisch has been involved in commodity trading and risk management activities, predominantly focused on energy-related commodities and non-ferrous metals. Mr. Judisch is a non-executive director of Trimet SE, which is the largest aluminium producer in Germany. Since February 2019, Mr. Judisch has been the Head of Marketing and Sales Division of the Group. In June 2015, Mr. Judisch was appointed to the board of directors of SUEK. Mr. Judisch began his career in 1981 at Metallgesellschaft's central controlling department in Frankfurt (Germany). With Metallgesellschaft, he worked in London, New York and Hamburg, where he served as the CEO of the company's non-ferrous metal trading and brokerage subsidiary. In 1992, he was hired by UBS to develop their commodity trading business. Following the deregulation of Germany's electricity market in 1999, he moved to German utility RWE. He helped to build RWE's global energy and commodity-trading and wholesale-supply business over a period of 16 years. He retired as the company's CEO in February 2015. Mr. Judisch holds a degree in Business Administration from Polytechnik Universität Frankfurt.

***Mr. Clark Bailey*****.** Mr. Bailey has been the Head of the Mining Division of the Group since February 2019. Between 2013 and 2018, Mr. Bailey also served as the Head of Mining and was responsible for the company's mining activity, which included the Kovdorskiy GOK phosphate rock and iron ore mining facility, the development of the Group's two potash deposits in Russia and a phosphate rock project in Kazakhstan. Prior to EuroChem, Mr. Bailey worked at PotashCorp as the Senior Vice President, Projects and Technical Services from 2007 to 2012, as well as the Director & General Manager – Capital Projects (PCS Nitrogen) and the Vice President, Operations (PCS Nitrogen). Prior to his 16 years at PotashCorp, Mr. Bailey spent 15 years at Fish Engineering & Construction Inc. Mr. Bailey graduated from the University of Texas at Austin with a degree in mechanical engineering and he is a member of the American Society of Mechanical Engineers (ASME).

***Mr. Igor Nechaev***. Mr. Nechaev has been the General Director of EuroChem since September 2017. From 1988 to 1995, Mr. Nechaev served in the Armed Forces of the Russian Federation, from 1995 to 2005, he was employed at Severstal, where he worked his way up from a specialist in the Foreign Relations Department of the Sales Directorate to Commercial Director of the company. From 2002 to 2006, Mr. Nechaev was member of the Board of Directors of Severstal, from 2008 to 2010, he was the Chairman of the Board of Directors of Severstal Vtorchermet and Severo-Zapad Ogneupor. From 2011 to 2017, Mr. Nechaev was the Head of Logistics Division of the Group. In 1988, he graduated from the Cherepovets Higher Military Engineering School of Radio Electronics. In 2006, he received an MBA from Northumbria University Business School (Newcastle, UK). Mr. Nechaev is holder of Academician Bardin Award for his work "The Use of Converter Steel for Production of Cast Sections in Electric-Furnace Steelmaking Shop".

***Mr. Alexander Tugolukov***. From 1984 to 1994, Mr. Tugolukov worked at Gorlovka JSC Concern Stirol in Ukraine, where he held different positions ranging from Engineer to Deputy Engineering Director. In 1994, he was appointed Engineering Director and later Chief Vice-President for Technology Development at Stirol, which became one of the leading Ukrainian producers of nitrogen. Mr. Tugolukov graduated from the Dnipropetrovsk Institute of Chemistry and Technology with a degree in Inorganic Matter Engineering and Technology. During his career he has earned the title "Honoured Ukrainian Chemist", in addition to a Rank II Medal for Service to the Russian Chemical Industry. Mr. Tugolukov is the Head of the Fertilisers Division of the Group.

*Management Board Appointee, effective 1 June 2019*

In February 2019, Mr. Ostbo was appointed as the Parent's CEO effective from 1 June 2019.

***Mr. Petter Ostbo***. From 2003 to 2010, Mr. Ostbo worked as Associate Principal with a focus on Energy and Materials at McKinsey & Company. From 2010 to 2013, he was the Vice-President for Product Management and Optimisation and, from 2016 to 2018, the Executive Vice-President for Production at Yara, a global firm specialising in fertilizer and industrial chemicals. In 2018, Mr. Ostbo was the Executive Vice-President and CFO at Yara until he left Yara in November. Mr. Ostbo graduated from the Norwegian School of Economics and Business Administration with a degree in Finance in 2003.

**Compensation**

Issues concerning the Directors' remuneration are referred to the General Meeting of Shareholders. Remuneration is fixed and adjusted according to committee memberships and chairmanships; however, as set out in the Board Member Remuneration Regulations, only non-executive Directors are entitled to remuneration. The total remuneration paid to the members of the Board of Directors in 2018 was U.S.$2,685 thousand including U.S.$1,226 thousand in compensation for work-related expenses. Directors and officers liability insurance (D&O) is provided by the Group. The Group does not have a long-term incentive programme (or a stock options plan) for the members of the Board of Directors.

**Overview of the governance structure of EuroChem**

According to the EuroChem's Charter, EuroChem's principal management bodies are the General Meeting of Shareholders, the Board of Directors and the General Director.

The governance of EuroChem consists of various levels and sub-levels, each responsible for different aspects of its overall activities. The highest level of governance is conducted through the General Meeting of Shareholders, the ultimate decision-making body. The General Meeting of Shareholders elects the Board of Directors, which is responsible for the general governance of EuroChem, including the determination of strategy, coordination and general supervision thereof. Additionally, the General Meeting of Shareholders elects the auditors and the General Director. The General Director is responsible for the day-to-day operations of EuroChem.

The Board of Directors of EuroChem prepares the annual report, approves transactions in accordance with Russian law, convenes the General Meeting of Shareholders and executes its resolutions.

EuroChem's most recent resolution of the sole shareholder on election of members of the Board of Directors was passed on 14 February 2019. As at the date of this Prospectus, the members of the Board of Directors are:

| | |
|---|---|
| **Mr. Igor Nechaev** | General Director, Member of the Board of Directors |
| **Mr. Valery Sidnev** | Member of the Board of Directors |
| **Mr. Clark Bailey** | Member of the Board of Directors |
| **Mr. Kuzma Marchuk** | Member of the Board of Directors, Chairman |
| **Mr. Alexander Tugolukov** | Member of the Board of Directors |

***Mr. Valery Sidnev.*** Since October 2018, Mr. Sidnev has been a member of the Board of Directors of EuroChem. Since 2016, he has been the General Counsel of the Parent. Since 2010, he has been a member of the managing board of AB Lifosa (Lithuania). Since 2009, Mr. Sidnev has been the Group's Director of Legal Affairs in Russia and CIS. Between 2007 and 2009, he served as a head of the M&A and finance transactions in the legal department of SUEK. From 2006 to 2007, Mr. Sidnev worked as senior legal counsel of a leading global aluminium producer RUSAL, focusing mainly on M&A and project finance transactions. From 1999 to 2006, Mr. Sidnev was an associate in the international law firm Baker Botts L.L.P. concentrating on a corporate and project finance as well as M&A transactions, cross-border transactions and private-public projects in the energy sector. From

1995 to 1999, Mr. Sidnev was a lawyer in a number of consultancy firms involved in implementation of the World Bank's projects to develop legislation of CIS countries, as well various projects under the auspices of the EU TACIS Programme. Mr. Sidnev graduated from the law school of the Baku State University in 1995.

For information on the other members of the Board of Directors of EuroChem, see "— *Overview of the governance structure of the Parent — CEO and the Management Board*" above.

The business address of the above members of the Board of Directors is 53 Dubininskaya Street, bldg. 6, Moscow 115054, Russian Federation.

## SHAREHOLDING

### Reorganisation

In 2014, the Group underwent reorganisation which was effected through the establishment of EuroChem Group AG, a corporation based in Switzerland. As a result of the reorganisation, the Group's foreign assets and EuroChem, as Russian holding company, were consolidated at the level of the holding structure (with EuroChem Group AG holding 100 per cent. of voting shares in EuroChem). The reorganisation was driven primarily by the growing internationalisation of the Group's activities and was specifically designed to enhance EuroChem's global development. The establishment of the Swiss holding was also tailored to increase the long-term sustainability of the Group's operations and secure its investments in Russia, as well as to reinforce its capacity for vertical integration and augment its competitiveness in the European labour market. The Group has acquired consent from its lenders and bondholders prior to the reorganisation.

The reorganisation substantially changed the Group's corporate governance structure, which is now in line with the Swiss law and the best international corporate governance practices. In particular, it meets the key principles set out in the UK Corporate Governance Code:

- the positions of the Chairman of the Board of Directors and the CEO are kept separate;
- members of the Board of Directors are elected and the Board's performance is assessed annually;
- the independence of individual members is verified by the Board of Directors; and
- individual Board members avoid potential conflicts of interest when making decisions.

As part of the reorganisation, the newly elected Board of Directors formed the Management Board and appointed key personnel. Core competencies and key performance indicators were also redefined for managers at all levels of the Group. At present, all corporate-level decision making and strategic formulation are done at the level of EuroChem Group AG, whereas operational functions remain at the level of the operating companies.

### Shareholding structure

As at the date of this Prospectus, the Parent's authorised, registered and issued share capital is CHF100,000 comprised of 1,000 authorised ordinary shares with a par value of CHF100 per share. AIM Capital S.E. (formerly known as EuroChem Group SE, renamed in May 2016) owns 90 per cent. of the share capital of the Parent and the remaining 10 per cent. are owned by Midstream Group Limited.

At 31 December 2018, AIM Capital S.E. registered in Cyprus had a 90 per cent. holding in the Parent, the remaining 10 per cent. of the Parent was held by Midstream Group Limited registered in Cyprus. A company that holds business interests beneficially for Mr. Andrey Melnichenko owned 100 per cent. of Linea (CY) Ltd. registered in Cyprus, which in its turn directly and beneficially owned 100 per cent. of AIM Capital S.E. A company that holds business interests beneficially for Mr. Dmitry Strezhnev, member of the board of directors of the Parent, owned 100 per cent. of Midstream Group Limited.

Mr. Andrey Melnichenko is currently the Chairman of the Parent's Strategy Committee and a non-executive director (see "*Management and Directors — Board of Directors*"), whereas Mr. Dmitry Strezhnev is a member of the Parent's Strategy Committee and non-executive director. The inclusion of independent directors in the Board of Directors of the Parent is designed, *inter alia*, to ensure that interests of the beneficiaries of the Group are not abused.

## TERMS AND CONDITIONS OF THE NOTES

The U.S.$700,000,000 5.50 per cent. guaranteed notes due 2024 of EuroChem Finance Designated Activity Company of 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland (the "Issuer", which expression shall include (unless the context requires otherwise) any entity substituted for the Issuer pursuant to Condition 12.3 (Substitution)) (the "**Notes**", which expression includes any further Notes issued pursuant to Condition 15 and forming a single series therewith) are unconditionally and irrevocably guaranteed by EuroChem Group AG (the "**Parent**" and a "**Guarantor**") and Mineral and Chemical Company EuroChem, Joint Stock Company ("**EuroChem**" and also a "**Guarantor**" and, together with the Parent, the "**Guarantors**"). The board of directors of the Issuer authorised the issue of the Notes on 20 February 2019. Each Guarantor authorised the relevant Guarantee (as defined below) given by it by the following respective corporate actions: (i) the resolution by the board of directors of the Parent dated 19 February 2019, and (ii) the resolutions by the board of directors of EuroChem dated 8 February 2019 and 7 March 2019.

The Notes are constituted by a trust deed dated 13 March 2019 (the "**Trust Deed**") between the Issuer, the Guarantors and Citibank, N.A., London Branch as trustee (the "Trustee", which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below).

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer and the Guarantors have entered into a paying agency agreement dated 13 March 2019 (the "**Paying Agency Agreement**") with the Trustee, Citibank, N.A., London Branch as principal paying agent and transfer agent (the "**Principal Paying Agent**" and the "Transfer Agent" and, together with any other paying agents appointed under the Paying Agency Agreement, the "**Paying Agents**") and Citigroup Global Markets Europe AG as registrar (the "**Registrar**"). The Registrar, Paying Agents and Transfer Agent are together referred to herein as the "**Agents**".

Copies of the Trust Deed and the Paying Agency Agreement are available for inspection during normal business hours at the principal office of the Issuer (being at the date hereof 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland), the specified office of the Trustee (being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom), and at the specified offices of the Agents. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Paying Agency Agreement applicable to them. Capitalised terms used but not defined in these Conditions shall have the respective meanings given to them in the Trust Deed.

### 1 Form and Denomination

The Notes are issued in fully registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each an "**Authorised Denomination**") without coupons attached.

The Notes will be initially issued in global, fully registered form, and represented by (i) a Rule 144A Global Note (the "**Rule 144A Global Note**"), interests in which are to be sold to qualified institutional buyers (each a "**QIB**") within the meaning of, and pursuant to, Rule 144A ("**Rule 144A**") under the United States Securities Act of 1933, as amended (the "**Securities Act**") and (ii) a Regulation S Global Note (the "**Regulation S Global Note**" and, together with the Rule 144A Global Note, the "**Global Notes**"), interests in which are to be offered outside the United States within the meaning of, and pursuant to, Regulation S under the Securities Act ("**Regulation S**"), which will each be exchangeable for Notes in definitive, fully registered form ("**Definitive Notes**") in the limited circumstances specified in the Global Notes and the Paying Agency Agreement.

### 2 Guarantee and Status

### 2.1 Guarantee

Each Guarantor has in the Trust Deed unconditionally and irrevocably, jointly and severally, guaranteed the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (each a "**Guarantee**" and together the "**Guarantees**").

### 2.2 Status

The Notes constitute direct, unsubordinated and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank pari passu and rateably without any preference among themselves. The Guarantees constitute direct, unsubordinated and (subject to Condition 4(a)) unsecured obligations of each Guarantor. The Issuer and each Guarantor shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantees, respectively, rank in right of payment at least pari passu with the claims of all their other present and future unsecured creditors, save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application or any other mandatory provisions of applicable law.

## 3 Register, Title and Transfers

### 3.1 Register

The Registrar shall maintain a Register in respect of the Notes (the "**Register**") outside the United Kingdom at the specified office for the time being of the Registrar in accordance with the provisions of the Paying Agency Agreement and shall record in the Register the names and addresses of the Noteholders, particulars of the Notes and all transfers and redemptions thereof. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

### 3.2 Title

Title to the Notes will pass by and upon registration in the Register. The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note) and no person shall be liable for so treating such Holder.

### 3.3 Transfers

Subject to Conditions 3.6 and 3.7 below, a Note may be transferred in whole or in part in an Authorised Denomination upon surrender of the relevant Definitive Note representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the "Transfer Form"), duly completed and executed, at the specified office of the relevant Transfer Agent or of the Registrar, together with such evidence as such Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Note are the subject of the transfer, a new Definitive Note in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3.4. Neither the part transferred nor the balance not transferred may be less than U.S.$200,000.

### 3.4 Registration and delivery of Definitive Notes

Within five business days of the surrender of a Definitive Note in accordance with Condition 3.3 above, the Registrar shall register the transfer in question and deliver a new Definitive Note to each relevant Holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of a Transfer Agent or (at the request and risk of such relevant Holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

In the case of the transfer of only a part of the Notes represented by a Definitive Note, a new Definitive Note in respect of the balance of the Notes not transferred will be so delivered at the specified office of the Registrar or (at the request of the transferor) at the specified office of a Transfer Agent or (at the request and risk of such transferor) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such transferor.

In this paragraph, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the cities where the Registrar or (if applicable) the relevant Transfer Agent has its specified offices.

### 3.5 No Charge

The registration of the transfer of a Note shall be effected without charge to the Holder or transferee thereof, but against such indemnity from the Holder or transferee thereof as the Registrar or the Transfer Agent, as applicable, may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

### 3.6 Closed periods

Noteholders may not require the transfer of a Note to be registered (i) during the period of 15 calendar days ending on the due date for any payment of principal or interest in respect of such Note and (ii) after any Note has been called for redemption.

### 3.7 Regulations concerning Transfer and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in Schedule 2 to the Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be available at the specified office of the Registrar and will be sent by the Registrar (free of charge) to any person who requests in writing a copy of such regulations.

## 4 Covenants

(a) *Negative Pledge*

None of the Issuer nor each Guarantor shall, and the Issuer and the Guarantors shall not permit any of their respective Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its or their assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Consolidated Total Debt, without, at the same time or prior thereto, according to the Notes the same security as is created, assumed or subsisting to secure such other Consolidated Total Debt.

(b) *Maintenance of Authorisations*

Each of the Issuer and the Guarantors shall, and shall procure that each of its respective Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Issuer, the relevant Guarantor or the relevant Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and the Issuer and the Guarantors shall each take all necessary action to obtain, and do or cause to be done all things necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation, Switzerland, Ireland or, as the case may be, the applicable jurisdiction for any of the Issuer or the Guarantors if different from the aforementioned or for the execution, delivery or performance of the Trust Deed, the Guarantees and the Notes or for the validity or enforceability thereof (as applicable) where failure to do so has had or could have a Material Adverse Effect.

(c) *Mergers*

(i) None of the Issuer and the Guarantors shall enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Irish, Russian or Swiss legislation, as these terms are construed by applicable Irish, Russian or Swiss legislation) if any such reorganisation could reasonably result in a Material Adverse Effect.

(ii) The Issuer and each Guarantor shall ensure that none of their respective Subsidiaries shall, without the prior written consent of the Trustee (x) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or (y) in the case of a Subsidiary incorporated in a jurisdiction other than the Russian Federation participate in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction), if any such reorganisation or other type of corporate reconstruction could reasonably result in a Material Adverse Effect.

(d) *Disposals*

(i) The Issuer and each Guarantor shall ensure that, except as provided in paragraph (ii) below, no member of the Group does, either in a single transaction or in a series of transactions and whether related or not, and whether voluntary or involuntary sell, lease, transfer or otherwise dispose of all or any part of its assets.

(ii) Condition 4(d)(i) above does not apply to any sale, lease, transfer or other disposal:

**A.** made in the ordinary course of business or trading of the disposing entity;

**B.** of assets in exchange for other assets (including freely convertible cash and its equivalents) comparable or superior as to type, value and quality;

**C.** any other Permitted Transaction provided that such transaction does not have and is not reasonably likely to have a Material Adverse Effect;

**D.** of obsolete or redundant assets;

**E.** of treasury shares made on arm’s length terms;

**F.** of shares or securities made on arm's length terms;

**G.** made pursuant to any Non-recourse Project Financing;

**H.** of the Group's Potash Assets (including a disposal by way of transfer of assets in the course of spin-off (vydeleniye) or division (razdelenie)) provided that all liabilities attributable or attached to such Group's Potash Assets shall be transferred or disposed of together with the respective Group's Potash Assets or discharged; or

**I.** where the consideration receivable (excluding any disposal referred to in paragraphs (A) to (H) above) does not exceed an amount equal to 15 per cent. of the Consolidated Total Assets (excluding any assets of a Project Owner) in any 12 months period.

(e) *Transactions with Affiliates*

(i) None of the Issuer and the Guarantors shall, and the Issuer and each Guarantor shall ensure that each of their respective Subsidiaries do not, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service but excluding any Product Delivery Contracts) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including, without limitation, intercompany loans, unless the terms of such Affiliate Transaction are no less favourable to the Issuer, such Guarantor or such Subsidiary, as the case may be, than those that could be obtained (at the time of such transaction or, if such transaction is pursuant to a written agreement, at the time of the execution of the agreement providing therefore) in a comparable arm's-length transaction with a Person that is not an Affiliate of the Issuer, such Guarantor or such Subsidiary.

(ii) This Condition 4(e) does not apply to: (i) any Affiliate Transaction between the Issuer, any Guarantor and their respective Subsidiaries and between Subsidiaries of the Issuer or any Guarantor; or (ii) any Affiliate Transaction undertaken by the Issuer, any Guarantor or any of their respective Material Subsidiaries not involving, individually or in aggregate, payments or value in excess of U.S.$50,000,000; or (iii) compensation of employee benefit arrangements with any officer or director of the Issuer, the Guarantors or any Material Subsidiary arising as a result of their employment contract.

(f) *Maintenance of Property*

The Issuer and each Guarantor shall, and shall ensure that their Material Subsidiaries will, cause all property that is used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgment of the Issuer, such Guarantor or such Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

(g) *Payment of Taxes and Other Claims*

The Issuer and each Guarantor shall, and shall ensure that their respective Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue:

(i) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the Issuer, the Guarantors and their respective Subsidiaries; and

(ii) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Issuer, the Guarantors and their respective Subsidiaries;

*provided* that none of the Issuer, the Guarantors nor any of their respective Subsidiaries shall be in breach of this Condition 4(g) if the Issuer, any Guarantor or any their respective Subsidiaries has failed to pay or discharge or cause to be paid or discharged any tax, assessment, charge or claim (i) if such amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made; or (ii) if a failure to pay, or discharge or cause to be paid or discharged such amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, would not have a Material Adverse Effect.

(h) *Maintenance of Insurance*

So long as any Note remains outstanding, the Issuer and each Guarantor shall, and shall ensure that each of their respective Subsidiaries will:

(i) maintain such insurances as are required by applicable laws; and

(ii) with respect only to each Guarantor and their respective Subsidiaries, without prejudice to Condition 4(h)(i) above, maintain insurance over its production and transportation assets and businesses (including insurance for damage related to explosions, fire and other accidents caused by operating processes), third-party liability insurance (where any Guarantor or the relevant Subsidiary is operating hazardous production facilities), insurance over storage warehouses, insurance of any hazardous product carriers and transportation vehicles insurance to the extent that such insurance exists as at the Issue Date.

For the purposes of this Condition 4(h), "**maintain**" means that the terms and conditions of the relevant insurance policies must not at any time be substantially worse for the Issuer, the Guarantors or the relevant Subsidiary than the terms and conditions of those policies existing at the date of the Trust Deed.

(i) *Environmental compliance*

The Issuer and each Guarantor shall, and shall ensure that their respective Subsidiaries will, obtain all Environmental Approvals required by all applicable laws and that it will comply with all Environmental Laws and Environmental Approvals applicable to it and will take all reasonable steps in anticipation of known or expected future changes to or obligations under the same, except where failure to do so does not and will not have a Material Adverse Effect.

(j) *Financial Information*

(i) The Parent undertakes that so long as any Note remains outstanding it shall deliver to the Trustee as soon as they become available, but in any event within six months after the end of each of its financial years, copies of the Group's consolidated financial statements in English for such financial year, in each case audited by the Auditors and prepared in accordance with IFRS consistently applied with the Group's consolidated financial statements for the preceding period.

(ii) The Parent shall as soon as the same become available, but in any event within 120 days after the end of each first half of each of the Group's financial years, deliver to the Trustee the Group's unaudited condensed consolidated financial information in English prepared in accordance with IAS 34, Interim Financial Reporting, for such period.

(iii) The Parent hereby undertakes that it will deliver to the Trustee, as soon as reasonably practicable, such additional information regarding the financial position or the business of the Group as the Trustee may reasonably request including providing certification to the Trustee in accordance with the Trust Deed.

(iv) The Parent shall ensure that each set of consolidated financial statements delivered by it pursuant to this Condition 4(j) (Financial Information) is:

**A.** prepared generally on the same basis as was used in the preparation of the Original Financial Statements and in accordance with IFRS and consistently applied;

**B.** in the case of the statements provided pursuant to Condition 4(j)(i), accompanied by a report thereon of the Auditors referred to in Condition 4(j)(i) (including opinions of such Auditors with accompanying notes and annexes); and

**C.** in the case of the statements provided pursuant to Conditions 4(j)(ii) and 4(j)(iii), certified by an Authorised Signatory of the Parent as giving a true and fair view of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of the results of the Group's operations during such period.

(v) The Issuer undertakes to furnish to the Irish Stock Exchange (or any other or further stock exchange or stock exchanges or any relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) such information as it may require as necessary in connection with the listing or admission to trading on such stock exchange or relevant authority of such instruments.

(k) *Limitation on Consolidated Total Debt*

Except as provided below, the Issuer and each Guarantor shall not cause, and none of the Issuer and each Guarantor will permit any of their Material Subsidiaries to create, issue, incur, assume, guarantee or otherwise in any manner become directly or indirectly liable for the payment of or otherwise incur, contingently or otherwise, any Consolidated Total Debt provided that the Issuer, the Guarantors and any Material Subsidiary may incur Consolidated Total Debt, in each case, if, (i) on the date of such incurrence of Consolidated Total Debt and after giving effect thereto on a pro forma basis, the ratio of (A) the Consolidated Net Debt to (B) the Consolidated EBITDA for each Measurement Period (the "**Leverage Ratio**"), is not greater than 3.5:1.0; and (ii) after giving effect to such incurrence of Consolidated Total Debt and the application of the proceeds thereof, on a pro forma basis, no Potential Event of Default or Event of Default would occur or be continuing.

At any time when the Leverage Ratio is greater than 3.5:1.0, the Issuer, each Guarantor and Material Subsidiaries may only incur Consolidated Total Debt if it is Permitted Indebtedness.

(l) *Limitation on Restrictions on Distributions from Subsidiaries*

The Issuer and each Guarantor shall not, and shall not permit any of their respective Subsidiaries to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Subsidiary to:

(i) pay dividends or make any other distributions on its share capital;

(ii) make any loans or advances or pay any Consolidated Total Debt owed to the Issuer or any Guarantor; or

(iii) transfer any of its property or assets to the Issuer or any Guarantor,

other than encumbrances or restrictions existing under the Notes, the Trust Deed and any other agreement in effect prior to the Closing Date and advised in writing to the Trustee or any restrictions provided for by the applicable laws of the Russian Federation, Switzerland, Ireland or, as the case may be, the applicable jurisdiction for any of the Issuer or the Guarantors if different from the aforementioned.

(m) *Officer's Certificates*

(i) On each Interest Payment Date and within 14 days of a request from the Trustee, the Parent on behalf of the Issuer and the Guarantors shall deliver to the Trustee written notice in the form of an Officer's Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred and shall be continuing, detailing such Potential Event of Default or Event of Default and what action the Issuer or the relevant Guarantor, as the case may be, is taking or proposes to take with respect thereto.

(ii) The Parent on behalf of the Issuer and the Guarantors will, at the same time as delivering the Group's audited annual financial statements pursuant to Condition 4(j)(i) and within 30 days of a request from the Trustee, deliver to the Trustee an Officer's Certificate specifying those Subsidiaries which were, at a date no more than 20 days before the date of such Officer's Certificate, Material Subsidiaries.

(iii) Following the occurrence of any matter or event specified in these Conditions where these Conditions provide for a determination of whether such matter or event has or will have a Material Adverse Effect, the Parent on behalf of the Issuer and the Guarantors shall provide the Trustee with an Officer's Certificate certifying whether such matter or event has or will have a Material Adverse Effect and setting out such additional information as may be required to support such determination. The Trustee shall be entitled to rely solely on an Officer's Certificate from the Parent certifying whether or not such matter has or will have a Material Adverse Effect.

(n) *Verification*

The Trustee shall not be under any obligation to verify the authenticity of any Officer's Certificate or any other certificate received by it or to approve the selection of any Auditors or Rating Agency or be responsible for determining the existence of any Potential Event of Default or any Event of Default. The Trustee shall be at liberty to accept any aforementioned Officer's Certificate as sufficient evidence of any fact or matter stated in any such Officer's Certificate and the Trustee shall not be bound to call for further evidence or be responsible for any loss or liability that may be occasioned by acting on or refraining to act on such Officer's Certificate or any determination or failure to determine the existence of any Event of Default or

Potential Event of Default or to determine whether any matter shall or shall not have a Material Adverse Effect.

(o) *Covenant Fall Away*

To the extent that the Notes have satisfied all conditions of Investment Grade Status and at all times thereafter, the Issuer and each Guarantor will be released from their respective obligations to comply with Condition 4(b), Condition 4(d) to Condition 4(h) inclusive and Condition 4(k) and, in each case, any related Events of Default under Condition 9.

## 5 Interest

The Notes bear interest from and including the Issue Date at the Rate of Interest, payable semi-annually in arrear no later than 10:00 a.m. (New York City time) on 13 March and 13 September in each year (each an "**Interest Payment Date**"), the first such Interest Payment Date being on 13 September 2019. Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Note shall be calculated per U.S.$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any Interest Period shall be calculated by applying the Rate of Interest to the Calculation Amount, dividing the resulting product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for a period of less than a complete Interest Period, the relevant day-count fraction will be determined on the basis of a 360-day calendar year consisting of 12 calendar months of 30 calendar days each and, in the case of an incomplete month, the number of actual days elapsed.

## 6 Redemption and Purchase

### 6.1 Final redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed or repaid by the Issuer at 100 per cent. of their principal amount together with accrued but unpaid interest on 13 March 2024 (the "**Maturity Date**"). The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

### 6.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 25 nor more than 60 calendar days' notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable), at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption but otherwise without premium or penalty, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it (or if the Guarantees were called, a Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8.1 as a result of the application or official interpretation of, or any amendments to, or change in, or change in the application or official interpretation of the laws, treaties or regulations of the Russian Federation, Ireland, Switzerland or, as the case may be, the applicable jurisdiction for any of the Issuer or the Guarantors if different from the aforementioned, or of any constituent part or political sub-division thereof or any authority having power to tax therein (including as a result of a judgment of a court of competent jurisdiction or a change in, or clarification of, the application or official interpretation of such laws or regulations), which change or amendment becomes effective on or after 13 March 2019 and (ii) such obligation cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee an Officer's Certificate confirming that the Issuer (or the relevant Guarantor, as the case may be) would be obliged to pay additional amounts as provided or referred to in Condition 8.1 supported by evidence from the relevant tax authorities in the relevant tax jurisdiction and the Trustee shall be entitled to accept such Officer's Certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above without further investigation or enquiry and without liability, in which event it shall be conclusive and binding on the Noteholders. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

**6.3 Purchase**

The Issuer, any Guarantor or any member of the Group may at any time, to the extent permitted by applicable law, purchase Notes in the open market or by tender or otherwise at any price. The Notes so purchased, while held on or behalf of the Issuer, any Guarantor or any of their respective Subsidiaries, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 9 or 12.

**6.4 Make-Whole**

At any time prior to the Maturity Date, but on one occasion only, the Issuer may, at its option, on giving not less than 25 nor more than 60 days' irrevocable notice to the Noteholders in accordance with Condition 16 (the "**Call Option Notice**") redeem the Notes in whole but not in part, at the price which shall be the following:

(i) the aggregate principal amount of the outstanding Notes; plus

(ii) interest and any additional amounts or other amounts that may be due thereon (if any) accrued but unpaid to but excluding the date on which the call option is to be settled (the "**Call Settlement Date**"); plus

(iii) the Make Whole Premium.

The Call Option Notice shall specify the Call Settlement Date.

For the purposes of this Condition:

"**Make Whole Premium**" means, with respect to a Note at any time, the excess of (a) the present value of the Notes at the Call Settlement Date, plus any required interest payments that would otherwise be due to be paid on such Notes from the Call Settlement Date through to the Maturity Date calculated using a discount rate equal to the Treasury Rate at the Call Settlement Date plus 50 basis points, over (b) the outstanding aggregate principal amount of the Notes at the Call Settlement Date, provided that if the value of the Make Whole Premium at any time would otherwise be less than zero, then in such circumstances, the value of the Make Premium will be equal to zero.

"**Treasury Rate**" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity most nearly equal to the period from the Call Settlement Date to the Maturity Date. The Parent (on behalf of the Issuer) will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business

Days (but not more than five Business Days) prior to the Call Settlement Date (or, if such Statistical Release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)); provided, however, that if the period from the Call Settlement Date to the Maturity Date is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the Call Settlement Date to the Maturity Date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

**6.5 Optional Redemption at Par**

The Issuer may, at any time on or after the date three months prior to the Maturity Date, on giving not less than 25 nor more than 60 days' irrevocable notice to the Noteholders (which notice shall specify the date fixed for redemption (the "**Par Optional Redemption Date**")) in accordance with Condition 16, redeem the Notes in whole but not in part, at the principal amount thereof, together with interest accrued and unpaid and additional amounts (if any) to but excluding the Par Optional Redemption Date.

**6.6 Cancellation**

All Notes redeemed or purchased pursuant to this Condition 6 shall be either cancelled forthwith, held or, to the extent permitted by law, resold. Any Notes so cancelled may not be reissued.

**7 Payments**

**7.1 Principal and other amounts**

Payment of principal and interest in respect of the Notes will be made to the persons shown as the Holder in the Register at the opening of business on the Record Date (as defined below). Payments of all amounts other than as provided in this Condition 7.1 will be made as provided in these Conditions.

**7.2 Payments**

Each payment in respect of the Notes pursuant to Condition 7.1 shall be made by transfer to a U.S. dollar account maintained by or on behalf of the payee with a bank in New York City and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of a Transfer Agent. Subject to the Principal Paying Agent receiving written notification of the relevant U.S. dollar account details prior to such time, payment instructions (for value on the due date or, if that is not a business day (as defined below), for value the first following day that is a business day) will be initiated on the business day preceding the due date for payment (for value on the next business day).

**7.3 Payments subject to fiscal laws**

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to FATCA, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders in respect of such payments.

**7.4 Payments on business days**

A Note may only be presented for payment on a day that is a business day in the place of presentation. If the due date for any payment of principal or interest under this Condition 7 is not a business day, the Holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7 only, "**business day**" means any day on which commercial banks and foreign exchange markets are open for business in New York City, London, Moscow, Dublin and Zurich and in the city where the specified office of the relevant Paying Agent is located.

**7.5 Record date**

"**Record Date**" means the fifteenth business day, in the place of the specified office of the Registrar, before the due date for the relevant payment.

**7.6 Agents**

The initial Agents and their initial specified offices are listed below. The Issuer reserves the right to vary or terminate the appointment of all or any of the Agents at any time (with the prior written approval of the Trustee) and appoint additional or other payment or transfer agents, provided that the Issuer will at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, and (iv) such other agents as may be required by any stock exchange on which the Notes may be listed. Notice of any such change will be provided to Noteholders as described in Condition 16.

In acting under the Paying Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer, the Guarantors and (to the extent provided therein) the Trustee and do not assume any obligations towards, or relationship of agency or trust for or with, any of the Noteholders.

**8 Taxation**

**8.1** All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or by the Guarantors under the Guarantees shall be made free and clear of, and without deduction or withholding for or on account of, any Taxes, unless such withholding or deduction is required by law. In the event such withholding or deduction is required by law, the Issuer or (as the case may be) the relevant Guarantor or Guarantors shall pay such additional amounts so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

**8.1.1** held by or on behalf of a Holder that is (i) able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (ii) liable to such taxes, duties, assessments or governmental charges in respect of such Note or the Guarantee by reason of his having some connection (whether present of former) with Switzerland, Ireland or Russian Federation other than the mere holding of such Note or the benefit of a Guarantee;

**8.1.2** where (in the case of a payment of principal or interest on redemption or at maturity) the relevant Definitive Note is surrendered for payment more than 30 calendar days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 calendar days; or

**8.1.3** any combination of sub-conditions 8.1.1 and 8.1.2 above.

**8.2** Notwithstanding any other provision of the Conditions, any amounts to be paid on the Notes by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

**8.3** In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received for the account of the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 16.

**8.4** Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) that may be payable under Condition 8 or any similar undertaking given in addition to or in substitution for it under the Trust Deed.

## 9 Events of Default

**9.1** If any of the following events occurs then the Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or secured and/or prefunded to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of any of the Notes by no later than the seventh Business Day after the due date for payment thereof or fails to pay any amount of interest by no later than the tenth Business Day after the due date for payment thereof; or

(b) *Obligations*: the Issuer or any Guarantor, as the case may be, fails duly to perform or comply with, or is otherwise in breach of, any other obligation expressed to be assumed by it under or in respect of the Notes, the Guarantees or the Trust Deed, as the case may be, and such failure or breach, provided it is in the opinion of the Trustee capable of remedy, is not remedied within 30 days after the Trustee has given written notice of it to the Issuer or the Guarantors.

(c) *Cross Default*: any of the following occurs in respect of any member of the Group:

(i) any of its Consolidated Total Debt is not paid when due (after the expiry of any originally applicable grace period); or

(ii) any of its Consolidated Total Debt:

**A.** becomes prematurely due and payable; or

**B.** is placed on demand; or

**C.** is capable of being declared by a creditor to be prematurely due and payable or being placed on demand, in each case, as a result of an Event of Default; or

(iii) any commitment for its Consolidated Total Debt is cancelled or suspended as a result of an Event of Default,

unless the aggregate amount of Consolidated Total Debt falling within all or any of sub-paragraphs (i) to (iii) above is less than US$50,000,000 (or its equivalent in other currency or currencies).

(d) *Validity and Illegality*: the validity of the Notes, the Guarantees or the Trust Deed, as the case may be, is contested by the Issuer or any Guarantor, or the Issuer or any Guarantor shall deny any of their respective obligations thereunder or (save as provided in Condition 4(b)) it is, or will become, unlawful for the Issuer or the Guarantors to perform or comply with any of their respective obligations under or in respect of the Notes, the Trust Deed and the Guarantees or any of such obligations shall become unenforceable or cease to be legal, valid and binding.

(e) *Authorisations*: any regulation, decree, consent, approval, licence, governmental authorisation, or other authority necessary to enable the Issuer or any Guarantor to enter into or (save as provided in Condition 4(b)) perform its obligations under the Notes, the Trust Deed or the Guarantees or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to remain in full force and effect or shall be modified in a manner which adversely affects any rights or claims of the Noteholders and the Trustee and such expiration, revocation or termination has a Material Adverse Effect.

(f) *Bankruptcy and Insolvency*: the occurrence of any of the following events:

(i) the Issuer, any Guarantor or any of their respective Material Subsidiaries is unable, or admits inability to, pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties (in the reasonable view of the management of the Issuer, such Guarantor or such Material Subsidiary, as the case may be), commences negotiations with its creditors generally with a view to rescheduling any of its Consolidated Total Debt;; and/or a moratorium is declared in respect of any Consolidated Total Debt of the Issuer, the Guarantors or any of their respective Material Subsidiaries;

(ii) any of the Issuer, the Guarantors or any of their respective Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or bankruptcy or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of any of the Issuer, the Guarantors or any of their respective Material Subsidiaries, as the case may be;

(iii) the presentation or filing of a petition in respect of any of the Issuer, the Guarantors or any of their respective Material Subsidiaries in any court, arbitration court or before any Agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Issuer, the Guarantors or their respective Material Subsidiaries, unless such petition is demonstrated to the satisfaction of the Trustee to be vexatious or frivolous;

(iv) the institution of the supervision (*nablyudeniye*), financial rehabilitation on (*finansovoye ozdorovlenie*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) of any of the Issuer, the Guarantors or their respective Material Subsidiaries, or the entry by the

Issuer, the Guarantors or their respective Material Subsidiaries into, or the agreeing by the Issuer, the Guarantors or their respective Material Subsidiaries to enter into, amicable settlement (*mirovoe siglashenie*) with its creditors as such terms with Russian transliteration are defined in the Federal Law of the Russian Federation No. 127-FZ "On Insolvency (Bankruptcy)" of 26 October 2002 (as amended or replaced from time to time), or any analogous procedure or event in any other relevant jurisdiction;

(v) any judicial liquidation, dissolution, administration or winding-up of the Issuer, any Guarantor or any of their respective Material Subsidiaries; or

(vi) the shareholders of any of the Issuer, the Guarantors or any of their respective Material Subsidiaries, shall have approved any plan of liquidation, dissolution, administration or winding-up of the Issuer, the Guarantors or such Material Subsidiaries (otherwise than, in the case of a Material Subsidiary, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent).

This Condition 9(f) shall not apply to the solvent liquidation or reorganisation of any member of the Group other than the Guarantors so long as any payments or assets distributed as a result of such liquidation or reorganisation are distributed to other members of the Group.

(g) *Governmental or Court Action*: any government, Agency or court takes any action that would result in a Material Adverse Effect, including, without prejudice to the foregoing: (i) the management of the Issuer, any Guarantor or any of their respective Material Subsidiaries is wholly or partially displaced or the authority of the Issuer, such Guarantor or such Material Subsidiary in the conduct of its business is wholly or partially curtailed; (ii) all or a majority of the issued shares of the Issuer, any Guarantor or any of their respective Material Subsidiaries are seized, nationalised, expropriated or compulsorily acquired; or (iii) the whole or any part of the assets of the Issuer, any Guarantor or any of their respective Material Subsidiaries (the book value of which is more than 5 per cent. of the Consolidated Total Assets (excluding any assets of a Project Owner) is seized, nationalised, expropriated or compulsorily acquired.

(h) *Appropriation*: unless contested in good faith by the Issuer, any Guarantor or any of their respective Material Subsidiaries and not dismissed, disapplied or overturned within 30 Business Days by the Issuer, any Guarantor or such Material Subsidiary, a secured party takes possession (in the case of non-possessory security) or otherwise takes possession under enforcement of its security, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer, any Guarantor or any of their Material Subsidiaries having a Fair Market Value in excess of 5 per cent. of the book value of the Consolidated Total Assets (excluding any assets of a Project Owner).

(i) *Judgments*: the aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies that are not subject to further appeal for the payment of money against the Issuer, any Guarantor and/or any of their respective Subsidiaries exceeds 5 per cent. of the book value of the Consolidated Total Assets (excluding any assets of a Project Owner) or 5 per cent. of the gross revenues of the Group.

(j) *Analogous Events*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Condition 9(e) to Condition 9(i).

**9.2** The Issuer or the Guarantors shall deliver to the Trustee, forthwith upon becoming aware thereof, written notice in the form of an Officer's Certificate of any event which is a Potential Event of Default or an Event of Default, its status and what action the Issuer, the relevant Guarantor or the relevant Material Subsidiary, as the case may be, is taking or proposes to take with respect thereto and, if applicable, whether such event will have a Material Adverse Effect.

## 10 Prescription

Claims for the payment of principal and interest in respect of any Note shall be prescribed and become void unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

## 11 Replacement of Definitive Notes

If a Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange, be replaced at the specified offices of the Registrar or the Transfer Agents on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Registrar or the Transfer Agents. Mutilated or defaced Notes must be surrendered before replacements will be issued.

## 12 Meetings of Noteholders, Modification and Waiver

### 12.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes or the Trust Deed. Noteholders will be entitled to one vote per U.S.$1,000 in principal amount of Notes held by them. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured and/or prefunded to its satisfaction, upon the request in writing of holders of the Notes holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The Trust Deed provides that special quorum provisions apply for meetings of Noteholders convened for the purpose of, inter alia (i) altering the terms and conditions relating to the maturity, redemption, prepayment and repayment (including, without prejudice to the generality of the foregoing, Condition 6) or postponing any date for payment of interest, (ii) reducing the principal amount of the Notes, (iii) varying the amounts corresponding to interest or principal payable in respect of the Notes or the method of determining such payments in respect of the Notes, (iv) varying the currency in which payments under the Notes are to be made, (v) modifying or cancelling any Guarantee, (vi) amending the provisions of Schedule 3 of the Trust Deed concerning the quorum required at any meeting of the Noteholders or any adjourned such meeting thereof or concerning the majority required to pass an Extraordinary Resolution or (vii) amending the proviso to paragraph 2 of Schedule 3 of the Trust Deed, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than one-quarter, in principal amount of the Notes for the time being outstanding. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders of the Notes outstanding (a "**Written Resolution**") will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

### 12.2 Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, the Trust Deed or the Paying Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or any other modification (except as mentioned in the Trust Deed) which in the opinion of the Trustee is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer or any Guarantor of the Notes, any Guarantee or the Trust Deed, or determine that any event which would or might otherwise give rise to a right of acceleration under the Notes shall not be treated as such if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders, provided always that the Trustee may not exercise such power of waiver in contravention of a written request given by holders of 25 per cent. in aggregate principal amount of the Notes then outstanding or any express direction by Extraordinary Resolution or Written Resolution. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be promptly notified to the Noteholders in accordance with Condition 16.

### 12.3 Substitution

The Trust Deed contains provisions permitting the Trustee to agree with the Issuer and the Guarantors, subject to such amendment of the Trust Deed and such other conditions as the Trustee may reasonably require, but without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such substitution, the Trustee may agree with the Issuer and the Guarantors, without the consent of the Noteholders, to a change of law governing the Notes and/or the Trust Deed, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of Noteholders. Notice of any such substitution will be provided to the Noteholders as described in Condition 16 below.

### 12.4 Entitlement of the Trustee

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, any Guarantor or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

## 13 Enforcement

At any time after an Event of Default has occurred and for as long as it is continuing, the Trustee may, at its discretion and without further notice, institute such proceedings and/or take such steps or actions against the Issuer and/or any Guarantor as it may think fit to enforce the terms of the Trust Deed, the Guarantees and/or the Notes, but the Trustee shall not be bound to institute such proceedings and/or take or omit to take any step or action unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against the Issuer or any Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

## 14 Indemnification and Removal of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including provisions relieving it from taking proceedings or steps or actions to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction, and to be paid its costs and expenses in priority to any claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, each Guarantor and any entity related to the Issuer or each Guarantor without accounting for any profit.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Notes or for the performance by the Issuer or any Guarantor of its obligations under or in respect of the Notes and the Trust Deed. The Trustee is entitled to assume that the Issuer and each Guarantor is performing all of its obligations pursuant to the Notes and the Trust Deed (and shall have no liability for doing so) until it has express written notice to the contrary.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by auditors, accountants or any other expert pursuant to the Trust Deed, whether or not addressed to the Trustee and whether or not the auditors', accountants' or experts' liability in respect thereof is limited by a monetary cap or otherwise. The Trust Deed provides that the Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove the Trustee (or any successor trustee or additional trustees) provided that the removal of the Trustee or any other trustee shall not become effective unless there remains a Trustee in office after such removal.

**15 Further Issues**

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest, the date of issue and the amount of principal) and so that such further issue shall be consolidated and form a single series with the outstanding Notes; provided, however, that any further securities that have the same identifying number as the outstanding Notes shall be issued either in a "qualified reopening" for U.S. federal income tax purposes or otherwise as part of the same "issue" for U.S. federal income tax purposes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from the guarantees substantially in the form of the Guarantees given in respect of these Notes. Application will be made for such further securities to be listed and admitted to trading on the stock exchange on which the Notes are from time to time listed or quoted.

**16 Notices**

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register or by any means designated from time to time by any clearing system on which trades in Notes settle. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are listed on the Stock Exchange and the rules or guidelines of that exchange so require, notices will be published via the companies announcements office of the Stock Exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

**17 Provision of Information**

The Issuer and the Guarantors shall, during any period in which they are not subject to or in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934 (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3 2(b) under the Exchange Act, duly provide to any holder of a Note which is a "restricted security" within the meaning of Rule 144(a)(3) under the Securities Act or to any prospective purchaser of such securities designated by such Noteholder, upon the written request of such Noteholder or (as the case may be) prospective Noteholder addressed to the Issuer or the respective Guarantor, as the case may be, and delivered to the Issuer or the respective Guarantor, as the case may be, or to the Specified Office of the Registrar, the information specified in Rule 144A(d)(4) under the Securities Act.

## 18 Currency Indemnity

If any sum due from the Issuer in respect of the Notes or a Guarantor in respect of the Guarantees or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer or a Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes or the Guarantees, the Issuer, failing whom the Guarantors, shall indemnify each recipient, on the written demand of such recipient addressed to the Issuer and the Guarantors and delivered to the Issuer and the Guarantors or to the specified office of the Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such recipient may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer or, as the case may be, the Guarantors and shall give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder or any other person and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed and/or the Notes or any other judgment or order.

## 19 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

## 20 Governing Law and Arbitration

**20.1** The Trust Deed, the Guarantees, the Notes and these Conditions and any non-contractual obligations arising out of or in connection therewith shall be governed by and interpreted in accordance with English law.

**20.2** The Issuer and the Guarantors have in the Trust Deed agreed that any dispute, claim or difference of whatever nature arising out of or in connection with the Notes (including a dispute regarding the existence, validity or termination of the Notes or a dispute relating to non-contractual obligations arising out of or in connection with this Trust Deed or the Notes) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the Arbitration Rules (the "**Rules**") of the London Court of International Arbitration ("**LCIA**") (such arbitration to also be administered by the LCIA in accordance with the Rules). The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly the second arbitrator. The third arbitrator, who shall serve as Chairman, shall be nominated by agreement of the two party-nominated arbitrators. The seat of arbitration shall be London, England, and the seat of arbitration shall be English. The parties to the Trust Deed have excluded the jurisdiction of the English courts under Section 45 and Section 69 of the Arbitration Act 1996.

**20.3** The Issuer undertakes irrevocably to appoint Aquila International Services Limited of 2nd Floor, Berkeley Square House, Berkeley Square, London W1J 6BD as agent to accept service of process and any other documents in proceedings in England or in any legal action or proceedings arising out of or in connection with these Conditions and the Notes (the "**Issuer's Process Agent**"), provided that:

**20.3.1** service upon the Issuer's Process Agent shall be deemed valid service upon the Issuer whether or not the process is forwarded to or received by the Issuer;

**20.3.2** the Issuer shall inform the Trustee, in writing, of any change in the address of the Issuer's Process Agent within 14 calendar days of such change;

**20.3.3** if the Issuer's Process Agent ceases to be able to act as a process agent or to have an address in England, the Issuer irrevocably agrees to appoint a new process agent in England acceptable to the Trustee and to deliver to the trustee within 14 calendar days a copy of a written acceptance of appointment by the new process agent; and

**20.3.4** nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.

**20.4** Each Guarantor undertakes irrevocably to appoint Law Debenture Corporate Services Limited of 5th Floor, 100 Wood Street, London, EC2V 7EX as agent to accept service of process and any other documents in proceedings in England or in any legal action or proceedings arising out of or in connection with these Conditions and the Notes (the "**Guarantors' Process Agent**"), provided that:

**20.4.1** service upon the Guarantors' Process Agent shall be deemed valid service upon the Guarantors whether or not the process is forwarded to or received by the relevant Guarantor;

**20.4.2** each Guarantor shall inform the Trustee, in writing, of any change in the address of the Guarantors' Process Agent within 14 calendar days of such change;

**20.4.3** if the Guarantors' Process Agent ceases to be able to act as a process agent or to have an address in England, each Guarantor irrevocably agrees to appoint a new process agent in England acceptable to the Trustee and to deliver to the trustee within 14 calendar days a copy of a written acceptance of appointment by the new process agent; and

**20.4.4** nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.

**20.5** To the extent that the Issuer or any Guarantor may now or hereafter be entitled, in any jurisdiction in which any legal action or proceeding may at any time be commenced pursuant to or in accordance with these Conditions, to claim for itself or any of its undertaking, properties, assets or revenues present or future any immunity (sovereign or otherwise) from suit, jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or award or from set-off, banker's lien, counterclaim or any other legal process or remedy with respect to its obligations under these Conditions and/or to the extent that in any such jurisdiction there may be attributed to the Issuer or the Guarantors any such immunity (whether or not claimed), the Issuer and each Guarantor hereby irrevocably agrees not to claim, and hereby waive, any such immunity (to the fullest extent permitted by the laws of such jurisdiction).

**20.6** The Issuer and each Guarantor irrevocably and generally consents in respect of any proceedings anywhere to the giving of any relief or the issue and service on it of any process in connection with those proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those proceedings.

## 21 Non-Petition

None of the Noteholders or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes, other than in the case of fraud, wilful default or negligence.

## 22 Definitions

In these Conditions the following terms have the meaning given to them in this Condition 2.

An "**Affiliate**" of any specified Person means: (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person; or (ii) any Person who is a director or officer (A) of such specified Person, (B) of any Subsidiary of such specified Person, or (C) of any Person described in (i) or (ii) above;

"**Agency**" means any agency, authority, central bank, department, government, legislature, minister, official or public statutory Person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Auditors**" means the auditors of the Group's consolidated financial statements for the time being or, if they are unable or unwilling to carry out any action requested of them under these Conditions, any other internationally recognised firm of accountants;

"**Authorised Signatory**" means, in relation to the Issuer and, as the case may be, the relevant Guarantor, any Person who is duly authorised and in respect of whom the Trustee has received a certificate signed by a director or another Authorised Signatory of the Issuer or, as the case may be, the respective Guarantor setting out the name and signature of such Person and confirming such Person's authority to act;

"**Board of Directors**" means, as to any Person, the board of directors or equivalent competent governing body of such Person, or any duly authorised committee thereof;

"**Business Day**" means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for general business in Dublin, Moscow, New York City, Switzerland and London and the city where the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent is located, and in relation to any date for payment or purchase of a currency, the principal financial centre of the country of that currency;

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a Person other than a corporation, in each case whether now outstanding or hereafter issued;

“**Conditions**” means the terms and conditions of the Notes;

“**Consolidated EBITDA**” means the consolidated net pre-taxation profits of the Group for a Measurement Period:

(a) including the net pre-taxation profits of a member of the Group or business or assets acquired during that Measurement Period for the part of that Measurement Period when it was not a member of the Group and/or the business or assets were not owned by a member of the Group; but

(b) excluding the net pre-taxation profits attributable to any member of the Group or to any business or assets sold during that Measurement Period,

and all as adjusted by:

(i) adding back Consolidated Interest Payable;

(ii) taking no account of any extraordinary item;

(iii) excluding any amount attributable to minority interests;

(iv) adding back depreciation and amortisation;

(v) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period;

(vi) before taking into account any realised and unrealised exchange gains and losses;

(vii) excluding any EBITDA of projects financed by means of any Permitted Debt; and

(viii) including (without double counting) any amount attributable to any associated company or undertaking only to the extent such amounts are included in the consolidated financial statements of the Group prepared in accordance with IFRS.

“**Consolidated Eligible Cash and Cash Equivalents**” means, at any time:

(a) any amounts and investments shown as cash and cash equivalents in the most recently published consolidated financial statements of the Group prepared in accordance with IFRS, in each case not subject to any security interest (other than pursuant to any customary bankers' liens arising by operation of law);

(b) certificates of deposit, maturing within one year after the relevant date of calculation, issued by a bank or trust company which has a credit rating of “BBB-” or higher by Standard & Poor’s Rating Services or Fitch Ratings Ltd or “Baa3” or higher by Moody’s Investors Service Limited (an “**Approved Bank**”);

(c) any investment in marketable obligations issued or guaranteed by the government of the United States of America, the UK, any member state of the European Economic Area or any Participating Member State or by an instrumentality or agency of any of them having an equivalent credit rating which:

(i) matures within one year after the date of the relevant calculation; and

(ii) is not convertible or exchangeable to any other security;

(d) open market commercial paper not convertible to any other security (such commercial paper to be valued at its nominal trading value as at the Measurement Date where this differs from its face value):

(i) for which a recognised trading market exists;

(ii) issued in the United States of America, the UK, any member of the European Economic Area or any Participating Member State;

(iii) which matures within one year after the relevant date of calculation; and

(iv) which has a credit rating of "BBB-" or higher by Standard & Poor's Rating Services or Fitch Ratings Ltd or "Baa3" or higher by Moody's Investors Service Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;

(e) Sterling bills of exchange eligible for rediscount at the Bank of England and accepted by an Approved Bank (or any dematerialised equivalent);

(f) investments which can be turned into cash within 30 days in money market funds which:

(i) have a credit rating of either "BBB-" or higher by Standard & Poor's Rating Services or Fitch Ratings Ltd or "Baa3" or higher by Moody's Investors Service Limited; and

(ii) invest substantially all their assets in securities of the types described in paragraphs (a) to (e) above,

in each case, to which any member of the Group is beneficially entitled at that time and which is capable of being applied against the Consolidated Total Debt.

"**Consolidated Interest Payable**" means all interest and other financing charges (including commission and commitment fees and amounts payable in respect of any instrument treated as a debt instrument in the consolidated financial statements of the Group prepared in accordance with IFRS) and the interest element of any rental payments or finance or capital leases (whether, in each case, paid, payable or capitalised) incurred by the Group during a Measurement Period;

"**Consolidated Net Debt**" means Consolidated Total Debt less Consolidated Eligible Cash and Cash Equivalents;

"**Consolidated Total Assets**" means the "total assets" as published in the most recent consolidated financial statements of the Group delivered to the Trustee pursuant to Condition 4(j);

"**Consolidated Total Debt**" means, in respect of the Group, at any time the aggregate, including any off-balance sheet items (without double counting), of the following:

(a) the outstanding principal amount of any moneys borrowed;

(b) acceptance under any acceptance credit facility or bill discount facility (or dematerialised equivalent);

(c) the outstanding principal amount of any bond, note, debenture, loan stock or other similar instrument (but not Trade Instruments);

(d) the capitalised element of liability under any lease or hire purchase contract which would, in accordance with GAAP and/or IFRS, be treated as a financial balance sheet liability (other than any liability in respect of a lease or hire purchase contract which would, in accordance with GAAP and/or IFRS in force prior to 1 January 2019, have been treated as an operating lease);

(e) the outstanding principal amount of all moneys owing in connection with the sale or discounting of receivables (otherwise than on a non-recourse basis);

(f) the outstanding principal amount of any indebtedness arising from any deferred payment agreements arranged primarily as a method of raising finance or financing the acquisition of an asset;

(g) any fixed or minimum premium payable on the repayment or redemption of any instrument referred to in paragraph (c) above;

(h) the outstanding principal amount of any indebtedness arising in connection with any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;

(i) without any double-counting, any liability in respect of any guarantee or indemnity for or in respect of any of the items referred to in paragraphs (a) to (h) above,

and in any case, without counting any hybrid financing instrument (including but not limited to perpetual bonds) that is treated as part of the equity account in accordance with IFRS,

but excluding the Permitted Debt;

"**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing;

"**Dollars, $**" and "**U.S.$**" means the lawful currency of the United States of America;

"**Environment**" means living organisms including the ecological systems of which they form part and the following media:

(a) air (including air within natural or man-made structures, whether above or below ground);

(b) water (including territorial, coastal and inland waters, water under or within land and water in drains and sewers); and/or

(c) land (including land under water);

"**Environmental Approval**" means any authorisation required by an Environmental Law;

"**Environmental Claim**" means any claim, proceeding or investigation by any Person in connection with any Environmental Law;

"**Environmental Law**" means any applicable law or regulation in any jurisdiction in which the Group conducts business concerning:

(a) the protection of health and safety;

(b) the environment; or

(c) any emission or substance which is capable of causing harm to any living organism or the environment;

"**Event of Default**" has the meaning assigned to such term in Condition 9 hereof;

"**Fair Market Value**" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors of the Issuer or the relevant Guarantor or Material Subsidiary, whose determination shall be conclusive if evidenced by a resolution of such Board of Directors;

"**Fitch**" means Fitch Ratings Ltd. or any successor to its rating business;

"**GAAP**" means, in relation to a company, generally accepted accounting principles and practices in the jurisdiction of its incorporation;

"**Group**" means the Parent and its consolidated Subsidiaries from time to time taken as a whole; a member of the Group means each of the Issuer, the Guarantors and the Parent's consolidated Subsidiaries from time to time;

"**Group's Potash Assets**" means:

(a) the shares, participatory interests or other right of ownership in, and branches of, a member of the Group (other than the Issuer or the Guarantors) that owns and/or develops the Potash Assets; and

(b) the Potash Assets.

"**guarantee**" means, in relation to any Consolidated Total Debt of any Person, any obligation of another Person to pay such Consolidated Total Debt including (without limitation):

(a) any obligation to purchase such Consolidated Total Debt;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Consolidated Total Debt;

(c) any indemnity against the consequences of a default in the payment of such Consolidated Total Debt; and

(d) any other agreement to be responsible for such Consolidated Total Debt;

"**IFRS**" means the International Financial Reporting Standards (including the International Accounting Standards) promulgated by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

"**IFRS Fiscal Period**" means any fiscal period for which the Group has produced consolidated financial statements in accordance with IFRS which have either been audited or reviewed by independent accountants of recognised international standing;

"**Investment Grade Rating**" means a rating equal to or higher than (i) BBB – (or the equivalent) by S&P; (ii) BBB – (or the equivalent) by Fitch or (iii) Baa3 – (or the equivalent) by Moody's or in each case the equivalent thereof from any duly approved substitute Rating Agency;

"**Investment Grade Status**" means that the Notes have an Investment Grade Rating from two Rating Agencies;

"**Issue Date**" means 13 March 2019;

"**Lien**" means any mortgage, pledge, lien, charge, assignment, hypothecation or other security interest or agreement or arrangement having a similar effect (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

"**Material Adverse Effect**" means a material adverse effect on: (i) the business, operations, property or condition (financial or otherwise) of the Group taken as a whole; (ii) the Issuer's or any Guarantor's ability to perform or comply with its obligations under the Conditions, the Guarantees and the Trust Deed; or (iii) the validity, legality or enforceability of the Conditions, the Guarantees and the Trust Deed or the rights or remedies of the Noteholders or the Trustee thereunder;

"**Material Subsidiary**" means any Subsidiary of the Issuer or any Guarantor that (a) has assets and/or revenues representing 5 per cent. or more of the consolidated assets or revenues of the Group, respectively, as calculated by reference to the Group's consolidated financial statements for the most recent IFRS Fiscal Period or (b) holds a mining licence;

"**Measurement Date**" means the last day of each second financial quarter in any financial year and the last day of each financial year of the Parent;

"**Measurement Period**" means a period of 12 months ending on any Measurement Date;

"**Moody's**" means Moody's Investors Service, Inc. or any successor to its rating business.

"**Non-recourse Project Financing**" means any financing of all or part of the costs of the acquisition, construction or development of any project if a Person or Persons providing such financing expressly agree to limit their recourse to the project financed (and related assets), the direct owner of such project (the "**Project Owner**"), the shares in the Project Owner and the revenues derived from such project as the principal source of repayment for moneys advanced, provided that:

(a) equity contribution agreements, subordinated debt and similar shareholder funding arrangements (and related guaranties) with respect to the Project Owner entered into by any member of the Group;

(b) arm's length commercial agreements between the Project Owner and any member of the Group, or performance guarantees given by any member of the Group with respect to commercial agreements relating to the project;

(c) any share purchase agreement entered into by any member of the Group with respect to the shares in the Project Owner; or

(d) any other assurance, undertaking or support provided by any member of the Group in relation to the project that is not by way of guarantee, indemnity or other assurance against financial loss,

including, in each case, any assignment by the Project Owner of its rights thereunder to the Persons providing such financing, shall not result in such financing being considered recourse to any member of the Group other than the Project Owner;

"**Officer's Certificate**" means a certificate signed by two Authorised Signatories of the Issuer or, as the case may be, the relevant Guarantor who shall be the principal executive officer, principal accounting officer and/or principal financial officer of the Issuer or, as the case may be, the relevant Guarantor;

"**Original Financial Statements**" means the 2018 audited consolidated financial statements of the Group;

"**Permitted Debt**" means any indebtedness in relation to Non-Recourse Project Financing;

"**Permitted Indebtedness**" means any or all of the following Consolidated Total Debt:

(a) Consolidated Total Debt outstanding at the Issue Date;

(b) Consolidated Total Debt represented by the Notes and the Guarantees (for the avoidance of doubt, no further Notes may be issued in reliance on this paragraph (b));

(c) Consolidated Total Debt arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five Business Days of its incurrence;

(d) Consolidated Total Debt of the Parent or a Subsidiary of the Parent incurred and outstanding on or prior to the date on which such Subsidiary became a Subsidiary of the Parent (other than the Consolidated Total Debt incurred in connection with or in contemplation of, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary of the Parent); on the date of such acquisition and after giving pro forma effect thereto, the Parent would have been entitled to incur at least U.S.$1.00 of additional Consolidated Total Debt pursuant to Condition 4(k);

(e) Consolidated Total Debt incurred under any revolving credit facility (including any warehouse finance or any other inventory finance facility) solely for working capital purposes in an ordinary course of business of the Group provided that the maturity of any advance thereunder is less than 365 days and the principal amount outstanding thereunder does not exceed U.S.$150,000,000 at any one time;

(f) Refinancing Indebtedness incurred by the Parent or any Subsidiary of the Parent in exchange for, or the net proceeds of which are used to Refinance the Consolidated Total Debt that was permitted to be incurred under Condition 4(k) and paragraphs (a), (b), (d) above and this paragraph (f);

(g) in addition to items referred in paragraphs (a) – (f) above, Consolidated Total Debt of the Parent and its Subsidiaries in an aggregate principal amount of up to U.S.$300,000,000 at any time outstanding;

"**Permitted Liens**" means:

(a) Liens granted by any member of the Group which are existing as at the Issue Date;

(b) Liens arising or created in connection with any Non-recourse Project Financing;

(c) Liens on any property, income or assets of a Person existing at the time that such Person is acquired, merged into or consolidated with any member of the Group; provided that such Liens were not created in contemplation of such event and do not extend to any assets, income or property of the Issuer, the Guarantors, or any of their Material Subsidiaries, other than the surviving Person and its Subsidiaries;

(d) Liens on assets, income or property acquired by any member of the Group, existing prior to such acquisition; provided that such Liens were not created in contemplation of such acquisition and do not extend to any other assets, income or property;

(e) any Lien on any property or assets of any member of the Group, securing Consolidated Total Debt incurred for the purpose of financing all or part of the acquisition, maintenance, repair or construction of such property or assets provided that (a) no such Lien shall extend to any other property or assets of any member of the Group, (b) the aggregate principal amount of all Consolidated Total Debt secured by Liens under this paragraph on such property or assets does not exceed the purchase price of such property or assets (including customs duties, transport, insurance, construction and installation costs and other incidental costs and expenses of purchase and any VAT or similar taxes thereon) and (iii) such Lien attaches to such property or assets concurrently with the maintenance or repair thereof or within 90 days after the acquisition or commencement of construction thereof, as the case may be;

(f) Liens incurred, or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits (including, any pension, retirement or post-retirement benefits or arrangements), and leases, appeal bonds and other obligations of like nature in the ordinary course of business;

(g) any Liens imposed by operation of law and in the ordinary course of business;

(h) Liens for ad valorem, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Issuer or any of the Guarantors or any member of the Group has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;

(i) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Group and existing, arising or incurred in the ordinary course of business;

(j) (i) bankers' Liens in respect of deposit accounts, (ii) statutory landlords' Liens, (iii) deposits to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature (so long as, (X) with respect to items described in (ii) and (iii) above of this paragraph (j), such Liens do not secure obligations constituting Consolidated Total Debt for borrowed money and (Y) with respect to items described in (i), (ii) and (iii) above of this paragraph (j), such Liens are incurred in the ordinary course of business), and (iv) Liens arising from any judgment, decree or other order which does not constitute an Event of Default;

(k) Liens upon, or with respect to, any present or future assets or revenues or any part thereof which are created pursuant to any Repo transaction;

(l) Liens granted by any Subsidiary of the Parent, in favour of (a) the Parent or another Subsidiary of the Parent, or (b) the Parent in favour of its Subsidiary with respect to the property or assets, or any income or profits therefrom, of the Parent or such Subsidiary;

(m) any Lien over any rights, title or interest in, to or under any Product Delivery Contract, including the receivables generated under any such Product Delivery Contract and all other monies and proceeds arising in connection with any such Product Delivery Contract, and any Lien over any bank accounts into which the receivables, monies and proceeds from any such Product Delivery Contract are paid or transferred (including (i) amounts standing to the credit of such bank accounts and (ii) any rights under any agreements establishing or opening such bank accounts);

(n) any Lien in respect of obligations arising under hedging agreements so long as the related indebtedness is permitted to be incurred under these Conditions and any such hedging agreement is not speculative;

(o) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group;

(p) any Lien created in connection with the raising of any Consolidated Total Debt for working capital purposes for a period of no more than 180 days;

(q) any Lien over export-grade fertilizers, any other export-grade commodities or receivables or proceeds arising upon sale of such fertilizers or commodities to secure the Consolidated Total Debt incurred under any revolving credit facility (including any warehouse finance or any other inventory finance facility) solely for working capital purposes in the ordinary course of business of the Group provided that the maturity of any advance thereunder is less than 365 days and the aggregate principal amount outstanding thereunder does not exceed U.S.$300,000,000 at any one time;

(r) any extension, renewal of or substitution for any Lien permitted by any of the preceding paragraphs (a) through (q); provided, however, that, such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien, with respect to Liens incurred pursuant to this paragraph the principal amount secured has not increased and the Liens have not been extended to any additional property (other than proceeds of the property in question); and

(s) any Lien over assets, excluding any Lien arising under sub-paragraphs (a) to (r) above, the value of which, in aggregate, does not exceed an amount equal to 20 per cent. of the Consolidated Total Assets at any time (excluding any assets of a Project Owner).

"**Permitted Transaction**" means:

(a) any sale, lease, transfer or other disposal arising under any agreement or instrument to which any member of the Group is a party on the Issue Date;

(b) the solvent liquidation or reorganisation of any member of the Group other than the Guarantor so long as any payments or assets distributed as a result of such liquidation or reorganisation are distributed to other members of the Group;

(c) transactions conducted in the ordinary course of trading on arm's length terms;

(d) any transaction or series of transactions between members of the Group.

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity;

"**Potash Assets**" means potash mines or assets (including, without limitation, shafts) together with fertilizer production facilities and all above ground and underground industrial infrastructure to be designed, developed, procured, constructed, commissioned, owned or operated by a member of the Group (other than the Issuer and the Guarantors) at the Gremiachinskoye Deposit in the Kotelnikovsky district of the Volgograd region of Russia and the Verkhnekamskoye Deposit in the Perm region of Russia and, in each case, potash mined or produced therein;

"**Potential Event of Default**" means any event or circumstances which, with the lapse of time and/or the issue, making or giving of any notice, certificate, determination and/or request and/or the taking of any similar action and/or fulfilment of any similar condition, would constitute an Event of Default;

"**Product Delivery Contract**" means any contract for the sale or delivery of fertilisers and other products of the Group, entered into from time to time between (i) members of the Group or (ii) any member of the Group and any other Person in the ordinary course of such member of the Group's business that is customary in the fertiliser industry, including any commission agency contracts, any spot sale contract and any transportation or other contracts related thereto;

"**Rating Agency**" means Fitch, Moody's, S&P or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Parent from time to time with the prior written approval of the Trustee;

"**Refinance**" means, in respect of any Consolidated Total Debt, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Consolidated Total Debt in exchange or replacement for, such Consolidated Total Debt. "**Refinances**", "**Refinanced**" and "**Refinancing**" shall have correlative meanings;

"**Refinancing Indebtedness**" means the Consolidated Total Debt that Refinances any Consolidated Total Debt of the Parent or any Subsidiary of the Parent existing on the Issue Date or incurred in compliance with these Conditions, including the Consolidated Total Debt that Refinances Refinancing Indebtedness; provided, however, that:

(a) where the Consolidated Total Debt being Refinanced has a Stated Maturity that is later than the Stated Maturity of the Notes, such Refinancing Indebtedness has a Stated Maturity that is later than the Stated Maturity of the Notes;

(b) where the Consolidated Total Debt being Refinanced has a Stated Maturity that is earlier than the Stated Maturity of the Notes, such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Consolidated Total Debt being Refinanced;

(c) where the Consolidated Total Debt being Refinanced has a Weighted Average Life to Maturity that is later than the Weighted Average Life to Maturity of the Notes, such Refinancing Indebtedness has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred that is greater than the Weighted Average Life to Maturity of the Notes;

(d) in all cases, such Refinancing Indebtedness has an aggregate principal amount (or if incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if incurred with original issue discount, the aggregate accreted value) then outstanding (plus fees and expenses, including any premium and defeasance costs) under the Consolidated Total Debt being Refinanced; and

(e) where the Consolidated Total Debt being Refinanced is subordinated in right of payment to the Notes and the Guarantees, such Refinancing Indebtedness is subordinated in right of payment to the Notes and Guarantees at least to the same extent as the Consolidated Total Debt being Refinanced.

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes of this definition, the term "**securities**" means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation;

"**S&P**" means Standard & Poor's Credit Market Services Europe Limited, a division of the McGraw Hill Companies, Inc. or any successor to its rating business;

"**Stated Maturity**" means, with respect to any Consolidated Total Debt, the date specified in such Consolidated Total Debt as the fixed date on which the final payment of principal of such Consolidated Total Debt is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such Consolidated Total Debt at the option of the holder or lender thereof upon the happening of any contingency unless such contingency has occurred);

"**Stock Exchange**" means The Irish Stock Exchange plc trading as Euronext Dublin;

"**Subsidiary**" of any specified Person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired, (i) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by such first-named Person and/or any of its Subsidiaries and such first-named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (ii) in the case of a partnership, joint venture, association, or other business or entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if (in each case) in accordance with IFRS, as consistently applied, such entity would be consolidated with the first-named Person for financial statement purposes;

"**Taxes**" means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Ireland, Switzerland or, as the case may be, the applicable jurisdiction for any of the Issuer or the Guarantors if different from the aforementioned; and the term "**Taxation**" shall be construed accordingly;

"**Trade Instruments**" means any performance bonds, advance payment bonds, documentary letters of credit or promissory notes issued in respect of the obligations of any member of the Group arising in the ordinary course of trading of that member of the Group;

"**U.S. Dollar Equivalent**" means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with such other currency as most recently published under "Currency Rates" in the section of the Financial Times entitled "Currencies, Bonds & Interest Rates" or any replacement thereof;

"**Voting Stock**" means, in relation to any Person, Capital Stock entitled (without the need for the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof; and

"**Weighted Average Life to Maturity**" means, when applied to any Consolidated Total Debt at any date, the number of years obtained by dividing:

(a) the then outstanding aggregate principal amount or liquidation preference, as the case may be, of such Consolidated Total Debt into:

(b) the sum of the products obtained by multiplying:

    (i) the amount of each then remaining instalment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by

    (ii) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

## SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

*The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.*

The Notes will be evidenced on issue either (i) in the case of Regulation S Notes, by a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg; or (ii) in the case of Rule 144A Notes, by a Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co, as nominee of DTC.

Beneficial interests in the Regulation S Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See *Book-Entry Procedures for the Global Notes*. On acquisition of a beneficial interest in a Regulation S Note, as represented by a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person (as defined in Regulation S) and that it will not offer, sell, pledge or otherwise transfer such interest except (i) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or (ii) to a person whom the seller reasonably believes to be a person who is eligible to take delivery in the form of an interest in the Rule 144A Global Note. See *Transfer Restrictions.*

Beneficial interests in the Rule 144A Global Note may only be held through DTC at any time. See *Book-Entry Procedures for the Global Notes*. By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See *Transfer Restrictions.*

Beneficial interests in a Global Note will be subject to certain restrictions on transfer set forth in such Global Note and in the Agency Agreement, and with respect to the Rule 144A Global Note, as set forth in Rule 144A. The Rule 144A Global Note will bear the legends regarding such restrictions set forth under *Transfer Restrictions*. A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Note, and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

**Amendments to the Terms and Conditions**

In addition, the Global Notes will contain a provision which modifies the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Notes.

**Notices**

Notwithstanding Condition 16 of the Notes, so long as the Global Notes are held by or on behalf of DTC, Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Noteholders represented by the Global Notes may be given by delivery of the relevant notice to DTC, Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System, *provided that*, for so long as the Notes are listed on Euronext Dublin, and the guidelines of Euronext Dublin so require, notice shall also be given in accordance with the guidelines published by Euronext Dublin. Notices will be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to the relevant clearing system.

*Payments*

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to the person who appears at the relevant time on the register of the Noteholders as holder of the Notes represented by a Global Note against presentation and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. Upon any payment of principal or interest on a Global Note, the amount so paid shall be endorsed by or on behalf of the Principal Paying Agent on behalf of the Issuer in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes. Notwithstanding Condition 7, "**Record Date**" should mean the Clearing System Business Day immediate prior to the relevant due date for payments and the "**Clearing System Business Day**" means Monday to Friday inclusive, except 25 December and 1 January. For the purposes of payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7.4.

*Meetings*

The holder of the Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of holders of the Notes.

In considering the interests of Noteholders while a Global Note is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

*Cancellation*

Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

*Prescription*

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by Global Notes will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 of the Notes).

**Electronic Consent and Written Resolution**

While any Global Note is registered in the name of any nominee for a clearing system, then:

(a) approval of a resolution proposed by the Issuer, the Guarantors or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing System(s) in accordance with their operating rules and procedures by or on behalf of all the holders of the Notes outstanding (an "Electronic Consent" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders whether or not they participated in such Electronic Consent; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer, the Guarantors and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer, the Guarantors and/or the Trustee, as the case may be, by accountholders in the clearing system with entitlements to such Global Note or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer, the Guarantors and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "commercially reasonable evidence" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. None of the Issuer, the Guarantors nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

**Exchange for Definitive Notes**

*Exchange*

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Definitive Note if: (i) interests in the relevant Global Note are held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC; or (B) Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent; or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes evidenced by Definitive Notes and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note for Definitive Notes on or after the date specified in the notice.

The holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for interests evidenced by Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

If only one of the Global Notes (the "**Exchange Global Note**") becomes exchangeable for Definitive Notes in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding Definitive Notes issued in exchange for beneficial interests in the Exchange Global Note and, on the other hand, persons wishing to purchase beneficial interests in the other Global Note.

*Delivery*

After the circumstances set out above have occurred, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will (against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes; and (b) in the case of the Rule 144A Global Note, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB. Definitive Notes issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under *Transfer Restrictions*.

*Legends*

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part (subject to the applicable minimum denomination) by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Definitive Note representing a Rule 144A Note (the "**Rule 144A Definitive Note**") bearing the legend referred to under *Transfer Restrictions*, or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

# TAXATION

*The following is a general description of certain United States federal, Russian, Irish and Swiss tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.*

*Also, investors should note that an appointment by an investor in the Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.*

## Certain U.S. Federal Income Tax Considerations

The following discussion is a summary based on present law of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of Notes. This discussion addresses only U.S. Holders (as defined below) that purchase Notes in the original offering at the original issue price, hold Notes as capital assets and use the U.S. dollar as their functional currency. This discussion is a general summary only; it is not a complete description of all U.S. tax considerations relating to the purchase, ownership and disposition of Notes. It does not address the tax treatment of U.S. Holders that will hold Notes in connection with a permanent establishment outside of the United States. It also does not address the tax treatment of U.S. Holders subject to special rules, such as banks and certain other financial institutions, insurance companies, regulated investment companies, real estate investment trusts, dealers in securities, securities traders that elect to mark-to-market, U.S. expatriates, individual retirement accounts and other tax-deferred accounts, tax-exempt entities, persons that will hold Notes as part of a hedge, straddle, conversion or other integrated financial transaction and investors required to take certain amounts into income no later than the time such amounts are reflected on their audited financial statements. This summary does not address U.S. federal taxes other than the income tax (such as estate or gift taxes or alternative minimum tax), state, local, non-U.S. or other tax laws or matters. The Issuer intends to take the position, to the extent relevant, that the Notes are treated as debt for U.S. federal income tax purposes and this discussion assumes that position is correct.

**EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM ITS OWN TAX ADVISORS ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE NOTES UNDER THE LAWS OF IRELAND, SWITZERLAND, THE RUSSIAN FEDERATION, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.**

For purposes of this discussion, a "**U.S. Holder**" is a beneficial owner of Notes that is, for purposes of U.S. federal income taxation, a (i) citizen or resident of the United States, (ii) corporation created or organised under the laws of the United States, any state thereof, or the District of Columbia, (iii) trust subject to the control of a U.S. person and the primary supervision of a U.S. court or (iv) estate the income of which is subject to U.S. federal income taxation regardless of its source.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that acquires, holds and disposes of Notes will depend on the status of the partner and the activities of the partnership. Partnerships are urged to consult their own tax advisors regarding the specific tax consequences to them and their partners of purchasing, owning and disposing of the Notes.

**Interest**

It is anticipated, and this discussion assumes, that the Notes will be issued with no more than a *de minimis* amount of original issue discount ("**OID**"). Interest on the Notes, including the amount of any tax withheld therefrom and any additional amounts paid in respect of such withholding, will generally be includible in the gross income of a U.S. Holder in accordance with its regular method of tax accounting. The interest on the Notes will generally be ordinary income from sources outside the United States. Each U.S. Holder should consult its own tax advisor about its eligibility for, and the procedures for claiming, a reduced rate of Irish or Russian withholding tax under either the US-Ireland tax treaty or U.S.-Russian tax treaty, and should read the discussion below in *Taxation—Ireland—Withholding Tax,* or *Taxation—The Russian Federation—Double Tax Treaty Relief.* Subject to applicable limitations, a U.S. Holder may claim a deduction or a foreign tax credit only for tax withheld at the appropriate rate.

Interest will be included in net investment income for purposes of the Medicare tax applicable to certain non-corporate U.S. Holders.

**Disposition**

A U.S. Holder will generally recognise gain or loss on the sale, redemption or other disposition of a Note in an amount equal to the difference between the U.S. dollar value of the amount realised, (but less any accrued but unpaid interest, which will be taxable as ordinary interest income as discussed above to the extent not previously included in income) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note will generally be its purchase price.

Gain or loss on disposition of a Note will generally be capital gain or loss. Any capital gain or loss will be long-term capital gain or loss if the U.S. Holder has held the Note for more than one year. The long-term capital gains of non-corporate U.S. Holders may be taxed at lower rates. Deductions for capital losses are subject to limitations.

As described in *Taxation—The Russian Federation* sales or other dispositions of a Note may be subject to Russian tax if any proceeds from a sale, redemption, or other disposal of the Notes are received from either a source within the Russian Federation or from a Russian tax resident which is a legal entity. Because capital gains realised by U.S. Holders will generally be treated as arising from U.S. sources, a U.S. Holder may be restricted in their ability to claim a foreign tax credit in respect of any Russian tax arising on the sale or other disposition of Notes. However, a U.S. Holder that is eligible for the benefits of the U.S.-Russia tax treaty may be able to claim an exemption from Russian withholding tax on a sale or other disposition of a Note. U.S. Holders should consult their own tax advisors regarding their eligibility for the benefits of the U.S.-Russian tax treaty, whether any exemptions from Russian tax would be available, any necessary procedures for claiming any applicable exemption from Russian tax, and whether they would be able to credit any Russian taxes imposed on a sale or disposition of their Notes against their U.S. federal income tax liabilities in their particular circumstances.

Gain will be included in net investment income for purposes of the Medicare tax applicable to certain non-corporate U.S. Holders.

**Substitution of the Issuer**

If a successor is substituted for the Issuer, the substitution may depending on the circumstances be treated as an exchange of the Notes for deemed new notes of the successor. In such an event, unless a non-recognition provision applies, a U.S. Holder generally will recognise any gain or loss realised in the deemed exchange in an amount equal to the difference, if any, between (i) the issue price of the new notes (which would be their fair market value assuming the Notes are trading on an established market) and (ii) the U.S. Holder's adjusted tax basis in the Notes. If the stated principal amount of the new notes received in the deemed exchange exceeds their issue price by as much as 0.25 per cent. multiplied by the number of complete years to maturity, a U.S. Holder may be required to recognise

OID as ordinary income on the new notes as a result of the substitution. The OID would be the amount by which the stated principal amount of the new notes exceeds their issue price. Regardless of its regular method of tax accounting, a U.S. Holder would be required to accrue any OID as ordinary income on a constant yield to maturity basis whether or not it received cash payments. U.S. Holders should consult their own advisors regarding the foregoing.

**Information and Backup Reporting**

Payments of interest and proceeds from the sale, redemption or other disposition of a Note may be reported to the U.S. Internal Revenue Service ("**IRS**") unless the holder is a corporation or otherwise establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. A U.S. Holder can claim a credit against its U.S. federal income tax liability for the amount of any backup withholding tax and a refund of any excess. Prospective investors should consult their tax advisors as to their qualification for an exemption from backup withholding and the procedure for establishing an exemption.

Certain non-corporate U.S. Holders are required to report information with respect to their investment in Notes not held through an account with a financial institution to the IRS. Investors who fail to report required information could become subject to substantial penalties. Potential investors are encouraged to consult with their own tax advisors regarding the possible implications of these reporting requirements on their investment in Notes.

**Certain Russian Tax Considerations**

The following is a summary of certain tax considerations relevant to the purchase, ownership and disposition of the Notes as well as taxation of payments under the Guarantee. The summary is based on the laws in effect on the date of this Prospectus. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia, nor does the summary seek to address the availability of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties involved in obtaining such double tax treaty relief. Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the tax consequences to any particular holder is made hereby.

**The Russian Federation**

**Taxation of the Notes**

***General***

The following is an overview of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Notes as well as the taxation of payments under the Guarantee. The overview is based on the laws of the Russian Federation in effect on the dates of these Listing Particulars, which are subject to potential change (possibly with retroactive effect). The overview does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation, nor does it seek to address the availability of double tax treaty relief in respect of income payable on the Notes, or practical difficulties connected with claiming such double tax treaty relief.

Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes that may arise in their own particular circumstances. No representation with respect to the Russian tax consequences of investing, owning or disposing of the Notes pertinent to any particular Noteholder is made hereby.

Many aspects of the Russian tax laws are subject to significant uncertainty and lack of interpretive guidance, resulting in inconsistent interpretations and application thereof. Further, provisions of the

Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable changes (possibly with retroactive effect) and inconsistent interpretation than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates and relevant interpretations may constantly change. In practice, interpretation by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated in the Russian Tax Code. Similarly, in the absence of binding precedents, court rulings on tax or other related matters taken by different Russian courts relating to the same or similar facts and circumstances may also be inconsistent or contradictory.

For the purposes of this overview, the term **Resident Noteholder** means:

(a) a Noteholder which is a legal entity or an organisation and is:

   (i) a Russian legal entity;

   (ii) a foreign legal entity or organisation recognised as a Russian tax resident based on Russian domestic law (if the Russian Federation is recognised as the place of management of such legal entity or organisation as determined in the Russian Tax Code unless otherwise envisaged by an applicable double tax treaty);

   (iii) a foreign legal entity or organisation which holds and/or disposes of the Notes through its permanent establishment in the Russian Federation (a "Legal Entity Resident Noteholder"), and

(b) an Individual Noteholder and is actually present in Russia in total 183 calendar days or more in any period comprised of 12 consecutive months (an "**Individual Resident Noteholder**"). Presence in the Russian Federation is not considered interrupted if an individual departs for short periods (less than six months) from the Russian Federation for medical treatment or education purposes as well as for the employment or other duties related to the performance of works (services) on offshore hydrocarbon fields. The interpretation of this definition by the Ministry of Finance of the Russian Federation states that, for tax withholding purposes, an individual's tax residence status should be determined on the date of the income payment (based on the number of days spent in the Russian Federation in the 12-month period preceding the date of the payment). An individual's final tax liability in the Russian Federation for any reporting calendar year should be determined based on the number of days spent in the Russian Federation in such calendar year.

For the purposes of this overview, the term **"Non-Resident Noteholder"** means any Noteholder (including any individual (the **"Individual Non-Resident Noteholder"**) and any legal entity or an organisation (the **"Legal Entity Non-Resident Noteholder"**)) that does not qualify as a Resident Noteholder.

The Russian tax treatment of payments under the Guarantee made by EuroChem to the Trustee under the Trust Deed may affect the holders of the Notes. See "*—Taxation of Payments under the Guarantee*" below.

Noteholders should seek professional advice on their tax status in Russia.

***Legal Entity Non-Resident Noteholders***

*Acquisition of the Notes*

The acquisition of the Notes by a Legal Entity Non-Resident Noteholder (whether upon issuance or in the secondary market) should not trigger any Russian tax implications for the Legal Entity Non-Resident Noteholder.

*Disposal of the Notes*

A Legal Entity Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of gain or other income realised on sale, redemption or a disposal of the Notes, provided that no portion of proceeds from such sale, redemption or other disposal of the Notes is received from either a source within the Russian Federation or from a Russian tax resident which is a legal entity and no portion thereof is attributable to accrued interest. Any portion of such proceeds received from either a source within Russian Federation or from a Russian tax resident which is a legal entity attributable to accrued interest may be subject to Russian withholding tax at a rate of 20 per cent. even if the sale, redemption of disposal itself results in a capital loss, subject to the provisions outlined in Section "*Double Tax Treaty Relief*" below.

Legal Entity Non-Resident Noteholders should consult their tax advisers with respect to the tax consequences of the acquisition and disposal of the Notes and the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a sale, redemption or other disposal of the Notes and applicability of double tax treaty relief.

***Individual Non-Resident Noteholders***

*Acquisition of the Notes*

The taxation of income of Individual Non-Resident Noteholders will depend on whether the income is characterised as received from a Russian or non-Russian source. In certain circumstances, the acquisition of the Notes by Individual Non-Resident Noteholders (either at original issuance if the Notes are not issued at par, or in the secondary market) may constitute a taxable event for Russian personal income tax purposes. In particular, if Individual Non-Resident Noteholders acquire the Notes in the Russian Federation or from a Russian entity and the acquisition price of the Notes is below fair market value (calculated under a specific procedure for the determination of market prices of securities for Russian personal income tax purposes), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to material benefit (deemed income) received by individuals as a result of acquiring securities. Although the Russian Tax Code does not contain any provisions as to how the source of the related material benefit should be determined, in practice the Russian tax authorities may infer that such income should be considered as Russian-source income if the Notes are purchased "in the Russian Federation". In the absence of any additional guidance as to what should be considered as a purchase of securities in the Russian Federation, the Russian tax authorities may apply various criteria, including looking at the place of conclusion of the acquisition transaction, the location of the seller, or other similar criteria. In such a case, Individual Non-Resident Noteholders may be subject to Russian personal income tax at a rate of 30 per cent. on an amount equal to the difference between the fair market value and the purchase price of the Notes.

The tax may be withheld at source of payment or, if the tax is not withheld, the Individual Non-Resident Noteholder may be required to declare its income in the Russian Federation by filing a tax return and paying the tax or based on a tax assessment received from the Russian tax authorities, depending on the circumstances.

*Disposal of the Notes*

Individual Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of gain or other income realised on a redemption, sale or disposal of the Notes outside the Russian Federation, provided that the proceeds of such sale, redemption, or other disposal of the Notes are not received from either a source within the Russian Federation or from a Russian legal entity that qualifies as a tax agent for Russian personal income tax purposes (generally, a licensed broker or an asset manager that carries out operations in the Russian Federation in the interests of an Individual Non-Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement).

If proceeds from the sale, redemption or other disposal of the Notes, including any portion of such proceeds attributable to accrued interest income under the Notes, are received either from a Russian source or from a Russian legal entity qualifies as a tax agent for Russian personal income tax purposes, an Individual Non-Resident Noteholder will generally be subject to Russian personal income tax at a rate of 30 per cent., in respect of the gross proceeds from such sale, redemption or other disposal less any available deduction of expenses incurred by the Noteholder (which includes the purchase price of the Notes) subject to any available double tax treaty relief, as discussed below in "*Double Tax Treaty Relief*".

Income received from a sale, redemption or disposal of securities should be treated as having been received from a Russian source if such a sale, redemption or disposal occurs in the Russian Federation. In the absence of any guidance as to what should be considered as a sale or other disposal of securities "in the Russian Federation", the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the buyer, or other similar criteria. There is no assurance, therefore, that proceeds received by Individual Non-Resident Noteholders from a sale, redemption or disposal of the Notes will not become subject to tax in the Russian Federation.

Further, there is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities or by the person remitting the proceeds to an Individual Non-Resident Noteholder (where such person is considered the tax agent, obliged to calculate and withhold Russian personal income tax and remit it to the Russian budget), the cost deductions may be disallowed and the tax will apply to the gross amount of the sale, redemption or disposal proceeds.

In certain circumstances, if the sale and/or disposal proceeds (including accrued interest on the Notes) are paid to an Individual Non-Resident Noteholder by a licensed broker or an asset manager that carries out operations in the Russian Federation in the interests of an Individual Non-Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement, the applicable Russian personal income tax at the rate of 30 per cent. (or such other tax rate as may be effective at the time of payment) should be withheld at source by such entity who will be considered as the tax agent. The withholding tax rate should be applied to the difference between the proceeds paid to the Individual Non-Resident Noteholder and the amount of duly documented deductions relating to the original purchase cost and related expenses incurred by the Noteholder on the purchase, holding and sale of the Notes to the extent that such deductions and expenses can be determined by the entity making the payment. The entity making the payment would be required to report to the Russian tax authorities the income received by and a deduction allowed to the Individual Non-Resident Noteholder and tax withheld upon the sale/ disposal of the Notes.

If a Russian personal income tax obligation arises as a result of the sale, redemption or other disposal of the Notes but the tax has not been withheld in the absence of a tax agent, an Individual Non-Resident Noteholder is required to file a personal income tax return in the Russian Federation to report the amount of income received to the Russian tax authorities and apply for a deduction in the amount of the acquisition cost and other expenses related to the acquisition, holding, sale or other disposal of the Notes, based on the provision of supporting documentation. The applicable personal income tax will then have to be paid by the individual on the basis of the filed personal income tax return.

If a Russian personal income tax obligation arises as a result of the sale, redemption or other disposal of the Notes but the tax agent was not able to withhold the tax and reported this fact to the Russian tax authorities, the tax is payable by the Individual Non-Resident Noteholder based on a tax assessment issued by the Russian tax authorities.

Under certain circumstances, gains received and losses incurred by an Individual Non-Resident Noteholder as a result of the sale, redemption or other disposal of the Notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes, which would affect the total amount of personal income of an Individual Non-Resident Noteholder subject to taxation in the Russian Federation.

Since the sale, redemption or other disposal proceeds and deductible expenses for Russian tax purposes are calculated in roubles, the taxable base may be affected by fluctuations in the exchange rates between the currency in which the Notes were acquired, the currency in which the Notes were sold, and roubles, i.e. there could be a loss or no gain in the currency of the Notes but a gain in roubles which could be potentially subject to taxation.

Individual Non-Resident Noteholders should consult their tax advisers with respect to the tax consequences of the acquisition and disposal of the Notes and the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a sale, redemption or other disposal of the Notes.

***Resident Noteholders***

A Resident Noteholder will generally be subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of gain from the sale, redemption or other disposal of the Notes and interest income received on the Notes. Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and disposal of the Notes may have on their tax position.

*Legal Entity Resident Noteholders*

A Legal Entity Resident Noteholder should, prima facie, be subject to Russian profits tax at the rate of up to 20 per cent. on interest (coupon) income on the Notes as well as on the capital gain from the sale, redemption or other disposal of the Notes. Generally, Legal Entity Resident Noteholders are required to submit Russian profits tax returns, and assess and pay tax on capital gains and interest (coupon) income.

*Individual Resident Noteholders*

An Individual Resident Noteholder should generally be subject to personal income tax at a rate of 13 per cent. on (i) deemed income resulting from the acquisition of the Notes at a price below fair market value, (ii) on interest (coupon) income on the Notes and (iii) income received from the sale, redemption or other disposal of the Notes. If such income is paid to an Individual Resident Noteholder by a tax agent, the applicable Russian personal income tax of 13 per cent. should be withheld at source by such tax agent. For the purposes of taxation of interest (coupon) income and income received from a sale, redemption and/or other disposal of the Notes, a tax agent is *inter alia* a licensed broker or an asset manager who carries out operations in the interest of an Individual Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement, or in certain cases a Russian organisation (e.g. the Issuer), which makes payments under the notes. If the Russian personal income tax has not been withheld (if there was no tax agent) Individual Resident Noteholders are required to submit annual personal income tax returns, assess and pay the tax. If the tax agent in Russia was not able to withhold the tax and reported this fact to the Russian tax authorities, the tax is payable by the Individual Resident Noteholder based on a tax assessment issued by the Russian tax authorities.

**Taxation of Principal and Interest under the Notes paid by the Issuer to the Non-Resident Noteholders**

Legal Entity Non-Resident Noteholders generally should not be subject to any Russian taxes in respect of payments of principal on the Notes received from the Issuer.

Payments under the Notes may be subject to Russian withholding tax if the Issuer is treated as a Russian tax resident or if the Issuer's activities lead to creation of a permanent establishment for the Issuer in the Russian Federation. In these cases payments of interest under the Notes made by the

Issuer to the Non-Resident Noteholders could be recognised by Russian tax authorities as subject to Russian withholding tax at a rate of 20 per cent. (or 30 per cent. in respect of Individual Non-Resident Noteholders).

However, the Russian Tax Code provides an exemption from the obligation to withhold tax from interest paid by a Russian organisation to Legal Entity Non-Resident Noteholders under the "quoted bonds" issued in accordance with the legislation of the foreign jurisdiction (this exemption is also applicable to the foreign organisations, which are either recognised as Russian tax residents, or as those organisations, which activities lead to creation of a permanent establishment in the Russian Federation).

For the purpose of the Russian Tax Code, "quoted bonds" means bonds and other debt obligations (1) which passed the listing procedure and/or (2) which were admitted to circulation on one or more foreign stock exchanges and/or (3) rights to which are recorded by a foreign depositary clearing organisation, provided such foreign stock exchanges and depositary clearing organisations are specified in the list of foreign financial intermediaries (the "**List**"). The List, which became effective on 30 December 2012, includes the Irish Stock Exchange amongst the recognised foreign stock exchanges and Euroclear Bank SA/NV ("**Euroclear**"), Clearstream and the Depository Trust & Clearing Corporation ("**DTCC**") amongst the recognised foreign depositary clearing organisations. While Clearstream and DTCC are mentioned in the List, the List does not explicitly mention Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") and the Depository Trust Company ("**DTC**"). According to the shareholding structure of Clearstream and DTCC groups, Clearstream, Luxembourg and DTC are member entities of Clearstream and DTCC groups respectively, and, therefore, Clearstream, Luxembourg and DTC are parts of Clearstream and DTCC respectively. However, there is a residual risk that the Russian tax authorities may apply a formalistic approach and take a position that Clearstream, Luxembourg and DTC are not included in the List based on the fact that they are not explicitly mentioned in the List.

Criteria (1) and (2) should be satisfied as the Notes will be listed on the Irish Stock Exchange. The Notes should satisfy criterion (3) because the rights to the Notes will be held in Euroclear and Clearstream, Luxembourg and/ or DTC, which for the purposes of the Russian Tax Code essentially should mean that the rights to the Notes are "recorded" with one of the above foreign depositary clearing organisations. According to the Russian Tax Code, in order to be treated as "quoted bonds" fulfilment of one of the above criteria is sufficient. Therefore, the Notes should be recognised as "quoted bonds" for the purposes of the Russian Tax Code. Based on the professional advice received, the Issuer believes that it should be released from the obligation to withhold the Russian withholding tax from interest payments made to Legal Entity Non-Resident Noteholders under the Notes provided that the Notes continue to be recognised as "quoted bonds" for the purposes of the Russian Tax Code as outlined above.

If the Issuer's activities lead to a creation of a permanent establishment for the Issuer in the Russian Federation, the payments under the Notes (including interest and principal amounts under the Notes) made by the Issuer to Individual Non-Resident Noteholders less any available cost deduction could be subject to Russian taxation at a rate of 30 per cent. subject to any available double tax treaty relief (for details see *"— Double Tax Treaty Relief"*).

Also, if the Issuer is treated as a Russian tax resident, or if the Issuer's activities lead to creation of a permanent establishment in the Russian Federation, the Issuer will be fully subject to all applicable Russian taxes in accordance with the Russian tax law and will be exposed to all of the risks and implications associated with the Russian tax system. Such Russian tax consequences could have a material adverse effect on the Issuer's business, financial condition and results of operations and the Issuer's ability to make payments under, or the trading price, of the Notes.

**Taxation of Payments under the Guarantee made by EuroChem**

***Russian withholding tax***

*Non-Resident Noteholders*

Payments following the enforcement of the Guarantee to be made by EuroChem to Non-Resident Noteholders to the extent relating to interest on the Notes are likely to be characterised as Russian-source income. Accordingly, such payments should be subject to withholding tax at a rate of 20 per cent. in the event that a payment under the Guarantee is made to a Legal Entity Non-Resident Noteholder which is not organised under Russian law and which holds the Notes otherwise than through a permanent establishment in the Russian Federation, subject to the provisions outlined in Section "*Double Tax Treaty Relief*" below. In the event a payment under the Guarantee is characterised as Russian-source income and is made to an Individual Non Resident Noteholder, such payment may be subject to personal income tax at a rate of 30 per cent., subject to the provisions outlined in Section "*Double Tax Treaty Relief*" below.

The Issuer and EuroChem cannot offer any assurance that: (i) double tax treaty advance relief (or a refund of any taxes withheld) will be available to a Non-Resident Noteholder with respect to payments under the Guarantee or (ii) that such withholding tax would not be imposed upon the entire payment under the Guarantee, including with respect to the principal amount of the Notes. The imposition or the possibility of the imposition of this withholding tax could adversely affect the value of the Notes.

Under the gross-up provisions for the Notes, if payments made under the Guarantee are subject to any withholding taxes for any reason (as a result of which EuroChem would be obligated to reduce the payments to be made under the Guarantee by the amount of such taxes to be withheld), EuroChem is required to increase the payments as may be necessary so that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. It is currently unclear whether the provisions obliging EuroChem to gross-up payments will be enforceable in the Russian Federation. There is a risk that the tax gross-up for withholding tax will not take place and that the full amount of the payments made by EuroChem will be subject to reduction by the Russian income tax at a rate of 20 per cent. (or 30 per cent. in respect of Individual Non-Resident Noteholders).

Non-Resident Noteholders should consult their tax advisors with respect to the tax consequences of the receipt of payments under the Guarantee, including applicability of any available double tax treaty relief.

*Resident Noteholders*

A Resident Noteholder is subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of payments to be received by such Noteholder under the Guarantee.

Resident Noteholders should consult their tax advisers with respect to the tax consequences of the receipt of payments under the Guarantee.

***Russian VAT***

Payments under the Guarantee to be made by EuroChem attributable to the principal amount or interest under the Notes and the additional tax gross-up amounts, should not be subject to Russian VAT. The payments under the Guarantee attributable to compensation of other expenses (if any) could be subject to Russian VAT.

All payments made by EuroChem with respect to the Guarantee will, except in certain limited circumstances, be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes unless the withholding or deduction for, or on account of, such taxes is then required by law. In the event of such a deduction or withholding, EuroChem, as applicable, will pay such additional amounts as may be necessary in order that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. While the Listing Particulars provide for EuroChem to pay such corresponding amounts in these circumstances, it is unclear whether a tax gross-up clause such as that contained in the Listing Particulars are enforceable in the Russian Federation. There is a risk that the tax gross-up for VAT will not take place and that the portion of the payments under the Guarantee attributable to compensation of other expenses (if any) made by EuroChem, which is a Russian legal entity, will be reduced by Russian VAT at a rate of 20 per cent.

Noteholders should consult their tax advisers with respect to the Russian VAT consequences of the receipt of payments under the Guarantee.

***Double Tax Treaty Relief***

*Advance relief*

The Russian Federation has concluded double tax treaties with a number of countries. These double tax treaties may contain provisions that allow for the reduction or elimination of Russian withholding taxes with respect to income or proceeds received by Non-Resident Noteholders from a source within Russia, including income or proceeds from the sale, redemption or other disposal of the Notes. To the extent double tax treaty relief is available and the Russian Tax Code requirements are met (i.e. the “beneficial ownership” concept and the concept of the “tax residency”), a Non-Resident Noteholder must comply with the information, documentation and reporting requirements which are then in force in the Russian Federation in order to obtain such relief.

A Legal Entity Non-Resident Noteholder who is the beneficial owner of income or proceeds in terms of an applicable double tax treaty and the Russian Tax Code would need to provide the payer of the income or proceeds with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income or proceeds in order to obtain a relief from Russian withholding taxes under a double tax treaty. This certificate should confirm that the respective Legal Entity Non-Resident Noteholder is a tax resident of the relevant double tax treaty country in the particular calendar year during which the income or proceeds is paid. This certificate should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate may be required. However, the payer of the income or proceeds in practice may request additional documents confirming the eligibility of the Legal Entity Non-Resident Noteholder for the benefits of the double tax treaty. In addition, in order to enjoy benefits under an applicable double tax treaty, the person claiming such benefits must be the beneficial owner of the relevant income or proceeds according to the respective requirements of the Russian Tax Code. In addition to a certificate of tax residency, the Russian Tax Code obliges the Legal Entity Non-Resident Noteholder to provide the tax agent with a confirmation that it is the beneficial owner of the relevant income or proceeds in advance of payment of income or proceeds. As of the date of these Listing Particulars, there has been no guidance on the form of such confirmation and it is at the moment unclear how these measures will be applied in practice. Due to introduction of these changes, there can be no assurance that the treaty relief at source will be available in practice.

Currently, in order to obtain a full or partial exemption from taxation in Russia under an applicable double tax treaty at source, an Individual Non-Resident Noteholder should confirm to a tax agent that he or she is a tax resident in a relevant foreign jurisdiction having a double tax treaty with the Russian Federation by providing the tax agent with (i) a passport of a foreign resident, or (ii) another document envisaged by an applicable federal law or recognised as a personal identity document of a foreign resident in accordance with an international treaty, and (iii) if such passport/document does not confirm tax resident status in a foreign country, upon request of the tax agent, an official confirmation issued by the competent authorities evidencing his or her status of a tax resident in the respective country. A notarised Russian translation of such official confirmation is required. The above provisions are intended to provide a tax agent with the opportunity of applying reduced (or zero) withholding tax rates under an applicable double tax treaty at source.

Non-Resident Noteholders should consult their own tax advisers with respect to the applicability of any double tax treaty relief and the relevant procedures required in Russia.

*Refund of Tax Withheld*

If (i) Russian withholding tax on income derived from either Russian sources, or from a Russian tax resident, which is a legal entity by a Non-Resident Noteholder has been withheld at source or (ii) tax on such income has been paid by a Non-Resident Noteholder on the basis of a tax return, and such Non-Resident Noteholder is entitled to relief from tax on such income under an applicable double tax treaty allowing it not to pay the tax or to pay the tax at a reduced rate, a claim for a refund of such tax can be filed within three years from the end of the tax period in which the tax was withheld or paid (subject to limitations described below).

In order to obtain a refund, the Legal Entity Non-Resident Noteholder would need to file with the Russian tax authorities a duly notarised, apostilled and translated certificate of tax residence issued by the competent tax authority of the relevant double tax treaty country and other documents confirming the right for a refund under the Russian Tax Code (including the above Russian Tax Code requirements under the “beneficial ownership” concept).

If an Individual Non-Resident Noteholder wishes to obtain a refund, he or she should provide a claim for a refund of the tax withheld and documents confirming the right for a refund under the Russian Tax Code to the tax agent (if there is an agent in Russia). If there is no tax agent on the date of the receipt by the individual of confirmation of its tax residence status in a relevant foreign jurisdiction having an applicable double tax treaty with the Russian Federation, the individual can file a claim for a refund and documents confirming the right for a refund directly with the Russian tax authorities.

Obtaining a refund of Russian taxes withheld may be a time-consuming process and can involve considerable practical difficulties, including the possibility that a tax refund may be denied for various reasons. Non-Resident Noteholders should consult their tax advisors regarding the procedures required to be fulfilled in order to obtain a refund of Russian income tax which was excessively withheld at source.

**Ireland**

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

**Taxation of Noteholders**

**Withholding Tax**

In general, tax at the standard rate of income tax (currently 20 per cent.) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

(a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as Euronext Dublin) and which carry a right to interest; and

(b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:

  (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or

  (ii) the person who is the beneficial owner of the Notes is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and

(c) one of the following conditions is satisfied:

  (i) the Noteholder is resident for tax purposes in Ireland or, if not so resident, is otherwise within the charge to corporation tax in Ireland in respect of the interest; or

  (ii) the interest is subject, under the laws of a relevant territory, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which corresponds to income tax or corporation tax in Ireland and which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or

  (iii) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:

    (i) from whom the Issuer has acquired assets;

    (ii) to whom the Issuer has made loans or advances; or

    (iii) with whom the Issuer has entered into a Swap Agreement,

  where the aggregate value of such assets, loans, advances or Swap Agreements represents not less than 75 per cent. of the aggregate value of the assets of the Issuer, or

  (iv) the Issuer is not aware at the time of the issue of any Notes that any Noteholder of those Notes is (i) a person of the type described in (c)(iii) above AND (ii) is not subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory,

  where for these purposes, the term

  "**Relevant Territory**" means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

  "**Swap Agreement**" means any agreement, arrangement or understanding that –

  (i) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and

(ii) transfers to a person who is a party to the agreement, arrangement or undertaking, or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in the asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on Euronext Dublin are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised), and one of the conditions set out in paragraph (c) above is satisfied, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland, and one of the conditions set out in paragraph (c) above is satisfied.

**Encashment Tax**

Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

**Income Tax, PRSI and Universal Social Charge**

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish income tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, pay related social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax, notwithstanding that the Noteholder is not resident in Ireland. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of Section 110 of the Taxes Consolidation Act 1997 ("**TCA**"), the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its trade or business to a company are exempt from income tax provided the recipient company is not resident in Ireland and is a company which is either resident for tax purposes in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory and which tax corresponds to income tax or corporation tax in Ireland or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which is not yet in force but which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a Relevant Territory or is a company not resident in Ireland which is under the control, whether directly or indirectly, of person(s) who by virtue of the law of a Relevant Territory are resident for the purpose of tax in a Relevant

Territory and are not under the control of person(s) who are not so resident or is a company not resident in Ireland where the principal class of shares of the company or its 75 per cent. parent is substantially and regularly traded on a recognised stock exchange. For the purposes of these exemptions and where not specified otherwise, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to income tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

**Capital Gains Tax**

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless (i) such holder is either resident or ordinarily resident in Ireland or (ii) such holder carries on a trade in Ireland through a branch or agency in respect of which the Notes were used or held or (iii) the Notes cease to be listed on a stock exchange in circumstances where the Notes derive their value or more than 50 per cent. of their value from Irish real estate, mineral rights or exploration rights.

**Capital Acquisitions Tax**

A gift or inheritance of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 33 per cent.) if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

**Stamp Duty**

No stamp duty or similar tax is imposed in Ireland on the issue, transfer or redemption of the Notes provided the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business.

**Switzerland**

**Taxation of the Notes**

***Swiss Federal Withholding Tax***

Payments by the Issuer, of interest on, and repayment of principal of, the Notes, will not be subject to Swiss federal withholding tax, provided that the Issuer is at all times resident and managed outside Switzerland for Swiss tax purposes.

On 4 November 2015, the Swiss Federal Council announced a mandate to the Swiss Federal Finance Department to institute a group of experts tasked with the preparation of a new proposal for a reform of the Swiss withholding tax system. The new proposal is expected to include in respect of interest payments the replacement of the existing debtor-based regime by a paying agent-based regime for Swiss withholding tax similar to the one published on 17 December 2014 by the Swiss Federal Council and repealed on 24 June 2015 following the negative outcome of the legislative consultation with Swiss official and private bodies. Under such a new paying agent-based regime, if enacted, a paying agent in Switzerland may be required to deduct Swiss withholding tax on any payments or any securing of payments of interest in respect of a Note for the benefit of the beneficial owner of the payment unless certain procedures are complied with to establish that the owner of the Note is not an individual resident in Switzerland.

***Swiss Federal Stamp Taxes***

The issue and redemption of the Notes by the Issuer are not subject to Swiss federal issuance stamp duty or Swiss federal transfer stamp duty.

Purchases or sales of Notes with a maturity in excess of 12 months where a Swiss domestic bank or a Swiss domestic securities dealer (as defined in the Swiss federal stamp duty act) is a party, or acts as an intermediary, to the transaction may be subject to Swiss federal stamp duty on dealings in securities (*Umsatzabgabe*) at a rate of up to 0.3 per cent. of the purchase price of the Notes. Where both the seller and the purchaser of Notes are non-residents of Switzerland or the Principality of Liechtenstein, no Swiss federal stamp duty on dealing in securities (*Umsatzabgabe*) is payable.

The issue of the Guarantees by the Guarantors is not subject to Swiss federal stamp duty.

***Income Taxation on Principal or Interest***

*Notes held by non-Swiss Noteholders*

Payments by the Issuer or Guarantor of interest and repayment of principal to, and gain realised on the sale or redemption of Notes by, a holder of Notes who is not a resident of Switzerland and who during the relevant taxation year has not engaged in a trade or business through a permanent establishment or a fixed place of business in Switzerland to which the Notes are attributable and who is not subject to income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax.

*Notes held by Swiss holders as private assets*

An individual who resides in Switzerland and holds Notes as private assets is required to include all payments of interest received on such Notes (as well as any original issue discounts or repayment premiums related thereto) as taxable income in his or her personal income tax return for the relevant tax period (in each case converted into Swiss francs at the exchange rate prevailing at the relevant times) and is taxable on the total net taxable income for such tax period at the then prevailing tax rates.

Swiss resident individuals who sell or otherwise dispose of Notes held as private assets realise either a tax-free private capital gain or a non-tax-deductible capital loss. See "— *Notes held as Swiss business assets*" below for a summary on the tax treatment of individuals classified as "professional securities dealers".

*Notes held as Swiss business assets*

Individuals who hold Notes as business assets in Switzerland and Swiss resident corporate taxpayers and corporate taxpayers resident abroad holding Notes through a permanent establishment in Switzerland are required to recognise payments of interest in respect of the Notes and any capital gain or loss realised on the sale or other disposal of Notes (in each case converted into Swiss francs at the exchange rate prevailing at the time of payment or sale), as applicable, in their income statement, as the case may be, for the permanent establishment in Switzerland, for the respective tax period, and will be taxable on total net taxable earnings (if any), as the case may be, attributable to the permanent establishment Switzerland, for such period. The same taxation treatment also applies to Swiss-resident individuals who, for income tax purposes, are classified as "professional securities dealers" for reasons of, *inter alia*, frequent dealings and leveraged transactions in securities.

*Swiss Facilitation of the Implementation of the U.S. Foreign Account Tax Compliance Act*

Switzerland has concluded an intergovernmental agreement with the U.S. to facilitate the implementation of FATCA. The agreement ensures that the accounts held by U.S. persons with Swiss financial institutions are disclosed to the U.S. tax authorities either with the consent of the account holder or by means of group requests within the scope of administrative assistance. Information will not be transferred automatically in the absence of consent, and instead will be exchanged only within the scope of administrative assistance on the basis of the double taxation agreement between the U.S. and Switzerland. On 8 October 2014, the Swiss Federal Council approved a mandate for negotiations with the U.S. on changing the current direct-notification-based regime to a regime where the relevant information is sent to the Swiss Federal Tax Administration, which in turn provides the information to the U.S. tax authorities.

*Automatic Exchange of Information in Tax Matters*

On 19 November 2014, Switzerland signed the Multilateral Competent Authority Agreement (the "**MCAA**"). The MCAA is based on article 6 of the OECD/Council of Europe administrative assistance convention and is intended to ensure the uniform implementation of Automatic Exchange of Information (the "**AEOI"**). The Federal Act on the International Automatic Exchange of Information in Tax Matters (the "**AEOI Act**") entered into force on 1 January 2017. The AEOI Act is the legal basis for the implementation of the AEOI standard in Switzerland.

The AEOI is being introduced in Switzerland through bilateral agreements or multilateral agreements. The agreements have, and will be, concluded on the basis of guaranteed reciprocity, compliance with the principle of speciality (i.e. the information exchanged may only be used to assess and levy taxes (and for criminal tax proceedings)) and adequate data protection.

Based on such multilateral or bilateral agreements and the implementing laws of Switzerland, Switzerland exchanges data in respect of financial assets, including, as the case may be, Notes, held in, and income derived thereon and credited to, accounts or deposits with a paying agent in Switzerland for the benefit of individuals resident in a EU member state or in a treaty state.

**THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISER ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN NOTES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.**

## TRANSFER RESTRICTIONS

You are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby because of the following restrictions.

### Rule 144A Notes

Each purchaser of Rule 144A Notes and the Guarantees within the United States, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged that:

(1) it is (a) a QIB; (b) acquiring such Securities for its own account, or for the account of a QIB; and (c) aware, and each beneficial owner of such Notes has been advised, that the seller of such Securities may be relying on the exemption from the provision of section 5 of the Securities Act provided by Rule 144A;

(2) it understands that the Rule 144A Notes and Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it or any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs; (b) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S; or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any state or another jurisdiction of the United States;

(3) it understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE GUARANTEES IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE MORE QIBs; OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

(4) the Issuer, EuroChem, the Parent, the Registrar, the Joint Bookrunners, the Co-Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, EuroChem, the Parent, the Joint Bookrunners and the Co-Managers. If it is acquiring any Securities as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account;

(5) it understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Certificate. Before any interest in the Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with the foregoing acknowledgements, representations and agreements and applicable securities laws; and

(6) it is relying on the information contained in this Prospectus in making its investment decision with respect to the Rule 144A Notes. It acknowledges that none of the Issuer, EuroChem, the Parent, the Joint Bookrunners or the Co-Managers has made any representation to it with respect to the Issuer or EuroChem or the Parent or the offering or sale of the Rule 144A Notes, other than the information contained in this Prospectus which has been delivered to it and upon which it is relying in making its investment decision with respect to the Rule 144A Notes. It has had access to such financial and other information concerning the Issuer, EuroChem and the Parent and the Rule 144A Notes as it has deemed necessary in connection with its decision to purchase the Rule 144A Notes, including an opportunity to ask questions of and request information from the Issuer, EuroChem, the Parent, the Joint Bookrunners and the Co-Managers.

**Prospective purchasers are hereby notified that sellers of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

**Regulation S Notes**

Each purchaser of Regulation S Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Regulation S Notes in resales prior to the expiration of the Distribution Compliance Period, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) it is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is located outside the United States (within the meaning of Regulation S); and (b) it is not an affiliate of the Issuer, EuroChem or a person acting on behalf of such an affiliate;

(2) it understands that such Regulation S Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Regulation S Notes except: (a) in accordance with Rule 144A to a person that it or any person acting on its behalf reasonably believes is a QIB purchasing for its own account or the account of a QIB; or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States;

(3) the Issuer, EuroChem, the Parent, the Registrar, the Joint Bookrunners, the Co-Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, EuroChem, the Parent, the Joint Bookrunners and the Co-Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account;

(4) it understands that the Regulation S Notes offered in reliance on Regulation S will be represented by the Regulation S Global Note. Prior to the expiration of the Distribution Compliance Period, before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in

the Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws;

(5) it understands that the Regulation S Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE GUARANTEES IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

**Book-Entry Procedures for the Global Notes**

Custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See *Book-Entry Ownership* and *Settlement and Transfer of Notes* below.

Investors may hold their interests in the Global Notes directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

*Euroclear and Clearstream, Luxembourg*

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

*DTC*

DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and to facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under *Summary of Provisions Relating to the Notes while in Global Form*, DTC will surrender the Rule 144A Global Note for exchange for Definitive Notes (which Definitive Notes will bear the legend applicable to transfers pursuant to Rule 144A).

**Book-Entry Ownership**

***Euroclear and Clearstream, Luxembourg***

The Regulation S Global Note representing the Regulation S Notes will have an ISIN, a Common Code and a CFI Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg.

**DTC**

The Rule 144A Global Note representing the Rule 144A Notes will have an ISIN, a Common Code, and a CUSIP number and will be deposited with a custodian (the "**DTC Custodian**") for, and registered in the name of Cede & Co. as nominee of, DTC. The DTC Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

**Relationship of Participants with Clearing Systems**

Each of the persons shown in the records of DTC, Euroclear, Clearstream, Luxembourg as the holder of a Note evidenced by a Global Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under such Global Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depositary by whom such Certificate is held, or the nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant common depositary or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Certificate, and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent (as defined in the *Terms and Conditions of the Notes*) will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

**Settlement and Transfer of Notes**

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such

Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Certificate held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system, and its records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

***Trading between Euroclear and/or Clearstream, Luxembourg Participants***

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

***Trading between DTC Participants***

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC Participants.

***Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser***

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC Participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the DTC Custodian of the Rule 144A Global Note will instruct the Registrar to: (i) decrease the amount of Notes registered in the name of

Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class; and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

***Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser***

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will: (a) transmit appropriate instructions to the DTC Custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant; and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Certificates among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any agent will have the responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

**Pre-issue Trades Settlement**

It is expected that delivery of the Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade the Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of the Notes may be affected by such local settlement practices, and purchasers of the Notes between the relevant date of pricing and the Closing Date should consult their own advisers.

## SUBSCRIPTION AND SALE

### Summary of Subscription Agreement

Citigroup Global Markets Limited, J.P. Morgan Securities plc, Sberbank CIB (UK) Limited, Société Générale, Unicredit Bank AG and VTB Capital plc (collectively the "**Joint Bookrunners**"), PJSC Sovcombank (the "**Senior Co-Manager**") and Sova Capital Limited(the "**Co-Manager**" and, together with the Senior Co-Manager, the "**Co-Managers**" and the Co-Managers together with Joint Bookrunners, the "**Managers**"), have, pursuant to the terms and conditions set forth in a subscription agreement dated 11 March 2019 (the "**Subscription Agreement**"), severally (and not jointly nor jointly and severally) agreed with the Issuer, the Parent and EuroChem, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100 per cent. of the principal amount of the Notes in accordance with the Subscription Agreement in the amounts set out below:

| | **Purchase commitment** |
|---|---|
| | *(U.S.$)* |
| **Managers** | |
| Citigroup Global Markets Limited | 111,000,000 |
| J.P. Morgan Securities plc | 111,000,000 |
| Sberbank CIB (UK) Limited | 111,000,000 |
| Société Générale | 111,000,000 |
| Sova Capital Limited | 10,000,000 |
| PJSC Sovcombank | 24,000,000 |
| Unicredit Bank AG | 111,000,000 |
| VTB Capital plc | 111,000,000 |
| **Total** | **U.S.$700,000,000** |

The Parent has agreed to pay to the Joint Bookrunners a combined management, underwriting and selling commission pursuant to the Subscription Agreement. The Parent has also agreed to reimburse, or procure EuroChem to reimburse, the Joint Bookrunners and the Trustee for certain of their expenses in connection with the offering of the Notes. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer. For investors in the Notes, the yield to maturity is 5.50 per cent. per annum. This calculation is based on the coupon rate, length of time to maturity and market price. It assumes that the interest paid over the life of the Notes is reinvested at the same rate.

As part of the allocation process of the offering of the Notes, up to 45 per cent. of the Notes has been allocated to one of the Joint Bookrunners or its affiliates, which may have an impact on the secondary market performance of the Notes.

### Selling Restrictions

#### *United States*

Certain Managers are not broker-dealers registered with the SEC and, therefore, may not make sales of any Notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that such Managers intend to effect sales of the Notes in the United States, they will do so only through one or more U.S. registered broker-dealers or otherwise as permitted by applicable U.S. law.

The Notes and the Guarantees (the "**Securities**") have not been and will not be registered under the Securities Act, or the securities laws of any State or other jurisdiction of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to the registration requirements of the Securities Act.

The Securities are being offered and sold outside of the United States in reliance on Regulation S. The Subscription Agreement provides that the Managers may directly or through their respective U.S.

broker-dealer affiliates arrange for the offer and resale of the Securities within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Securities, an offer or sale of Securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Terms used in this section have the meanings given to them by Regulation S.

The Issuer, EuroChem, the Parent and the Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason.

***Prohibition of Sales to EEA Retail Investors***

Each Manager has severally (and not jointly nor jointly and severally) represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For these purposes the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of the IMD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

***United Kingdom***

Each Manager has severally (and not jointly nor jointly and severally) represented, warranted and agreed that:

(i) **Financial promotion**: it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(ii) **General compliance**: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

***Russian Federation***

Each Manager has severally and not jointly and severally represented, warranted and agreed with the Issuer, EuroChem, the Parent and each of the other Managers that the Notes will not be offered or sold or otherwise transferred as part of their initial distribution or at any time thereafter, to or for the benefit of any persons (including legal entities) resident, incorporated, established or located in the Russian Federation unless and to the extent otherwise permitted under Russian law.

***Ireland***

Each Manager has severally (and not jointly nor joint and severally) represented, warranted and agreed that:

(a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity than with the provisions of the European Union (Markets in Financial Instruments) Regulations 2017 (as amended, the **"MiFID II Regulations"**), including, without limitation, Regulation 5 (Requirement for Authorisation (and certain provisions concerning MTFs and OTFs)) thereof and any codes of conduct made under the MiFID II Regulations, and the provisions of the Investor Compensation Act 1998 (as amended);

(b) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Companies Act, the Central Bank Acts 1942-2015 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989 (as amended);

(c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued by the Central Bank of Ireland (the **"Central Bank"**) under Section 1363 of the Companies Act; and

(d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of, the Notes, otherwise than in conformity with the provisions of the Market Abuse Regulation (EU 596/2014) (as amended) and any rules and guidance issued by the Central Bank under Section 1370 of the Companies Act.

### *Switzerland*

This document is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange AG or any other regulated trading facility in Switzerland, and neither this Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

### *Singapore*

Each Manager has severally (and not jointly nor jointly and severally) represented, warranted and undertaken that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

### General

Each Manager has severally (and not jointly nor jointly and severally) undertaken that it has, to the best of its knowledge and belief, complied and will comply in all material respects with applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer, EuroChem or the Parent.

Certain of the Managers have, directly or indirectly through affiliates, provided investment and commercial banking, financial advisory and other services to the Issuer, EuroChem, the Parent and their affiliates from time to time, for which they have received monetary compensation. Certain of the Managers may from time to time also enter into swap and other derivative transactions with the Issuer, EuroChem, the Parent and their affiliates. In addition, certain of the Managers and their affiliates may in the future engage in investment banking, commercial banking, financial or other advisory transactions with the Issuer, EuroChem, the Parent or their affiliates.

The Issuer, EuroChem and the Parent are party to the Subscription Agreement and have given certain representations and warranties, covenants and indemnities to the Managers therein.

**Allocation of the Notes**

The Issuer together with the Parent and EuroChem will, in connection with allocation of the Notes in the offering, consider among other factors whether or not the relevant investor seeking an allocation of the Notes has validly tendered or indicated a firm intention to tender the 2020 Notes and / or the 2021 Notes pursuant to the Tender Offer, and if so, the aggregate principal amount of the 2020 Notes and / or the 2021 Notes tendered or intended to be tendered by such investor. When considering allocations of the Notes, the Issuer together with the Parent and EuroChem intends to look favourably upon those investors who have, prior to the allocation of the Notes, tendered, or indicated their intention to the Issuer and/or the Parent and/or EuroChem or the Joint Dealer Managers pursuant to the Tender Offer to tender the 2020 Notes and / or the 2021 Notes. However, none of the Issuer, the Parent or EuroChem is obliged to allocate the Notes to an investor which has validly tendered or indicated a firm intention to tender the 2020 Notes and / or the 2021 Notes pursuant to the Tender Offer. Any allocations of the Notes, while being considered by the Issuer, the Parent and EuroChem as set out above, will be made in accordance with customary allocation processes and procedures.

## INDEPENDENT AUDITORS

PricewaterhouseCoopers AG, independent auditor, Gotthardstrasse 2, Postfach, CH-6302, Zug, Switzerland, has audited the Consolidated Financial Statements included elsewhere in this Prospectus as stated in their reports also included in this Prospectus. PricewaterhouseCoopers AG is a member of EXPERTsuisse-Swiss Expert Association for Audit, Tax and Fiduciary.

## GENERAL INFORMATION

1. Application has been made to list the Notes on Euronext Dublin, through the Listing Agent, Arthur Cox Listing Services Limited ("**ACLSL**"). ACLSL is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or to trading on the regulated market. It is expected that the listing of the Notes will be granted on or before 11 March 2019. Transactions will normally be effected for delivery on the third working day after the day of the transaction, subject only to the issue of the Global Notes.

2. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and DTC. The International Securities Identification Number ("**ISIN**") of the Regulation S Global Note is XS1961080501 and the Common Code of the Regulation S Global Note is 196108050. The CUSIP number of the Rule 144A Global Note is 29873V AB0, the ISIN of the Rule 144A Global Note is US29873VAB09 and the Common Code of the Rule 144A Global Note is 196179887. The Regulation S FSIN code is EUROCHEM FINANC/EUR NT 20240313 RES and the Regulation S CFI code is DYFXXR. The Rule 144A FSIN code is EUROCHEM FIN DE/GTD NT 20240313 GTD and the Rule 144A CFI code is DBFGGR.

3. No consents, approvals, authorisations or orders of any regulatory authorities in Ireland, the Russian Federation or Switzerland are required by the Issuer, EuroChem, the Parent or the Guarantor for the issue of the Notes, giving of the Guarantees and performance of their obligations thereunder.

4. The Legal Entity Identifier is 635400IELZVGRWMGIN72.

5. The issue of the Notes and the execution and performance by the Issuer of documents to be entered into by the Issuer in relation to the Notes have been approved and authorised by a resolution at a meeting of the Board of the Directors of the Issuer dated 20 February 2019. The Issuer has obtained all necessary consents, approvals and authorisations in Ireland in connection with the issue and performance of the obligations under the Notes.

6. The Guarantee and the other documents to be entered into by EuroChem in relation to the issue of the Notes have been approved and authorised by a resolution of the Board of Directors of EuroChem dated 8 February 2019 and 7 March 2019. EuroChem has obtained all necessary consents, approvals and authorisations in Russia in connection with the Guarantees and the issue and performance of the obligations under the Notes.

7. The Guarantee and the other documents to be entered into by the Parent in relation to the issue of the Notes have been approved and authorised by a resolution at a meeting of the Board of Directors of the Parent dated 19 February 2019. The Parent has obtained all necessary consents, approvals and authorisations in Switzerland in connection with the Guarantee and the issue and performance of the obligations under the Notes.

8. There has been no significant change in the financial or trading position or prospects of EuroChem, the Parent or the Group since 31 December 2018.

9. There are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which EuroChem or the Parent is aware) which may have or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of EuroChem, the Parent or the Group, except as disclosed in this Prospectus (see "*Business-Legal Proceedings*").

10. Since 31 December 2017, there has been no material adverse change in the financial position or prospects of the Issuer.

11. Since 31 December 2018, there has been no material adverse change in the financial position or prospects of the Parent.

12. There are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had since 31 December 2017, a significant effect on the financial position or profitability of the Issuer.

13. Neither EuroChem, the Parent nor the Issuer has entered into any material contracts outside the ordinary course of business which could result in EuroChem, the Guarantor, the Issuer or any member of the Group becoming subject to an obligation or entitlement that would be material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes or EuroChem's or the Parent's ability to meet its obligations under the Guarantees.

14. Until the maturity date or earlier repayment of the Notes, copies (and certified English translations where documents at issue are not in English, unless indicated otherwise below) of the following documents may be inspected at and are available in physical form at the registered office of the Issuer and the specified offices of the Trustee and the Principal Paying Agent in London during usual business hours on any business day (Saturdays, Sundays and public holidays excepted):

    (a) a copy of this Prospectus along with any supplement to this Prospectus;

    (b) the Constitution of the Issuer;

    (c) the charter of EuroChem (an English copy which is available for information purposes only and has not been certified);

    (d) the articles of association of the Parent;

    (e) the Consolidated Financial Statements, including the related independent auditor's report in respect thereof;

    (f) the Issuer's audited financial statements for the period ended 31 December 2017;

    (g) the Guarantees;

    (h) the Trust Deed; and

    (i) the Agency Agreement.

15. Citigroup Global Markets Europe AG will act as Registrar in relation to the Notes.

16. There are no potential conflicts of interest between any duties of the Board of Directors of EuroChem to EuroChem, and their private interests and/or other duties.

17. There are no potential conflicts of interest between any duties of the Board of Directors of the Parent to the Parent, and their private interests and/or other duties.

18. The audited financial statements of the Issuer for the year ended 31 December 2017 together with the audit report thereon, have been filed with Euronext Dublin and the Central Bank and shall be deemed to be incorporated in, and to form part of, this Prospectus. The financial statements for the year ended 31 December 2017 may be obtained from the website of Euronext Dublin at: https://www.ise.ie/debt_documents/EuroChem%20Finance%20DAC%20-%202017%20Financial%20Statements%20(Signed%20060318)_8ed9940c-5ce2-4376-8e44-491c134e3394.pdf

19. The following table sets forth information about the Group's significant subsidiaries:

| | **Country** | **Group holding (per cent.)** |
|---|---|---|
| Industrial Group Phosphorite, LLC | Russia | 100 |
| Nevinnomysskiy Azot, JSC | Russia | 100 |
| Novomoskovskiy Azot, JSC | Russia | 100 |
| EuroChem-Belorechenskie Minudobrenia, LLC | Russia | 100 |
| Kovdorskiy GOK, JSC | Russia | 100 |
| Lifosa AB | Lithuania | 100 |
| EuroChem Antwerpen NV | Belgium | 100 |
| EuroChem-VolgaKaliy, LLC | Russia | 100 |
| EuroChem-Usolskiy potash complex LLC | Russia | 100 |
| EuroChem-ONGK, LLC | Russia | 100 |
| EuroChem NorthWest, JSC | Russia | 100 |
| EuroChem-Fertilizers, LLP | Kazakhstan | 100 |
| Astrakhan Oil and Gas Company, JSC | Russia | 100 |
| EuroChem Trading GmbH | Switzerland | 100 |
| EuroChem Trading USA Corp. | U.S. | 100 |
| Ben-Trei Ltd. | U.S. | 100 |
| EuroChem Agro GmbH | Germany | 100 |
| Fertilizantes Tocantins Ltda | Brazil | 50 plus one share |

20. The Issuer estimates the total expenses directly related to the admission of the Notes to trading on the regulated market to be EUR5,000.

## INDEX TO FINANCIAL STATEMENTS

# EUROCHEM GROUP

# INTERNATIONAL FINANCIAL REPORTING STANDARDS

# CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

# 31 DECEMBER 2018

**Contents**

# EuroChem Group AG

*Zug*

# Report of the statutory auditor to the General Meeting on the consolidated financial statements 2018

pwc

# Report of the statutory auditor

## to the General Meeting of EuroChem Group AG

## Zug

## Report on the audit of the consolidated financial statements

### Opinion

We have audited the consolidated financial statements of EuroChem Group AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

### Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Our audit approach

**Overview**


Overall Group materiality: US$ 39.8 million

- We conducted full scope audit work at 9 significant reporting units audited by component teams in 6 countries.
- In addition, we performed an audit of significant financial statement line items of 8 reporting units, with the involvement of component teams in 4 countries.
- Our audit scope addressed 81% of the Group's total revenue and 78% of the Group's total assets.

As key audit matter the following area of focus has been identified:

- Impairment assessment of potash mine projects and related mineral rights

*PricewaterhouseCoopers AG, Gotthardstrasse 2, Postfach, CH-6302 Zug, Switzerland*
*Telefon: +41 58 792 68 00, Telefax: +41 58 792 68 10, www.pwc.ch*

### *Materiality*

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

| | |
|---|---|
| *Overall Group materiality* | US$ 39.8 million |
| *How we determined it* | 5% of average profit before tax for the last three years |
| *Rationale for the materiality benchmark applied* | We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. The use of the average number for the last three years helps dampen the potential effect of short-term volatility in fertiliser prices and foreign currency rates. |

### *Audit scope*

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made by management; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The Group's consolidated financial statements are prepared based on the financial information of its components, i.e. individual companies of the Group, and represent a consolidation of over 80 companies in over 20 countries comprising the Group's operating business and head office functions.

For the purpose of the Group audit, the significance of components was assessed based on the component's individual share (more than 10%) of the Group's revenue, expenses, total assets or total liabilities. If we considered a component to be significant, we performed a full scope audit, which involved an audit of its financial information based on the materiality level determined for the component in the context of the Group audit. In certain cases, when additional audit evidence for the purpose of expressing our opinion on the consolidated financial statements was required, we performed audit procedures for individual financial statement line items and types of transactions on selected components of the Group. We selected these components for audit procedures on individual balances and types of transactions separately for each financial statement line item included in the scope of our audit, considering the level of audit evidence obtained from the audit of the financial information of significant components.

In the audit process, the group engagement team worked closely with component audit teams in Germany, Belgium, Russian Federation, United States of America, Brazil and Lithuania. As part of providing direction and supervision over the work of the component auditors, we determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the consolidated financial statements as a whole.

For the purpose of our audit procedures over certain complex and specific areas, we also engaged specialists in taxation, IFRS application, as well as experts in the valuation of non-current assets and pension liabilities.

Overall, audit procedures performed at the level of significant components and other components of the Group, including testing of selected controls, detailed testing, analytical procedures and procedures on the consolidation provided us with a coverage of 81% of the Group's total revenue and 78% of the Group's total assets.

By performing the procedures at components, combined with additional procedures at the Group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

### *Key audit matters*

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

***Impairment assessment of potash mine projects and related mineral rights***

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| As at 31 December 2018, the carrying amount of non-current assets (property, plant and equipment, construction in progress and mineral rights) related to two potash mine projects, Verkhnekamskoe in the Perm and Gremyachinskoe in the Volgograd region (the "Potash mine projects"), is US$ 3,246 million, including mineral rights of US$ 130 million.<br><br>We continued to focus on the impairment assessment of the Potash mine projects and related mineral rights due to the significance of these assets to the consolidated financial statements (about 42% of total non-current assets as at 31 December 2018) and the subjective nature of judgements and assumptions that management are required to make in determining whether there are impairment indicators and in performing an impairment assessment, which are affected by the projected future market and economic terms that are inherently uncertain.<br><br>In 2018, production commenced at Verkhnekamskoe field, while Gremyachinskoe field continued to be under construction as at 31 December 2018.<br><br>Management considered the long-term development period, requirements for timely completion of projects, possible delays in reaching full production | We obtained the valuation models for each Potash mine project (discounted cash flow models) used by management to determine the recoverable amount of the relevant assets. We engaged our internal valuation experts to assist us in evaluating the methodology and assumptions used in the impairment assessment described below.<br><br>Our audit procedures related to management's assessment of non-current assets impairment of Potash mine projects and related mineral rights included:<br><br>• analysis of the methodology used by management for the impairment test;<br><br>• examination of the mathematical accuracy of the valuation models for each potash mine project;<br><br>• assessment of key assumptions such as macroeconomic forecasts: inflation rates, foreign exchange rates, future market potash prices, and those specific to the Group: capital investments, sales volumes and discount rate (weighted average cost of capital (WACC)) applied and whether these are in line with the approved budgets and strategy – the Group's |

capacity and license compliance as potential impairment indicators as at 31 October 2018 and therefore proceeded with a full impairment assessment of these assets.

Under the impairment assessment, management updated value in use models based on discounted cash flows (DCF). The Group's management performed analysis of the business performance, industry outlook and operational plans and calculated the recoverable amounts of non-current assets including mineral rights by cash generating unit.

Management assessed the risk of possible delays in:

- the construction and development of the potash deposits including the ones resulting from the water inflow at one of the shafts at Gremyachinskoe field, and
- the production reaching full capacity at Verkhnekamskoe field,

which may result in the risk of non-compliance with the terms of the mining licenses and potential impairment of the related non-current assets.

Management has compared the recoverable amount of non-current assets related to the two potash mine projects, including mineral rights, determined as their value in use, with the carrying amount of these assets and concluded that no impairment should be recognised in respect of these assets as at 31 December 2018.

*Refer to Note 2 'Basis of preparation and significant accounting policies', 9 'Mineral rights' and Note 8 'Property, plant and equipment' for more information.*

potash strategy for 2019-2023, external available and reliable sources (including macroeconomic forecasts);

- comparison, on a sample basis and with the benefit of hindsight, of the accuracy of budgets used in prior year valuation models with the actual results of the current year;
- re-performance of sensitivity analysis around the key assumptions such as future market potash prices, discount rate, sales volume, capital investments, foreign exchange rates and inflation rates to ascertain the extent of change in those assumptions that either individually or collectively would be required for the non-current assets and mineral rights to be impaired;
- obtaining management's and Board of Directors' written representations related to the impairment test including their position in relation to the partial water inflow and its effect for the overall development of the potash mine project in the Volgograd region.

Our audit procedures in relation to management's assessment of the risk of possible delays in the construction and development of the potash deposits and production reaching full capacity at Verkhnekamskoe field, which may result in the risk of non-compliance with the terms of the mining licenses and potential impairment of the related non-current assets and mineral rights, comprised:

- testing of compliance with the key terms of the licenses, including analysis of supporting documentation provided by management to confirm that all key dates and key terms stated in the licenses have been complied with, on a sample basis;
- interviews with geologists responsible for the potash projects and discussion of the stage of the mining processes, as well as the current estimate of reserves;
- obtaining confirmation from management and the Board of Directors that they regularly monitor the status of the development and production stages of the potash mine projects, the companies are ready to execute the terms of the licenses with respect to mining conditions, all required reports have been submitted on a timely basis and there have been no

| | |
|---|---|
| | issues of non-compliance with the terms of mining licenses.<br><br>Based on the above procedures, we found that the key assumptions and judgements used for the assessment of impairment for the potash mine projects in the Perm and Volgograd regions are reasonable, consistently applied and supported by the available evidence. Finally, we compared the recoverable amount of the non-current assets related to the Potash mine projects, including mineral rights, determined as their fair value in use, with the carrying amount of these assets. As a result of the performed procedures we concur with the conclusion that an impairment is not required. |

### *Other information in the annual report*

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements of EuroChem Group AG and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

### *Responsibilities of the Board of Directors for the consolidated financial statements*

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

### *Auditor's responsibilities for the audit of the consolidated financial statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit

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

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

## *Report on other legal and regulatory requirements*

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

| | |
|---|---|
| Joanne Burgener | Christopher Vohrer |
| Audit expert<br>Auditor in charge | Audit expert |

Zug, 6 February 2019

Enclosure:

- Consolidated financial statements (consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and notes)

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

| | Note | 31 December 2018 | 31 December 2017, adjusted | 1 January 2017, adjusted |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets:** | | | | |
| Property, plant and equipment | 8 | 6,666,090 | 6,918,004 | 5,297,313 |
| Mineral rights | 9 | 315,753 | 372,809 | 455,488 |
| Goodwill | 10 | 475,797 | 516,830 | 468,223 |
| Intangible assets | 11 | 102,838 | 142,924 | 163,625 |
| Investment in associates and joint ventures | 12 | 38,198 | 43,152 | 36,500 |
| Originated loans | | 3,864 | 51,046 | 53,178 |
| Restricted cash | 15 | 2,276 | 22,345 | 18,170 |
| Derivative financial assets | 21 | - | 7,189 | - |
| Deferred income tax assets | 31 | 82,613 | 55,360 | 112,517 |
| Other non-current assets | | 71,011 | 52,199 | 83,690 |
| **Total non-current assets** | | **7,758,440** | **8,181,858** | **6,688,704** |
| **Current assets:** | | | | |
| Inventories | 13 | 1,044,690 | 781,622 | 713,919 |
| Trade receivables | 14 | 366,836 | 288,959 | 267,786 |
| Prepayments, other receivables and other current assets | 14 | 289,201 | 326,637 | 315,185 |
| Income tax receivable | | 15,428 | 58,999 | 32,133 |
| Originated loans | | - | - | 412 |
| Restricted cash | 15 | 2,850 | 20,101 | 45,994 |
| Derivative financial assets | 21 | 1,126 | 18,955 | 13,602 |
| Fixed-term deposits | 15 | 1,801 | 151 | 294 |
| Cash and cash equivalents | 15 | 341,911 | 228,613 | 285,605 |
| **Total current assets** | | **2,063,843** | **1,724,037** | **1,674,930** |
| **TOTAL ASSETS** | | **9,822,283** | **9,905,895** | **8,363,634** |
| **LIABILITIES AND EQUITY** | | | | |
| **Equity attributable to owners of the parent:** | | | | |
| Share capital | 17 | 111 | 111 | 111 |
| Cumulative currency translation differences | | (2,403,963) | (1,347,833) | (1,749,745) |
| Retained earnings and other reserves | | 6,578,487 | 5,442,999 | 4,993,073 |
| | | **4,174,635** | **4,095,277** | **3,243,439** |
| Non-controlling interests | | 117 | 165 | 1,371 |
| **Total equity** | | **4,174,752** | **4,095,442** | **3,244,810** |
| **Non-current liabilities:** | | | | |
| Bank borrowings and other loans received | 18 | 2,003,275 | 1,110,205 | 1,305,671 |
| Project Finance | 19 | 420,070 | 959,373 | 573,022 |
| Bonds issued | 20 | 1,211,261 | 1,512,413 | 824,848 |
| Derivative financial liabilities | 21 | 57,103 | - | 75,209 |
| Deferred income tax liabilities | 31 | 212,721 | 231,259 | 214,290 |
| Other non-current liabilities and deferred income | 22 | 178,057 | 192,401 | 166,456 |
| **Total non-current liabilities** | | **4,082,487** | **4,005,651** | **3,159,496** |
| **Current liabilities:** | | | | |
| Bank borrowings and other loans received | 18 | 371,133 | 770,405 | 1,075,418 |
| Project Finance | 19 | 21,612 | - | - |
| Bonds issued | 20 | 215,850 | 87,091 | 323,856 |
| Derivative financial liabilities | 21 | 12,629 | 61,821 | 703 |
| Trade payables | 24 | 470,264 | 513,004 | 284,549 |
| Other accounts payable and accrued expenses | 24 | 407,191 | 334,519 | 221,396 |
| Income tax payable | | 37,539 | 10,909 | 18,912 |
| Other taxes payable | | 28,826 | 27,053 | 34,494 |
| **Total current liabilities** | | **1,565,044** | **1,804,802** | **1,959,328** |
| **Total liabilities** | | **5,647,531** | **5,810,453** | **5,118,824** |
| **TOTAL LIABILITIES AND EQUITY** | | **9,822,283** | **9,905,895** | **8,363,634** |

The accompanying notes on pages 6 to 68 are an integral part of these consolidated financial statements.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

| | Note | 2018 | 2017 |
|---|---|---|---|
| Sales | 25 | 5,577,472 | 4,865,664 |
| Cost of sales | 26 | (3,437,727) | (3,079,029) |
| **Gross profit** | | **2,139,745** | **1,786,635** |
| Distribution costs | 27 | (744,985) | (701,487) |
| General and administrative expenses | 28 | (208,292) | (217,775) |
| Other operating income/(expenses), net | 29 | 2,956 | (35,100) |
| **Operating profit** | | **1,189,424** | **832,273** |
| Share of profit/(loss) from associates and joint ventures, net | | 3,395 | (2,803) |
| Gain/(loss) from disposal of subsidiaries, net | | (45,753) | (60,205) |
| Interest income | | 8,130 | 11,864 |
| Interest expense | | (94,480) | (131,393) |
| Financial foreign exchange gain/(loss), net | | (162,070) | 569 |
| Other financial gain/(loss), net | 30 | (159,804) | 46,305 |
| **Profit before taxation** | | **738,842** | **696,610** |
| Income tax expense | 31 | (200,421) | (243,244) |
| **Profit** | | **538,421** | **453,366** |
| **Profit/(loss) attributable to:** | | | |
| Owners of the parent | | 538,448 | 453,466 |
| Non-controlling interests | | (27) | (100) |
| | | **538,421** | **453,366** |
| Earnings per share – basic and diluted | 32 | 538.45 | 453.47 |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Profit** | | **538,421** | **453,366** |
| **Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods** | | | |
| Currency translation differences | | (1,080,523) | 402,254 |
| Share of other comprehensive income/(loss) of associates and joint ventures, net | 12 | (917) | (247) |
| Currency translation differences on disposed subsidiaries reclassified to profit or loss | 16 | 25,289 | - |
| **Total other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods** | | **(1,056,151)** | **402,007** |
| **Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods** | | | |
| Remeasurements of post-employment benefit obligations, net of tax | | 1,361 | (390) |
| Change in fair value of financial assets measured at fair value through other comprehensive income | | (4,321) | - |
| **Total other comprehensive income/(loss) for the period that will not be reclassified to profit or loss in subsequent periods** | | **(2,960)** | **(390)** |
| **Total other comprehensive income/(loss)** | | **(1,059,111)** | **401,617** |
| **Total comprehensive income/(loss)** | | **(520,690)** | **854,983** |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Owners of the parent | | (520,642) | 854,988 |
| Non-controlling interests | | (48) | (5) |
| | | **(520,690)** | **854,983** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

| | Note | 2018 | 2017 |
|---|---|---|---|
| Operating profit | | 1,189,424 | 832,273 |
| Income tax paid | | (140,364) | (177,255) |
| **Operating profit less income tax paid** | | **1,049,060** | **655,018** |
| Depreciation and amortisation | 28 | 308,336 | 277,090 |
| (Gain)/loss on disposals, impairment and write-off of property, plant and equipment, net | | 7,570 | 10,314 |
| Change in ECL allowance of receivables and provision for obsolete and damaged inventories, net | | 18,276 | 19,953 |
| Other non-cash (income)/expenses, net | | (41,820) | (18,384) |
| **Gross cash flow** | | **1,341,422** | **943,991** |
| Cash proceeds/(payments) on operation derivatives, net | | (38,935) | 25,155 |
| Changes in operating assets and liabilities: | | | |
| Trade receivables | | (119,787) | (7,547) |
| Advances to suppliers | | 14,282 | (49,582) |
| Other receivables | | (16,228) | (13,257) |
| Inventories | | (403,778) | (35,587) |
| Trade payables | | 46,425 | 104,735 |
| Advances from customers | | 90,563 | 16,961 |
| Other payables | | 49,809 | 22,603 |
| Restricted cash | | 17,942 | 41,148 |
| **Net cash – operating activities** | | **981,715** | **1,048,620** |
| **Cash flows from investing activities** | | | |
| Capital expenditure on property, plant and equipment and intangible assets | | (1,100,134) | (1,479,152) |
| Purchase of mineral rights | | (357) | - |
| Other payments related to mineral rights | | (10,913) | (10,374) |
| Deferred payment for investment in associate/Investment in associate | | (2,769) | (4,517) |
| Investment in joint venture | | - | (1,997) |
| Proceeds from sale of interest in associate | 33 | - | 60,749 |
| Acquisition of subsidiaries, net of cash acquired | | - | (3,204) |
| Deferred compensation related to business combination, paid | | (3,004) | (6,795) |
| Proceeds from sale of property, plant and equipment | | 589 | 4,828 |
| Proceeds from sale of subsidiary | | - | 225,174 |
| Net change in fixed-term deposits | | (1,701) | 137 |
| Originated loans | | (503) | (38,554) |
| Repayment of originated loans | | 24,100 | 11,963 |
| Interest received | | 7,783 | 13,488 |
| Other investing activities | | 11,369 | (9,414) |
| **Net cash – investing activities** | | **(1,075,540)** | **(1,237,668)** |
| **Free cash inflow/(outflow)** | | **(93,825)** | **(189,048)** |
| **Cash flows from financing activities** | | | |
| Proceeds from bank borrowings and other loans received | | 2,723,656 | 3,128,323 |
| Funds received under the Project Finance Facilities | | 219,309 | 416,938 |
| Repayment of bank borrowings and other loans | | (2,136,094) | (3,655,674) |
| Repayment of Project Finance Facility | 19 | (750,000) | - |
| Proceeds from bonds, net of transaction costs | | - | 767,522 |
| Repayment of bonds | | (79,697) | (324,033) |
| Prepaid and additional transaction costs related to bank borrowings and bonds | | (10,898) | (17,129) |
| Prepaid and additional transaction costs related to Project Finance Facilities | | (5,285) | (4,463) |
| Interest paid | | (219,873) | (210,585) |
| Cash proceeds/(payments) on derivatives, net | 21 | (110,572) | 24,316 |
| Capital contribution | 17 | 600,000 | - |
| Dividends paid to non-controlling interests in subsidiary | | - | (598) |
| Other financial activities | | (3,972) | (3,214) |
| **Net cash – financing activities** | | **226,574** | **121,403** |
| Effect of exchange rate changes on cash and cash equivalents | | (19,451) | 10,653 |
| **Net increase/(decrease) in cash and cash equivalents** | | **113,298** | **(56,992)** |
| **Cash and cash equivalents at the beginning of the period** | **15** | **228,613** | **285,605** |
| **Cash and cash equivalents at the end of the period** | **15** | **341,911** | **228,613** |

The accompanying notes on pages 6 to 68 are an integral part of these consolidated financial statements.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

| | Attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Cumulative currency translation differences | Retained earnings and other reserves | Total | Non-controlling interests | Total equity |
| **Balance at 31 December 2016 as previously reported** | **111** | **(1,749,745)** | **4,966,855** | **3,217,221** | **1,371** | **3,218,592** |
| Adjustment due to change in accounting policy for transportation expenses (Note 2) | - | - | 26,218 | 26,218 | - | 26,218 |
| **Balance at 1 January 2017, adjusted** | **111** | **(1,749,745)** | **4,993,073** | **3,243,439** | **1,371** | **3,244,810** |
| **Comprehensive income/(loss)** | | | | | | |
| Profit/(loss) | - | - | 453,466 | 453,466 | (100) | 453,366 |
| *Other comprehensive income/(loss)* | | | | | | |
| Currency translation differences | - | 402,159 | - | 402,159 | 95 | 402,254 |
| Share of other comprehensive income/(loss) of associates and joint ventures, net | - | (247) | - | (247) | - | (247) |
| Remeasurements of post-employment benefit obligations, net of tax | - | - | (390) | (390) | - | (390) |
| *Total other comprehensive income/(loss)* | **-** | **401,912** | **(390)** | **401,522** | **95** | **401,617** |
| **Total comprehensive income/(loss)** | **-** | **401,912** | **453,076** | **854,988** | **(5)** | **854,983** |
| **Transactions with owners** | | | | | | |
| Dividends paid to non-controlling interests in subsidiaries | - | - | - | - | (598) | (598) |
| Acquisition of additional interest in subsidiary | - | - | - | - | (603) | (603) |
| **Total transactions with owners** | **-** | **-** | **-** | **-** | **(1,201)** | **(1,201)** |
| **Balance at 31 December 2017** | **111** | **(1,347,833)** | **5,446,149** | **4,098,427** | **165** | **4,098,592** |
| Adjustment due to adoption of IFRS 9 (Note 2) | - | - | (3,150) | (3,150) | - | (3,150) |
| **Balance at 1 January 2018, adjusted** | **111** | **(1,347,833)** | **5,442,999** | **4,095,277** | **165** | **4,095,442** |
| **Comprehensive income/(loss)** | | | | | | |
| Profit/(loss) | - | - | 538,448 | 538,448 | (27) | 538,421 |
| *Other comprehensive income/(loss)* | | | | | | |
| Currency translation differences | - | (1,080,502) | - | (1,080,502) | (21) | (1,080,523) |
| Share of other comprehensive income/(loss) of associates and joint ventures, net | - | (917) | - | (917) | - | (917) |
| Currency translation differences on disposed subsidiaries reclassified to profit or loss | - | 25,289 | - | 25,289 | - | 25,289 |
| Change in fair value of financial assets measured at fair value through other comprehensive income | - | - | (4,321) | (4,321) | - | (4,321) |
| Remeasurements of post-employment benefit obligations, net of tax | - | - | 1,361 | 1,361 | - | 1,361 |
| *Total other comprehensive income/(loss)* | **-** | **(1,056,130)** | **(2,960)** | **(1,059,090)** | **(21)** | **(1,059,111)** |
| **Total comprehensive income/(loss)** | **-** | **(1,056,130)** | **535,488** | **(520,642)** | **(48)** | **(520,690)** |
| **Transactions with owners** | | | | | | |
| Capital contribution (Note 17) | - | - | 600,000 | 600,000 | - | 600,000 |
| **Total transactions with owners** | **-** | **-** | **600,000** | **600,000** | **-** | **600,000** |
| **Balance at 31 December 2018** | **111** | **(2,403,963)** | **6,578,487** | **4,174,635** | **117** | **4,174,752** |

## 1 The EuroChem Group and its operations

The EuroChem Group comprises the parent entity, EuroChem Group AG (the “Company”) and its subsidiaries (collectively the “Group” or “EuroChem Group”). The Company was incorporated under the laws of Switzerland on 16 July 2014 and has its registered office at: Baarerstrasse, 37, 6300, Zug, Switzerland.

These consolidated financial statements were authorised for issue by the Board of Directors of the Company on 6 February 2019.

A company that holds business interests beneficially for Mr. Andrey Melnichenko indirectly owns 100% of AIM Capital S.E., registered in the Republic of Cyprus (31 December 2017: 100%), which in turn owns 90% (31 December 2017: 90%) of the share capital of EuroChem Group AG, the remaining 10% of the Company are held indirectly by Mr. Dmitry Strezhnev (31 December 2017: 10%).

The Group’s principal activity is the production of mineral fertilizers (nitrogen- and phosphate-based) as well as mineral extraction (apatite, phosphate rock, iron-ore, baddeleyite and potash), and the operation of a distribution network. The Group is developing two potassium salts deposits. Production of potassium fertilizer began at Verkhnekamskoe deposit in the first half of 2018. The Group’s main production facilities are located in Russia, Lithuania, Belgium, Kazakhstan and China (the joint venture’s production facilities). The Group’s distribution assets are located globally across Europe, Russia, North and Latin America, Central and South-East Asia.

## 2 Basis of preparation and significant accounting policies

***Basis of preparation.*** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and derivative financial instruments, which are accounted for at fair value.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018 and amendments to the accounting policy for transportation expenses, these policies have been consistently applied to all periods presented, unless otherwise stated. The principal accounting policies in respect of financial instruments and revenue recognition applied till 31 December 2017 are presented accordingly.

**Disclosure of changes in applying accounting policies.**

Effective 1 January 2018, the Group applies changes in accounting policy for transportation expenses which are to be capitalised as a part of inventory until the moment of sale. This change in approach is driven by the global expansion of the Group’s distribution network and the increasing share of sales to the final end users of its products.

The Group adopted the following new and amended standards effective 1 January 2018:

IFRS 9, Financial Instruments. The Group used an exemption in IFRS 9 allowing not to restate prior periods presented as a result of adoption of the new measurement requirements, but rather recognise any differences in the retained earnings as at 1 January 2018. The standard requires the financial assets to be classified in the following measurement categories: those to be measured subsequently at amortised cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The initial application of the standard did not result in any reclassifications of the Group’s financial instruments or any material changes in their measurement, therefore, the opening retained earnings were not adjusted. The standard also introduces expected credit losses impairment model, which means that anticipated as opposed to incurred credit losses will be recognised resulting in earlier recognition of impairment.

IFRS 15, Revenue from Contracts with Customers. The standard outlines the principles an entity must apply to measure and recognise revenue. As the majority of the Group’s revenue is derived from arrangements in which the transfer of control coincides with the transfer of risk and rewards, thus the changes in respect of the timing and amount of revenue recognised do not have a material impact on these consolidated financial statements.

_(all amounts are presented in thousands of US dollars, unless otherwise stated)_

## 2 Basis of preparation and significant accounting policies (continued)

At 1 January 2017, the effect of changes was as follows:

| | Balance at 31 December 2016, as previously reported | Adjustment, accounting policy | Balance at 1 January 2017, adjusted |
|---|---|---|---|
| Inventories/finished goods | 678,754 | 35,165 | **713,919** |
| Deferred income tax assets | 121,464 | (8,947) | **112,517** |
| Retained earnings and other reserves | 4,966,855 | 26,218 | **4,993,073** |
| Total equity attributable to owners of the parent | 3,217,221 | 26,218 | **3,243,439** |

At 1 January 2018, the effect of changes was as follows:

| | Balance at 31 December 2017, as previously reported | Adjustment, accounting policy | Adjustment, IFRS 9 | Balance at 1 January 2018, adjusted |
|---|---|---|---|---|
| Trade receivables/ (ECL allowance) | 293,101 | - | (4,142) | **288,959** |
| Inventories | 746,457 | 35,165 | - | **781,622** |
| Deferred income tax assets | 63,315 | (8,947) | 992 | **55,360** |
| Retained earnings and other reserves | 5,419,931 | 26,218 | (3,150) | **5,442,999** |
| Total equity attributable to owners of the parent | 4,072,209 | 26,218 | (3,150) | **4,095,277** |

The adjusted consolidated statements of financial position as of 1 January 2017 and 1 January 2018 are presented in these consolidated financial statements as a result of the above changes.

**Changes in presentation.**

For the segment reporting, sales to Mexico are reallocated from Latin America to North America (Note 7).

Since 2018 the Group has elected to present a statement of profit or loss and a statement of comprehensive income, rather than a single statement of profit or loss and other comprehensive income combining the two elements. Comparatives were presented in two statements accordingly.

***Functional and presentation currency.*** The functional currency of each of the Group's entities is the currency of the primary economic environment in which the entity operates.

While the Company's functional currency is the US dollar ("US$"), the functional currency for each of the Group's subsidiaries is determined separately. The functional currency of subsidiaries located in Russia is the Russian rouble ("RUB"); the functional currency of subsidiaries located in the Eurozone is the Euro ("EUR"), the functional currency of subsidiaries in North America and in Switzerland carrying trading activities is the US$.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit and loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss are recognised in profit and loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified financial instruments measured at fair value through other comprehensive income are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to bank borrowings, third party loans, intragroup loans and deposits are presented in the consolidated statement of profit or loss in a separate line "Financial foreign exchange gain/(loss), net". All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within "Other operating income/(expenses), net".

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 2 Basis of preparation and significant accounting policies (continued)

The presentation currency of the Group is the US$ since the management considers the US$ to be more appropriate for the understanding and comparability of consolidated financial statements. The results and financial position of each of the Group's subsidiaries were translated to the presentation currency as required by IAS 21, "The Effects of Changes in Foreign Exchange Rates":

(i) assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;

(ii) income and expenses for each consolidated statement of profit or loss are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at a historical rate; and

(iv) all resulting exchange differences are recognised as currency translation differences in other comprehensive income.

At 31 December 2018, the official exchange rates were: US$ 1 = RUB 69.4706, US$ 1 = EUR 0.8743 (31 December 2017: US$ 1 = RUB 57.6002, US$ 1 = EUR 0.8364). Average rates for the year ended 31 December 2018 were: US$ 1 = RUB 62.7078, US$ 1 = EUR 0.8465 (2017: US$ 1 = RUB 58.3529, US$ 1 = EUR 0.8855).

***Consolidated financial statements.*** Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest on a transaction-by-transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill" or "bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

## 2 Basis of preparation and significant accounting policies (continued)

***Purchases and sales of non-controlling interests.*** The Group applies the economic entity model to account for transactions with owners of non-controlling interest that do not result in a loss of control. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

***Disposals of subsidiaries and associates.*** When the Group ceases to have control or significant influence, any retained interest is remeasured to its fair value at the date when control or significant influence is lost, with the change in carrying amount recognised in profit or loss.

***Property, plant and equipment.*** Property, plant and equipment are stated at historical cost, less accumulated depreciation and a provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The cost of replacing major parts or components of property, plant and equipment items is capitalised and the replaced part is retired. Minor repair and maintenance costs are expensed when incurred.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

***Capitalisation of borrowing costs.*** General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

***Depreciation.*** Land as well as assets under construction is not depreciated. Depreciation of other items of property, plant and equipment (other than oil and gas and mining assets) is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives from the time they are ready for use:

| | Depreciation method | Useful lives in years (for straight-line method) |
|---|---|---|
| Buildings and land improvements | straight-line/unit-of-production | 15 to 85 |
| Transfer devices | straight-line/unit-of-production | 25 to 50 |
| Machinery and equipment | straight-line | 2 to 35 |
| Transport | straight-line | 5 to 40 |
| Other items | straight-line | 1 to 15 |

Depreciation of oil and gas and mining assets is calculated using the unit-of-production method.

## 2 Basis of preparation and significant accounting policies (continued)

The residual value of an asset is the estimated amount that the Group would currently obtain from disposing of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

***Remaining useful life of property, plant and equipment.*** Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and the estimated period during which these assets will bring economic benefit to the Group.

***Development expenditures.*** Development expenditures incurred by the Group are capitalised and accumulated separately in the assets under construction category for each area of interest in which economically recoverable resources have been identified. Such expenditures comprise cost directly attributable to the construction of a mine and the related infrastructure.

***Exploration assets.*** Exploration and evaluation costs related to an area of interest are written off as incurred except they are carried forward as an asset in the consolidated statement of financial position if the rights of the area of interest are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area of interest. Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. In accordance with IFRS 6, "Exploration for and Evaluation of Mineral Resources", exploration assets are measured applying the cost model described in IAS 16, "Property, Plant and Equipment" after initial recognition. Depreciation and amortisation are not calculated for exploration assets because the economic benefits that the assets represent are not consumed until the production phase. Capitalised exploration and evaluation expenditure is written off where the above conditions are no longer satisfied.

All capitalised exploration and evaluation expenditures are assessed for impairment if facts and circumstances indicate that impairment may exist. Exploration and evaluation assets are also tested for impairment once commercial reserves are found, before the assets are transferred to development properties.

***Operating leases.*** Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

***Goodwill.*** Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. The carrying value of CGU containing goodwill is compared to the relevant amount, which is the higher of value in use and the fair value less cost of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

## 2 Basis of preparation and significant accounting policies (continued)

***Mineral rights.*** Mineral rights include rights for evaluation, exploration and production of mineral resources under the licences or agreements. Such assets are carried at cost, amortisation is charged on a straight line basis over the shorter of the valid period of the license or the agreement, or the expected life of mine, starting from the date when production activities commence. The costs directly attributable to acquisition of rights for evaluation, exploration and production or related costs unavoidably arising from licences and related agreements (such as social and infrastructure objects construction) are capitalised as a part of the mineral rights. If the reserves related to the mineral rights are not economically viable, the carrying amount of such mineral rights is written off.

Mineral resources are recognised as assets when acquired as part of a business combination and then depleted using the unit-of-production method based on total proved mineral reserves. Proved mineral reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits and were determined by independent professional appraisers when acquired as part of a business combination and are subject to updates in future periods.

***Intangible assets other than goodwill.*** The Group's intangible assets other than goodwill have definite useful lives and primarily include acquired core process technology, distribution agreements, customer relationships, trademarks, capitalised computer software costs and other intangible assets.

These assets are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets with definite useful lives are amortised using the straight-line method over their useful lives:

| | **Useful lives in years** |
|---|---|
| Land use rights | 50 |
| Know-how and production technology | 5 – 18 |
| Trademarks | 15 |
| Customer relationships | 10 |
| Distribution agreement | 8 |
| Software licences | 5 |

The Group tests intangible assets for impairment whenever there are indications that intangible assets may be impaired.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost of disposal.

***Impairment of non-financial assets.*** Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

***Financial instruments – key measurement terms.***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

## 2 Basis of preparation and significant accounting policies (continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses *("ECL")*. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

***Classification and subsequent measurement of financial assets.*** From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For debt instruments, the recognition of gains and losses depends on the business model in which the investment is held:

Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gains or losses arising from derecognition are recognised directly in profit or loss.

Assets that are held for collection of contractual cash flows and for sale, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI).

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

## 2 Basis of preparation and significant accounting policies (continued)

For investments in equity instruments that are not held for trading, when the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI, there is no subsequent reclassification of gains and losses to profit or loss. Dividends from such investments are recognised in profit or loss, when the Group's right to receive payments is established. There are no impairment requirements for equity investments measured at FVOCI.

***Trade and other receivables.*** Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less ECL allowance.

***Initial recognition of financial instruments.*** Derivatives are initially recorded at their fair value. All other financial assets and liabilities are initially recorded at their fair value plus transaction costs. The fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between the fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at their trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the Group becomes a party to the contractual provisions of the instrument.

***Reclassification of financial assets***. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

***Financial assets impairment – credit loss allowance for ECL.*** The Group has changed the accounting policy for impairment losses of financial assets held at amortised cost by replacing incurred loss model with an ECL model following the transition to IFRS 9.

Under IFRS 9, loss allowances are measured on either of the following bases: 12-month ECLs that result from default events that are possible within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument.

As permitted by IFRS 9, the Group measures loss allowances for trade receivables applying a simplified approach at an amount equal to lifetime ECL. In calculating the expected credit loss, the Group considers the credit rating for each counterparty, adjusted with forward-looking factors specific to the debtors and economic environment in which they operate, and historical credit loss experience.

For other financial assets loss allowances are measured as 12-month ECL unless there has been a significant increase in credit risk since initial recognition or if the instrument contains a significant financing component. In those cases the allowance is based on the lifetime ECL.

The loans granted are analysed individually based on credit history of each borrower with the Group, financial performance and external credit ratings. The amount of ECL is assessed based on market risk premium that is taken as probability of default.

The Group recognises a loss allowance based on the difference between the contractual cash flows and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

## 2 Basis of preparation and significant accounting policies (continued)

***Financial assets – write-off.*** Financial assets are written-off, in whole or in part, when the Group has exhausted all practical recovery efforts and concluded that there is no reasonable expectation of recovery. The Group may write off financial assets that are still subject to enforcement activity when it seeks to recover amounts that are contractually due but there is no reasonable expectation of recovery.

***Modification of financial assets.*** The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the risks and rewards of the modified asset are substantially different as a result of the contractual modification by comparing the original and revised expected cash flows to assets. If the modified terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at its fair value. If the risks and rewards do not change, the modification does not result in derecognition, the Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or loss.

***Derecognition of financial assets.*** The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

***Previous accounting policy applied to financial assets under IAS 39 till 31 December 2017***

*Classification of financial assets.* The Group classified its financial assets into the following measurement categories: a) loans and receivables; b) available-for-sale financial assets; c) financial assets held to maturity and d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss had two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Loans and receivables represented unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intended to sell in the near term. They were included in the current assets, except for those with maturities greater than 12 months after the reporting date, which were classified as non-current assets.

*Reclassification of financial assets.* The Group might choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that was unusual and highly unlikely to reoccur in the near term. Financial assets that met the definition of loans and receivables might be reclassified if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity.

## 2 Basis of preparation and significant accounting policies (continued)

*Impairment of financial assets carried at amortised cost*. Impairment losses were recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. If the Group determined that no objective evidence existed that impairment had been incurred for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics, and collectively assessed them for impairment. The primary factors that the Group considered in determining whether a financial asset was impaired were its overdue status and realisability of related collateral, if any. The following other principal criteria were also used to determine whether there was objective evidence that an impairment loss had occurred:

- the counterparty experienced a significant financial difficulty as evidenced by its financial information that the Group obtained;
- the counterparty considered bankruptcy or a financial reorganisation;
- there was adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impacted the counterparty; or
- the value of collateral, if any, significantly decreased as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets were grouped on the basis of similar credit risk characteristics. Those characteristics were relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows, in a group of financial assets that were collectively evaluated for impairment, were estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts would become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience was adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that did not exist.

Impairment losses were always recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which excluded future credit losses that had not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflected the cash flows that might result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss was reversed by adjusting the allowance account through profit or loss for the year.

*Financial assets – write-off*. Uncollectible assets were written off against the related impairment loss provision after all the necessary procedures to recover the asset had been completed and the amount of the loss had been determined.

*Modification of financial assets.* If the terms of an impaired financial asset held at amortised cost were renegotiated or were otherwise modified because of financial difficulties of the counterparty, impairment was measured using the original effective interest rate before the modification of terms. The renegotiated asset was then derecognised and a new asset was recognised at its fair value only if the risks and rewards of the asset had substantially changed. This was normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

## 2 Basis of preparation and significant accounting policies (continued)

***Classification and derecognition of financial liabilities.*** The Group's financial liabilities have the following measurement categories: (a) derivative liabilities (see ***Derivative financial instruments*** below) and (b) other financial liabilities. Other financial liabilities are carried at amortised cost. The Group's other financial liabilities comprise "trade and other payables" and "borrowings and bonds" and "Project Finance" in the consolidated statement of financial position. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

***Derivative financial instruments.*** The Group's derivative financial instruments comprise forwards, options and swap contracts in foreign exchange, securities and commodities. Derivative financial instruments, including forward rate agreements, options and interest rate swaps, are carried at their fair value. All derivative instruments are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss (as financial gain /loss or operating income/expense) in the period in which they arise (Note 21).

The Group has no derivatives accounted for as hedges.

***Offsetting financial instruments.*** Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right to offset (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

***Associates.*** Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of results of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

***Joint arrangements.*** Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses, movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 2 Basis of preparation and significant accounting policies (continued)

***Income taxes.*** Income taxes have been provided for in the consolidated financial statements in accordance with tax legislation enacted or substantively enacted by the reporting date for each country where the Group companies are registered. The income tax expense comprises current tax and deferred tax and is recognised in profit or loss unless it relates to transactions that are recognised in other comprehensive income or directly in equity.

The Group companies are subject to tax rates depending on the country of domicile (Note 31).

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not be reversed through dividends or upon disposal in the foreseeable future.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in associates and joint arrangements except for deferred income tax liabilities for which the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary differences will not be reversed in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference, a deferred income tax liability is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in associates and joint arrangements only to the extent that it is probable the temporary difference will be reversed in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

***Uncertain tax positions.*** The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge.

***Inventories.*** Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted-average basis. The cost of finished goods and work in progress comprises direct costs such as raw material, labour, other direct costs and related production overheads (based on normal operating capacity) as well as transportation expenses to the point of sale, but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

## 2 Basis of preparation and significant accounting policies (continued)

***Factoring arrangements.*** The Group enters into non-recourse factoring arrangements under which trade receivables can be sold and therefore are derecognised in the full amount from trade receivables as the Group does not retain substantially all risks and rewards of ownership and no longer retain control over the asset sold. The Group continues to collect and service the receivables and then transfers to the purchaser the collected amounts of the trade receivables sold less loss reserve. Loss reserve is recognised as other receivable. Factoring fees (e.g. running costs etc.) are recognised as other financial expense.

***Prepayments.*** Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are recognised in profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment is recognised in profit or loss for the year.

***Cash and cash equivalents.*** Cash and cash equivalents include cash in hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Term deposits for longer than three months that are repayable on demand within one working day without penalties or that can be redeemed/withdrawn, subject to the interest income being forfeited, are classified as cash equivalents if the deposit is held to meet short term cash needs and there is no significant risk of a change in value as a result of an early withdrawal. Other term deposits are included into fixed-term deposits.

Cash and cash equivalents are carried at amortised cost using the effective interest method.

Restricted balances are excluded from cash and cash equivalents. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in non-current assets in the consolidated statement of financial position.

In managing the business, management focuses on a number of cash flow measures including “gross cash flow” and “free cash flow”. Gross cash flow refers to the operating profit after income tax and adjusted for items which are not of a cash nature, which have been charged or credited to profit and loss. The gross cash flow is available to finance movements in operating assets and liabilities, investing and financing activities.

Free cash flows are the cash flows available to the debt or equity holders of the business.

Since these terms are not standard IFRS measures EuroChem Group’s definition of gross cash flow and free cash flow may differ from that of other companies.

***Fixed-term deposits.*** Fixed-term deposits are deposits held with banks and have various original maturities and can be withdrawn with early notification and/or with penalty accrued or interest income forfeited. They are included in the current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets.

***Share capital.*** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the consolidated statement of changes in equity as a share premium.

***Capital contribution.*** Capital contributions received from shareholders in a form of a perpetual loan which does not require repayment, or for which the Group will be able to avoid any payments is classified as a component of equity within retained earnings and others reserves in the consolidated statement of changes in equity.

## 2 Basis of preparation and significant accounting policies (continued)

***Dividends.*** Dividends are recognised as a liability and deducted from equity in the period in which they are declared and approved. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

***Value added tax ("VAT").*** Output VAT related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. VAT incurred on purchases may be offset, subject to certain restrictions, against VAT related to revenues, or can be reclaimed in cash from the tax authorities under certain circumstances. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

***Borrowings.*** Borrowings are initially recognised at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost using the effective interest method.

***Trade and other payables.*** Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

***Investment grants.*** Investment grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Investment grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit and loss on a straight-line basis over the expected lives of the related assets.

***Provisions for liabilities and charges.*** Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

***Asset retirement obligations.*** The Group's mining, extraction and processing activities are subject to requirements under federal, state and local environmental regulations which result in asset retirement obligations. Such retirement obligations include restoration costs primarily relating to mining and drilling operations, decommissioning of underground and surfacing operating facilities.

The present value of a liability for asset retirement obligation is recognised in the period in which it is incurred if respective costs could be reliably estimated. The estimated future land restoration costs discounted to present value, are capitalised in underlying items of property, plant and equipment and then depreciated over the useful life of such assets based on the unit-of-production method for oil and gas assets and on the straight-line basis for other assets. The unwinding of the obligation is recognised in profit or loss as part of other financial gain/loss. Actual restoration costs are recognised as expenses against the provision when incurred.

Changes to estimated future costs are recognised in the consolidated statement of financial position by either increasing or decreasing the provision for land restoration and asset to which it relates. The Group reassesses its estimation of land restoration provision as at the end of each reporting period.

## 2 Basis of preparation and significant accounting policies (continued)

***Revenue recognition.*** Revenue from contracts with customers is recognised when control of the goods or services is transferred to a customer. The amount of revenue recognised reflects the consideration the Group expects to receive in exchange for goods or services, taking into account any trade, volume and other discounts. Advances received before the control passes to a customer are recognised as the contract liabilities. There are no other contract liabilities. The amount of consideration does not contain a significant financial component as payment terms for the majority of contracts are less than one year.

Contracts with customers for the supply of products use a variety of delivery terms. In a number of contracts Group is responsible for providing shipping services after the date at which control of the goods passes to the customer at the loading point. Under IFRS 15 such shipping revenue is required to be accounted for as a separate performance obligation and should be recognised over time as the service is rendered. The Group allocates the transaction price to each performance obligation based on the relative stand-alone selling prices of the product and shipping services.

In the sales disclosure the revenue of certain product groups includes the proceeds from shipping services presented in the note as well. Costs related to rendering of shipping services are mainly represented by transportation expenses and included in distribution costs disclosed in the corresponding note.

Sales are shown net of VAT and other sales taxes.

*Interest income* is recognised on a time-proportion basis using the effective interest method.

*Previous accounting policy applied under IAS 18 “Revenue” till 31 December 2017*

Revenues from sales of goods were recognised at the point of transfer of risks and rewards of ownership of the goods. If the Group agreed to transport goods to a specified location, revenue was recognised when the goods were passed to the customer at the destination point. Revenues from sales of services were recognised in the period the services were provided, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

***Employee benefits.*** Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

A number of the Group’s European subsidiaries operates defined benefit pension plans, which represent an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Remeasurements of post-employment benefit obligations are recognised in other comprehensive income. The defined pension obligation of the Group is not material.

***Earnings/(loss) per share.*** Earnings/(loss) per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

***Segment reporting.*** A segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

## 3 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause an adjustment to the carrying amount of assets and liabilities include:

***Taxation.*** Judgments are required in determining tax liabilities (Note 34). The Group recognises liabilities for taxes based on estimates of whether additional taxes will be due. Where the final outcome of various tax matters is different from the amounts that were initially recorded, such differences will impact the tax assets and liabilities in the period in which such determination is made.

***Deferred income tax asset recognition.*** The recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances (Note 31).

***Related party transactions.*** The Group enters into transactions with related parties in the normal course of business (Note 33). These transactions are priced at market rates. Judgement is applied in determining whether transactions are priced at market or non-market rates where there is no active market for such transactions. Judgements are made by comparing prices for similar types of transactions with unrelated parties.

***Capital contribution.*** The Group classified the capital contribution received from a shareholder in a form of perpetual loan which does not require repayment, or for which the Group will be able to avoid any payments as component of equity.

***Recognition of 100% interest in Fertilizantes Tocantins Ltda***. In 2016, the Group entered into agreement with Fertilizantes Tocantins Ltda, according to which the Group acquired 50% interest plus one share and entered into put and call options for the remaining 50% interest minus one share to be executed in 2022. Since put and call options will be executed simultaneously at the same exercise price, the judgement was applied that the risks and rewards associated with 100% interest in Fertilizantes Tocantins Ltda were transferred to the Group on 1 September 2016, thus, no non-controlling interest was recognised and the transaction was accounted for as the acquisition of 100% interest in the company. The liability under the put and call options scheme payable in 2022 is assessed on an annual basis and subject to unwinding. The valuation technique used to measure the liability arising from contingent consideration is based on calculating the present value of the future expected cash flows.

## 4 Adoption of new or revised standards and interpretations

In addition to those disclosed in note 2, other new amendments and improvements to standards set out below became effective 1 January 2018 and did not have any impact or did not have a material impact on the Group's consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture;
- Amendments to IFRS 2, Share-based Payment;
- Amendments to IFRS 4, Applying IFRS 9 Financial instruments with IFRS 4, Insurance contracts;
- Annual Improvements to IFRSs 2014-2016 cycle – amendments to IFRS 1 and IAS 28;
- IFRIC 22, Foreign Currency Transactions and Advance Consideration;
- Amendments to IAS 40, Transfers of Investment property.

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2018, and have not been early adopted by the Group:

- IFRS 16, Leases. The standard provides a comprehensive model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset. Under the new standard, the Group is required to recognise the present value of the unavoidable lease payments as a lease liability in the statement of financial position (including those currently classified as operating leases) with a corresponding right of use asset. The unwinding of the financial charge on the lease liability and amortisation of the right-of-use asset are recognised in the statement of profit or loss based on the implied interest rate and contract term respectively. The Group envisages adopting the modified retrospective approach, through which the cumulative effect of the initial application will be recognised as at 1 January 2019 without any restatement of comparative information. Thus the Group will recognise a right-of-use asset for operating lease at the date of initial application at an amount equal to the lease liability, adjusted by the amount of any prepaid payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The Group has finalised its review of the impact of IFRS 16 and assessed that amount of right of use assets and lease liabilities that will be recognised upon adoption as at 1 January 2019 is estimated to be US$65 million.
- IFRS 17, Insurance contracts;
- IFRIC 23, Uncertainty over Income Tax Treatments;
- Amendments to IFRS 9, Prepayment Features with Negative Compensation;
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures;
- Annual improvements to IFRSs 2015-2017 cycle;
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement;
- Amendments to the Conceptual Framework for Financial Reporting;
- Amendments to IFRS 3, Definition of a business;
- Amendments to IAS 1 and IAS 8; Definition of materiality.

Unless otherwise described above, the new standards, amendments to standards and interpretations are expected to have no impact or to have a non-material impact on the Group's consolidated financial statements.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 5 Principal subsidiaries, associates and joint ventures

The Group had the following principal subsidiaries, associates and joint ventures as at 31 December 2018:

| Name | Nature of business | Percentage of ownership | Country of registration |
|---|---|---|---|
| EuroChem Group AG | Holding company | - | Switzerland |
| **Subsidiaries:** | | | |
| Industrial Group Phosphorite, LLC | Manufacturing | 100% | Russia |
| Novomoskovsky Azot, JSC | Manufacturing | 100% | Russia |
| Novomoskovsky Chlor, LLC | Manufacturing | 100% | Russia |
| Nevinnomyssky Azot, JSC | Manufacturing | 100% | Russia |
| EuroChem-Belorechenskie Minudobrenia, LLC | Manufacturing | 100% | Russia |
| Kovdorsky GOK, JSC | Mining | 100% | Russia |
| Lifosa AB | Manufacturing | 100% | Lithuania |
| EuroChem Antwerpen NV | Manufacturing | 100% | Belgium |
| EuroChem-VolgaKaliy, LLC | Potash project under development | 100% | Russia |
| EuroChem-Usolsky potash complex, LLC | Potash project under development | 100% | Russia |
| EuroChem-ONGK, LLC | Gas project under development | 100% | Russia |
| EuroChem Northwest, JSC | Ammonia project under development | 100% | Russia |
| EuroChem-Fertilizers, LLP | Mining | 100% | Kazakhstan |
| Astrakhan Oil and Gas Company, LLC | Gas project under development | 100% | Russia |
| Sary-Tas Fertilizers, LLP | Other service | 85.79% | Kazakhstan |
| EuroChem Karatau, LLP | Manufacturing | 100% | Kazakhstan |
| Kamenkovskaya Oil and Gas Company LLP | Gas project under development | 100% | Kazakhstan |
| EuroChem Trading GmbH | Trading | 100% | Switzerland |
| EuroChem Trading USA Corp | Trading | 100% | USA |
| Ben-Trei Ltd. | Distribution | 100% | USA |
| EuroChem USA, LLC | Ammonia project | 100% | USA |
| EuroChem Agro SAS | Distribution | 100% | France |
| EuroChem Agro Asia Pte. Ltd. | Distribution | 100% | Singapore |
| EuroChem Agro Iberia SL | Distribution | 100% | Spain |
| EuroChem Agricultural Trading Hellas SA | Distribution | 100% | Greece |
| EuroChem Agro Spa | Distribution | 100% | Italy |
| EuroChem Agro GmbH | Distribution | 100% | Germany |
| EuroChem Agro México SA de CV | Distribution | 100% | Mexico |
| EuroChem Agro Hungary Kft | Distribution | 100% | Hungary |
| Agrocenter EuroChem Srl | Distribution | 100% | Moldova |
| EuroChem Agro Bulgaria Ead | Distribution | 100% | Bulgaria |
| EuroChem Agro doo Beograd | Distribution | 100% | Serbia |
| EuroChem Agro Turkey Tarım Sanayi ve Ticaret LtdŞti. | Distribution | 100% | Turkey |
| Emerger Fertilizantes S.A. | Distribution | 100% | Argentina |
| EuroChem Comercio de Produtos Quimicos Ltda. | Distribution | 100% | Brazil |
| Fertilizantes Tocantins Ltda | Distribution | 50% plus 1 share | Brazil |
| EuroChem Agro Trading (Shenzhen) Co., Ltd. | Distribution | 100% | China |
| EuroChem Trading RUS, LLC | Distribution | 100% | Russia |
| Ural-RemStroiService, LLC | Repair and constructions | 100% | Russia |
| Kingisepp RemStroiService, LLC | Repair and constructions | 100% | Russia |
| Novomoskovsk RemStroiService, LLC | Repair and constructions | 100% | Russia |
| Nevinnomyssk RemStroiService, LLC | Repair and constructions | 100% | Russia |
| Volgograd RemStroiService, LLC | Repair and constructions | 100% | Russia |
| Berezniki Mechanical Works, JSC | Repair and constructions | 100% | Russia |
| Tulagiprochim, JSC | Design engineering | 100% | Russia |
| TOMS-project, LLC | Design engineering | 100% | Russia |
| Harvester Shipmanagement Ltd. | Logistics | 100% | Cyprus |
| Eurochem Logistics International, UAB | Logistics | 100% | Lithuania |
| EuroChem Terminal Sillamäe Aktsiaselts | Logistics | 100% | Estonia |
| EuroChem Terminal Ust-Luga, LLC | Logistic project under development | 100% | Russia |
| Tuapse Bulk Terminal, LLC | Logistics | 100% | Russia |
| Murmansk Bulkcargo Terminal, LLC | Logistics | 100% | Russia |
| Depo-EuroChem, LLC | Logistics | 100% | Russia |
| EuroChem-Energo, LLC | Other service | 100% | Russia |
| EuroChem Usolsky Mining S.à r.l. | Holding company | 100% | Luxemburg |
| EuroChem International Holding B.V. | Holding company | 100% | Netherlands |
| MCC EuroChem JSC | Holding company | 100% | Russia |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 5 Principal subsidiaries, associates and joint ventures (continued)

| Name | Nature of business | Percentage of ownership | Country of registration |
|---|---|---|---|
| EuroChem SaratovKaliy, LLC | Manufacturing | 100% | Russia |
| EuroChem-Terminal Nevinnomyssk, LLC | Logistics | 100% | Russia |
| **Associates:** | | | |
| Hispalense de Líquidos S.L. | Distribution | 50% minus 1 share | Spain |
| Azottech, LLC | Blasting and drilling | 24.89% | Russia |
| **Joint ventures*:*** | | | |
| EuroChem – Migao Ltd. | Holding company | 50.0% | Hong-Kong* |
| Thyssen Schachtbau EuroChem Drilling, LLC | Drilling | 45.0% | Russia |
| Biochem Technologies LLC | Research in biotechnology | 10.0% | Russia |

* represents the country of incorporation of holding company which owns manufacturing facilities located in Yunnan, China

During the year ended 31 December 2018, the main changes in Group's structure were as follows:

| Name | Nature of business | Main changes in 2018 | Percentage of ownership as at 31 December 2018 |
|---|---|---|---|
| **Subsidiaries:** | | | |
| AgroCenter EuroChem-Ukraine, LLC | Distribution | Disposal of 100% interest (Note 16) | - |
| AgroCenter Ukraine, LLC | Distribution | Disposal of 100% interest (Note 16) | - |
| EuroChem USA, LLC | Ammonia project | Acquisition of assets (Note 33) | 100% |
| **Associates:** | | | |
| Agrinos AS | Holding company | Derecognition of interest as an associate (Note 12) | 13.70% |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 6 Fair value of financial instruments

Management applies judgment in categorising financial instruments using the fair value hierarchy. The significance of a valuation input is assessed against the fair value measurement in its entirety.

### *Recurring fair value measurements*

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period.

### *a) Financial instruments carried at fair values*

The recurring fair value measurements are included into Level 2 of the fair value hierarchy and are as follows.

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Financial assets** | | |
| **Current Financial assets** | | |
| Non-deliverable foreign exchange forward contracts | 74 | 2,530 |
| Deliverable foreign exchange forward contracts | 806 | 954 |
| Swap contracts | 246 | - |
| Cross-currency interest swaps | - | 15,471 |
| **Total current financial assets** | **1,126** | **18,955** |
| **Non-current Financial assets** | | |
| Non-deliverable foreign exchange forward contracts | - | 645 |
| Cross-currency interest swaps | - | 6,544 |
| **Total non-current financial assets** | **-** | **7,189** |
| **Total assets recurring fair value measurements** | **1,126** | **26,144** |
| **Financial liabilities** | | |
| **Current Financial liabilities** | | |
| Non-deliverable foreign exchange forward contracts | 6,752 | - |
| Deliverable foreign exchange forward contracts | 1,278 | - |
| Commodity swaps | - | 30 |
| Cross-currency interest swaps | 4,599 | 61,791 |
| **Total current financial liabilities** | **12,629** | **61,821** |
| **Non-current Financial liabilities** | | |
| Non-deliverable foreign exchange forward contracts | 6,869 | - |
| Cross-currency interest swaps | 50,234 | - |
| **Total non-current financial liabilities** | **57,103** | **-** |
| **Total liabilities recurring fair value measurements** | **69,732** | **61,821** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 6 Fair value of financial instruments (continued)

For derivative financial instruments at fair value through profit or loss, which typically include foreign exchange forward contracts, cross currency interest rate swaps, commodity swaps etc., the fair values are based on recurring mark-to-market valuations provided by the financial institutions which deal in these financial instruments.

### *b) Assets and liabilities not measured at fair value but for which fair value is disclosed*

***Financial assets and liabilities carried at amortised cost***

The carrying amounts of trade and other receivables, trade and other payables, contingent consideration related to business combinations and originated loans approximate their fair values and are included into level 3 of fair value hierarchy. Cash and cash equivalents and fixed-terms deposits are carried at amortised cost which approximates their current fair value, included in Level 2 of fair value hierarchy. The fair values in level 2 and level 3 of the fair value hierarchy were estimated using the discounted cash flows valuation technique.

Loans received and bank borrowings are carried at amortised cost. The fair value of floating rate instruments normally approximates their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Fair values analysed by level in the fair value hierarchy and the carrying value of liabilities not measured at fair value are as follows:

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | Level 1 Fair value | Level 2 Fair value | Level 3 Fair value | Carrying value |
| **Financial liabilities** | | | | |
| - RUB-denominated bonds payable | 435,810 | - | - | 431,332 |
| - US$-denominated bonds payable | 979,785 | - | - | 995,779 |
| - Long-term US$-denominated fixed interest loans | - | - | 545,297 | 550,000 |
| - Long-term RUB -denominated fixed interest loans | - | - | 61,267 | 66,863 |
| - Long-term BRL-denominated fixed interest loans | - | - | 1,837 | 2,019 |
| **Total financial liabilities** | **1,415,595** | **-** | **608,401** | **2,045,993** |

| | 31 December 2017 | | | |
|---|---|---|---|---|
| | Level 1 Fair value | Level 2 Fair value | Level 3 Fair value | Carrying value |
| **Financial liabilities** | | | | |
| - RUB-denominated bonds payable | 626,654 | - | - | 606,790 |
| - US$-denominated bonds payable | 1,004,905 | - | | 992,714 |
| - Long-term RUB -denominated fixed interest loans | - | - | 22,662 | 26,042 |
| - Long-term BRL-denominated fixed interest loans | - | - | 16,785 | 17,265 |
| **Total financial liabilities** | **1,631,559** | - | **39,447** | **1,642,811** |

The following information sets out the key inputs relevant to the determination of the fair value of the liabilities for which fair value information is provided as a disclosure only.

- For US$ and RUB-denominated bonds traded on organised financial markets (Irish stock exchange and Moscow Exchange), quotations or executable prices are used as the key inputs to fair value determination. These instruments are included in level 1 of the fair value hierarchy.
- The fair value of long-term loans and borrowings bearing a fixed interest rate is determined by a discounted cash flows method. The discount factor applied to principal and interest repayments in the valuation model is calculated as a risk free rate at the reporting date adjusted for the Group's credit risk. The Group's credit risk component in the discount factor at inception is assumed to remain unchanged on the reporting date and is calculated as a difference between the contract interest rate and the risk-free interest rate, in effect at loan inception date for debt instruments with similar maturities. These instruments are included in level 3 of the fair value hierarchy.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 6 Fair value of financial instruments (continued)

During the years ended 31 December 2018 and 31 December 2017 there were no transfers between levels 1, 2 and 3 of the fair value hierarchy.

The Group's financial assets and liabilities were as follows:

| | Measurement categories as at 31 December 2018 | 31 December 2018 | Measurement categories as at 31 December 2017 | 31 December 2017, adjusted |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **Non-current financial assets** | | | | |
| Restricted cash | AC* | 2,276 | LR**** | 22,345 |
| Originated loans | AC* | 3,864 | LR**** | 51,046 |
| Derivative financial assets | FVPL** | - | FVPL** | 7,189 |
| Other non-current assets including: | | | | |
| Long-term other receivables | AC* | - | LR**** | 2,514 |
| Interest receivables | AC* | - | LR**** | 698 |
| Long-term receivables due to sale of subsidiaries | AC* | 9,431 | LR**** | - |
| Other assets | FVOCI*** | 4,012 | - | - |
| **Total non-current financial assets** | | **19,583** | | **83,792** |
| **Current financial assets** | | | | |
| Restricted cash | AC* | 2,850 | LR**** | 20,101 |
| Trade receivables | AC* | 366,836 | LR**** | 288,959 |
| Derivative financial assets | FVPL** | 1,126 | FVPL** | 18,955 |
| Other receivables and other current assets including: | | | | |
| Other receivables | AC* | 27,426 | LR**** | 3,316 |
| Collateral held by banks to secure derivative transactions | AC* | - | LR**** | 672 |
| Interest receivables | AC* | 580 | LR**** | 272 |
| Fixed-term deposits | AC* | 1,801 | LR**** | 151 |
| Cash and cash equivalents | AC* | 341,911 | LR**** | 228,613 |
| **Total current financial assets** | | **742,530** | | **561,039** |
| **Total financial assets** | | **762,113** | | **644,831** |

* financial assets measured at amortised cost
** financial assets measured at fair value through profit or loss
*** financial assets measured at fair value through other comprehensive income
**** loans and receivables

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 6 Fair value of financial instruments (continued)

| | Measurement categories as at 31 December 2018 | 31 December 2018 | Measurement categories as at 31 December 2017 | 31 December 2017 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| **Non-current financial liabilities** | | | | |
| Bank borrowings and other loans received | AC* | 2,003,275 | LR**** | 1,110,205 |
| Bonds issued | AC* | 1,211,261 | LR**** | 1,512,413 |
| Project Finance | AC* | 420,070 | LR**** | 959,373 |
| Derivative financial liabilities | FVPL** | 57,103 | FVPL** | - |
| Other non-current liabilities including: | | | | |
| Contingent liability related to business combination | AC* | 122,866 | LR**** | 123,001 |
| Long-term portion of deferred payables related to acquisition of additional interest in subsidiary | AC* | 1,821 | LR**** | 3,000 |
| Long-term portion of deferred payables related to mineral rights acquisition | AC* | 11,088 | LR**** | 11,785 |
| **Total non-current financial liabilities** | | **3,827,484** | | **3,719,777** |
| **Current financial liabilities** | | | | |
| Bank borrowings and other loans received | AC* | 371,133 | LR**** | 770,405 |
| Project Finance | AC* | 21,612 | LR**** | - |
| Bonds issued | AC* | 215,850 | LR**** | 87,091 |
| Derivative financial liabilities | FVPL** | 12,629 | FVPL** | 61,821 |
| Trade payables | AC* | 470,264 | LR**** | 513,004 |
| Other accounts payable and accrued expenses including: | | | | |
| Interest payables | AC* | 27,457 | LR**** | 29,604 |
| Payable for acquisition of associate | AC* | - | LR**** | 3,229 |
| Short-term portion of deferred payables related to business combinations and acquisition of additional interest in subsidiary | AC* | 1,500 | LR**** | 4,697 |
| Short-term portion of deferred payables related to mineral rights acquisition | AC* | 1,460 | LR**** | 1,875 |
| **Total current financial liabilities** | | **1,121,905** | | **1,471,726** |
| **Total financial liabilities** | | **4,949,389** | | **5,191,503** |

* financial liabilities measured at amortised cost
** financial liabilities measured at fair value through profit or loss
**** loans and receivables

(all amounts are presented in thousands of US dollars, unless otherwise stated)

## 6 Fair value of financial instruments (continued)

As required by the amendment of IAS 7 the Group presents the reconciliation of movements in liabilities arising from financing activities:

| | Bank borrowings and other loans received | Bonds issued | Project Finance | Interest payable | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2018** | **1,880,610** | **1,599,504** | **959,373** | **29,604** | **4,469,091** |
| | | | | | |
| ***Cash flows*** | | | | | |
| Proceeds from bank borrowings and other loans received | 2,723,656 | - | - | - | 2,723,656 |
| Funds received under the Project Finance Facility | - | - | 219,309 | - | 219,309 |
| Repayment of bank borrowings and other loans | (2,136,094) | - | - | - | (2,136,094) |
| Repayment of Project Finance Facility | - | - | (750,000) | - | (750,000) |
| Repayment of bonds | - | (79,697) | - | - | (79,697) |
| Prepaid and additional transaction costs | (10,836) | (62) | (5,285) | - | (16,183) |
| Interest paid | - | - | - | (219,873) | (219,873) |
| | | | | | |
| ***Non-cash flows*** | | | | | |
| Interest expenses accrued | - | - | - | 220,473 | 220,473 |
| Amortisation of transaction costs | 5,157 | 3,182 | 18,313 | - | 26,652 |
| Financial foreign exchange (gain)/loss, net | (70,068) | 93,037 | 126,370 | 1,286 | 150,625 |
| Currency translation difference, net | (18,017) | (188,853) | (126,398) | (4,033) | (337,301) |
| **Balance at 31 December 2018** | **2,374,408** | **1,427,111** | **441,682** | **27,457** | **4,270,658** |

| | Bank borrowings and other loans received | Bonds issued | Project Finance | Interest payable | Other non-current assets | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | **2,381,089** | **1,148,704** | **573,022** | **18,003** | **(49,134)** | **4,071,684** |
| | | | | | | |
| ***Cash flows*** | | | | | | |
| Proceeds from bank borrowings and other loans received | 3,128,323 | - | - | - | - | 3,128,323 |
| Funds received under the Project Finance Facilities | - | - | 416,938 | - | - | 416,938 |
| Proceeds from bonds, net of transaction costs | - | 767,522 | - | - | - | 767,522 |
| Repayment of bank borrowings and other loans | (3,655,674) | - | - | - | - | (3,655,674) |
| Repayment of bonds | - | (324,033) | - | - | - | (324,033) |
| Prepaid and additional transaction costs | (11,566) | (5,563) | (4,463) | - | - | (21,592) |
| Interest paid | - | - | - | (210,585) | - | (210,585) |
| | | | | | | |
| ***Non-cash flows*** | | | | | | |
| Loans acquired in a business combination | 6,585 | - | - | - | - | 6,585 |
| Interest expenses accrued | - | - | - | 220,733 | - | 220,733 |
| Amortisation of transaction costs | 16,567 | 2,728 | 15,050 | - | - | 34,345 |
| Financial foreign exchange gain/(loss), net | 15,388 | (33,317) | (30,338) | (344) | - | (48,611) |
| Currency translation difference, net | (102) | 43,463 | 40,603 | 1,797 | (2,305) | 83,456 |
| Reclassification of prepaid and additional transaction costs related to Project Finance Facilities | - | - | (51,439) | - | 51,439 | - |
| **Balance at 31 December 2017** | **1,880,610** | **1,599,504** | **959,373** | **29,604** | **-** | **4,469,091** |

(all amounts are presented in thousands of US dollars, unless otherwise stated)

## 7 Segment information

The Group has a vertically integrated business model conducted by four operating divisions, representing reportable segments, which are *Mining, Fertilizers, Logistics and Sales*:

- *Mining* division encompasses the extraction of ores to obtain apatite, baddeleyite, iron-ore concentrates and phosphorite; as well as the potash production at the Verkhnekamskoe deposit that started in 2018 and the development of the second potassium salt deposit (potash) at the Gremyachinskoe deposit;
- *Fertilizers* division includes the production of mineral fertilizers (nitrogen, phosphate and complex) and industrial products;
- *Logistics* division covers all supply chain operations including transportation services, purchase and delivery of raw materials and finished goods, as well as freight forwarding and other logistics services;
- *Sales* division is responsible for the sale of the complete range of products produced by the Group as well as third-party products through the Group's global distribution network spanning across Europe, Russia, North and Latin America, Central and South East Asia.

Activities not assigned to a particular division are reported in "Other". These include certain service activities, central management and other items. Effective 1 January 2018, the *Oil & Gas* division was removed from the Group's corporate structure. The operating results of this division for the year ended 31 December 2017 reported in "Other" as well included results of the company that was engaged in production of hydrocarbons and sold at the end of 2017.

All intersegment transactions and unrealised profit in inventory from intragroup sales are eliminated through "Elimination".

The review of financial reports of the Group, evaluation of the operating results and allocation of resources between the operating divisions are performed by the Management Board (considered to be the chief operating decision maker in the Group). The development and approval of strategies, market and risk analysis, investment focus, technological process changes are undertaken mostly in accordance with the operating divisions. Budgets and financial reports are prepared in a standard format according to the IFRS accounting policy adopted by the Group. Sales between divisions are carried out on an arm's length basis.

The Management Board assesses the performance of the operating divisions based on, among other factors, a measure of EBITDA (profit before taxation adjusted by interest expense, depreciation and amortisation, financial foreign exchange gain or loss, other non-cash and one-off items, excluding profit attributed to non-controlling interests), allocated by division according to internal rules. Since the EBITDA term is not a standard IFRS measure, EuroChem Group's definition of EBITDA may differ from that of other companies.

The division results for the year ended 31 December 2018 were:

| | External sales | Internal sales | Total sales | EBITDA |
|---|---|---|---|---|
| Mining | 11,601 | 675,608 | 687,209 | 304,401 |
| Fertilizers | 66,653 | 3,364,594 | 3,431,247 | 1,032,777 |
| Logistics | 46,298 | 195,799 | 242,097 | 93,887 |
| Sales | 5,450,384 | 11,198 | 5,461,582 | 207,918 |
| Other | 2,536 | 14,259 | 16,795 | (39,336) |
| Elimination | - | (4,261,458) | (4,261,458) | (82,721) |
| **Total** | **5,577,472** | **-** | **5,577,472** | **1,516,926** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 7 Segment information (continued)

The division results for the year ended 31 December 2017 were:

| | External sales | Internal sales | Total sales | EBITDA |
|---|---|---|---|---|
| Mining | 11,067 | 630,163 | 641,230 | 287,268 |
| Fertilizers | 54,743 | 2,892,290 | 2,947,033 | 690,165 |
| Logistics | 39,003 | 187,489 | 226,492 | 96,342 |
| Sales | 4,727,633 | 9,738 | 4,737,371 | 90,836 |
| Other | 33,218 | 116,056 | 149,274 | (22,656) |
| Elimination | - | (3,835,736) | (3,835,736) | (11,517) |
| **Total** | **4,865,664** | **-** | **4,865,664** | **1,130,438** |

A reconciliation of EBITDA to profit before taxation is provided below:

| | Note | 2018 | 2017 |
|---|---|---|---|
| **EBITDA** | | **1,516,926** | **1,130,438** |
| Depreciation and amortisation | 28 | (308,336) | (277,090) |
| (Impairment)/reversal of impairment/(write-off) of idle property, plant and equipment | | (1,459) | (4,971) |
| Non-recurring income/(expenses), net | 29 | (6,155) | (6,943) |
| Gain/(loss) from disposal of subsidiaries, net | | (45,753) | (60,205) |
| Interest expense | | (94,480) | (131,393) |
| Financial foreign exchange gain/(loss), net | | (162,070) | 569 |
| Other financial gain/(loss), net | 30 | (159,804) | 46,305 |
| Non-controlling interests | | (27) | (100) |
| **Profit before taxation** | | **738,842** | **696,610** |

The divisional capital expenditure on property, plant and equipment, intangible assets and mineral rights for the years ended 31 December 2018 and 31 December 2017 were:

| | 2018 | 2017 |
|---|---|---|
| Mining | 594,559 | 770,106 |
| Fertilisers | 447,863 | 634,805 |
| Logistics | 34,828 | 17,414 |
| Sales | 35,093 | 27,608 |
| Other | 19,431 | 43,224 |
| Elimination | (20,370) | (3,631) |
| **Total capital expenditure** | **1,111,404** | **1,489,526** |

The analysis of non-current assets other than financial instruments, deferred income tax assets and other non-current assets by geographical location was:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Russia | 6,236,501 | 6,576,921 |
| Europe | 806,921 | 837,556 |
| Brazil | 241,154 | 256,642 |
| Kazakhstan | 221,441 | 179,345 |
| Other countries | 92,659 | 143,439 |
| **Total** | **7,598,676** | **7,993,903** |

The main Group's manufacturing facilities are based in Russia, Lithuania, Belgium, Kazakhstan and China (joint venture's production facilities).

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 7 Segment information (continued)

The analysis of Group sales by region was:

| | 2018 | 2017 |
|---|---|---|
| Europe | 1,600,106 | 1,534,840 |
| Latin America | 1,154,193 | 780,256 |
| Russia | 1,062,519 | 965,249 |
| North America | 841,997 | 618,099 |
| Asia Pacific | 526,780 | 490,088 |
| CIS* | 262,158 | 362,579 |
| Africa | 129,719 | 114,553 |
| **Total sales** | **5,577,472** | **4,865,664** |

* including associate states

The sales are allocated to regions based on the destination country. During the year ended 31 December 2018, the Group had sales in excess of 10% to Russia, Brazil and the United States of America, representing 19.1%, 16.5% and 12.8% of total revenues, respectively (2017: sales to Russia, Brazil and the United States of America, representing 19.9%, 12.5% and 11.0% of the total revenues, respectively).

During the years ended 31 December 2018 and 31 December 2017, there were no sales in excess of 10% to one customer.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 8 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were:

| | Buildings | Land and Land Improvements | Transfer devices | Machinery and equipment | Transport | Other | Assets under construction | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **Balance at 1 January 2018** | **615,509** | **648,835** | **312,685** | **2,067,848** | **300,785** | **145,970** | **4,469,708** | **8,561,340** |
| Additions and transfers from assets under construction | 400,607 | 459,387 | 34,396 | 372,155 | 35,257 | 17,810 | (12,627) | 1,306,985 |
| Disposal due to sale of subsidiaries | (2,052) | (1,140) | - | (1,815) | (29,652) | (309) | (1,321) | (36,289) |
| Disposals | (9,866) | (5,633) | (2,249) | (23,257) | (6,176) | (1,978) | (186) | (49,345) |
| Changes in estimates of asset retirement obligations (Note 23) | - | (6,138) | - | - | - | - | - | (6,138) |
| (Impairment)/reversal of impairment/(write-off) of idle property, plant and equipment | (67) | - | (7) | (396) | (18) | (521) | (1,323) | (2,332) |
| Currency translation difference | (115,019) | (142,392) | (49,358) | (322,073) | (47,079) | (24,180) | (757,220) | (1,457,321) |
| **Balance at 31 December 2018** | **889,112** | **952,919** | **295,467** | **2,092,462** | **253,117** | **136,792** | **3,697,031** | **8,316,900** |
| **Accumulated Depreciation** | | | | | | | | |
| **Balance at 1 January 2018** | **(168,789)** | **(153,046)** | **(146,030)** | **(963,000)** | **(130,602)** | **(81,869)** | **-** | **(1,643,336)** |
| Charge for the year | (31,207) | (37,501) | (23,585) | (183,636) | (23,467) | (15,870) | - | (315,266) |
| Disposal due to sale of subsidiaries | 289 | 184 | - | 742 | 3,873 | 135 | - | 5,223 |
| Disposals | 7,322 | 5,128 | 2,097 | 21,022 | 5,502 | 1,684 | - | 42,755 |
| (Impairment)/reversal of impairment/(write-off) of idle property, plant and equipment | 33 | - | 7 | 326 | 18 | 489 | - | 873 |
| Currency translation difference | 25,842 | 25,748 | 22,807 | 147,812 | 22,457 | 14,275 | - | 258,941 |
| **Balance at 31 December 2018** | **(166,510)** | **(159,487)** | **(144,704)** | **(976,734)** | **(122,219)** | **(81,156)** | **-** | **(1,650,810)** |
| **Net Carrying Value** | | | | | | | | |
| **Balance at 1 January 2018** | **446,720** | **495,789** | **166,655** | **1,104,848** | **170,183** | **64,101** | **4,469,708** | **6,918,004** |
| **Balance at 31 December 2018** | **722,602** | **793,432** | **150,763** | **1,115,728** | **130,898** | **55,636** | **3,697,031** | **6,666,090** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 8 Property, plant and equipment (continued)

| | Buildings | Land and Land Improvements | Transfer devices | Machinery and equipment | Transport | Other | Assets under construction | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **Balance at 1 January 2017** | **549,402** | **620,761** | **299,921** | **1,671,370** | **244,569** | **125,182** | **3,130,257** | **6,641,462** |
| Additions through business combinations | 1,088 | 458 | - | 308 | - | - | - | 1,854 |
| Additions and transfers from assets under construction | 49,016 | 125,541 | 27,802 | 319,406 | 54,668 | 16,648 | 1,216,313 | 1,809,394 |
| Disposal due to sale of subsidiary | (7,889) | (136,632) | (35,325) | (15,141) | (739) | (2,300) | (51,022) | (249,048) |
| Disposals | (4,623) | - | (1,589) | (29,101) | (11,759) | (872) | (3,961) | (51,905) |
| Changes in estimates of asset retirement obligations (Note 23) | - | 4,350 | - | - | - | - | - | 4,350 |
| (Impairment)/reversal of impairment/(write-off) of idle property, plant and equipment | (3,424) | (1,383) | (224) | (1,935) | 30 | (156) | 1,205 | (5,887) |
| Currency translation difference | 31,939 | 35,740 | 22,100 | 122,941 | 14,016 | 7,468 | 176,916 | 411,120 |
| **Balance at 31 December 2017** | **615,509** | **648,835** | **312,685** | **2,067,848** | **300,785** | **145,970** | **4,469,708** | **8,561,340** |
| **Accumulated Depreciation** | | | | | | | | |
| **Balance at 1 January 2017** | **(138,104)** | **(123,421)** | **(123,777)** | **(780,770)** | **(113,865)** | **(64,212)** | **-** | **(1,344,149)** |
| Charge for the year | (27,192) | (38,273) | (23,761) | (155,829) | (21,353) | (15,791) | - | (282,199) |
| Disposal due to sale of subsidiary | 2,427 | 15,791 | 9,314 | 6,082 | 587 | 1,595 | - | 35,796 |
| Disposals | 3,324 | - | 1,122 | 25,742 | 10,813 | 733 | - | 41,734 |
| (Impairment)/reversal of impairment/(write-off) of idle property, plant and equipment | 46 | 7 | - | 849 | (3) | 17 | - | 916 |
| Currency translation difference | (9,290) | (7,150) | (8,928) | (59,074) | (6,781) | (4,211) | - | (95,434) |
| **Balance at 31 December 2017** | **(168,789)** | **(153,046)** | **(146,030)** | **(963,000)** | **(130,602)** | **(81,869)** | **-** | **(1,643,336)** |
| **Net Carrying Value** | | | | | | | | |
| **Balance at 1 January 2017** | **411,298** | **497,340** | **176,144** | **890,600** | **130,704** | **60,970** | **3,130,257** | **5,297,313** |
| **Balance at 31 December 2017** | **446,720** | **495,789** | **166,655** | **1,104,848** | **170,183** | **64,101** | **4,469,708** | **6,918,004** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 8 Property, plant and equipment (continued)

### *Evaluation and exploration expenditures*

*Potash fields.* At 31 December 2018, the Group has capitalised expenses relating to the evaluation and exploration stages of the potash fields of US$42,108 thousand, including borrowing costs capitalised of US$4,809 thousand (31 December 2017: US$34,213 thousand, including borrowing costs capitalised of US$4,468 thousand).

*Hydrocarbons fields.* At 31 December 2018, the Group has capitalised expenses relating to the evaluation and exploration stages of the hydrocarbon fields of US$25,475 thousand (31 December 2017: US$20,463 thousand).

These expenses were included in the assets under construction of “Property, plant and equipment” in the consolidated statement of financial position. Substantially, these costs have been paid in the same period when incurred.

### *Borrowing costs capitalised*

During the year ended 31 December 2018, borrowing costs totalling US$151,465 thousand were capitalised in property, plant and equipment at an average interest rate of 5.66% p.a. (2017: US$123,692 thousand capitalised at an average interest rate of 5.42% p.a.).

### *Operating leases*

As at 31 December 2018 and 31 December 2017, the land plots under the main production facilities were owned by the Group. Also, several Group subsidiaries occupied the land under non-cancellable operating lease agreements, for which the future minimum payments are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Less than 1 year | 3,381 | 3,798 |
| Between 1 and 5 years | 12,208 | 13,677 |
| More than 5 years | 90,219 | 96,465 |
| **Total payments** | **105,808** | **113,940** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 9 Mineral rights

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Rights for exploration and production: | | |
| Verkhnekamskoe potash deposit | 63,775 | 75,456 |
| Gremyachinskoe potash deposit | 66,611 | 75,397 |
| Kok-Jon and Gimmelfarbskoe phosphate deposits | 11,417 | 13,842 |
| Kovdorsky apatite deposit | 2,016 | 2,541 |
| Rights for exploration, evaluation and extraction: | | |
| Belopashninskiy potash deposit | 12,741 | 15,366 |
| Ozinsky hydrocarbon deposit | 3,549 | 4,281 |
| Perelyubsko-Rubezhinskiy hydrocarbon deposit | 318 | 383 |
| Vostochno-Perelyubskiy potash deposit | 432 | 521 |
| Zapadno-Perelyubskiy potash deposit | 337 | 406 |
| Rights for proven and unproven mineral resources: | | |
| Astrakhan hydrocarbon deposit | 123,298 | 148,708 |
| Kamenkovsky hydrocarbon deposit | 31,259 | 35,908 |
| **Total mineral rights** | **315,753** | **372,809** |

Under the terms of valid licences for the exploration and development of mineral resource deposits, the Group is required to comply with a number of conditions, including preparation of design documentation, commencement of the construction of mining facilities and commencement of the extraction of mineral resources by certain dates. If the Group fails to materially comply with the terms of the licence agreements there are circumstances whereby the licences can be revoked. Management of the Group believes that the Group faces no material regulatory risks in relation to the validity and operation of any of its licences.

***Verkhnekamskoe and Gremyachinskoe potash deposits***

In accordance with the conditions of licence agreements and related licence amendments for developing the potash deposits, the Group has major commitments in respect of the timing for the construction of the mining facilities and for the potash extraction.

The Group is in compliance with the licence terms and continues with construction of the mining and surface facilities at both sites.

Management believes that each stage under the current licence terms for both of the Verkhnekamskoe and the Gremyachinskoe potash deposits development will be completed according to the schedules.

As at 31 December 2018, both of the Verkhnekamskoe and Gremyachinskoe potash deposits were in the development phase with the shaft sinking completed for the first two shafts at Verkhnekamskoe and two shafts at Gremyachinskoe while the third shaft has been delayed due to a water inflow which is being managed. Management has worked out a program which will allow the Group to continue sinking at the third shaft without breaching any of the terms of the licence agreement for Gremyachinskoe deposit.

As at 31 December 2018, the carrying amount of property, plant and equipment (including construction in progress) related to Verkhnekamskoe and Gremyachinskoe potash deposits was US$3,116 million (2017: US$3,174 million).

For the purpose of impairment testing of the Verkhnekamskoe and Gremyachinskoe potash deposits management has compared the recoverable amount of the non-current assets related to these projects, determined as their value in use with consideration of a recent industry outlook and the operational plans, with the carrying amount of these assets and concluded that no impairment should be recognised in respect of these assets as at 31 December 2018 and 31 December 2017.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 10 Goodwill

Movements in goodwill arising from the acquisition of subsidiaries are:

| | 2018 | 2017 |
|---|---|---|
| **Carrying amount at 1 January** | **516,830** | **468,223** |
| Acquisition of subsidiaries | - | 11,580 |
| Disposal of subsidiaries | (60) | - |
| Currency translation difference | (40,973) | 37,027 |
| **Carrying amount at 31 December** | **475,797** | **516,830** |

### *Goodwill impairment test*

Goodwill is allocated to cash-generating units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment, as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| EuroChem Antwerpen NV | 295,050 | 308,412 |
| EuroChem Agro | 19,880 | 20,781 |
| Ben-Trei Ltd. | 20,803 | 20,803 |
| Fertilizantes Tocantins Ltda | 123,123 | 144,265 |
| TOMS-project, LLC | 10,089 | 11,753 |
| Emerger Fertilizantes S.A. | 2,632 | 5,301 |
| Other | 4,220 | 5,515 |
| **Total carrying amount of goodwill** | **475,797** | **516,830** |

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on development strategy and financial budgets approved by management covering a five year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Management determined budgeted prices and expenses based on past performance and market expectations. The weighted average growth rate used is consistent with the forecasts included in industry reports.

Assumptions used for value-in-use calculations are listed below:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Adjusted US$ WACC rates, % p.a. | 6.50%-9.27% | 6.50%-9.27% |
| Adjusted BRL WACC rates, % p.a. | 9.95% | 8.21% |
| Long-term EUR annual inflation rate, % p.a. | 1.50%-2.10% | 1.40%-1.90% |
| Long-term US$ annual inflation rate, % p.a. | 2.10%-2.40% | 2.10%-2.30% |
| Long-term BRL annual inflation rate, % p.a. | 4.21% | 4.00% |
| Estimated nominal growth rate beyond the five-year period, % p.a. | 2.10% | 2.30% |

The Group did not recognise any goodwill impairment at 31 December 2018 and 31 December 2017.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 11 Intangible assets

Movements in the carrying amount of intangible assets were:

| | Know-how and production technology | Customer relation-ships | Acquired software and licences | Trademarks and others | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at 1 January 2018** | **105,587** | **134,984** | **34,576** | **44,159** | **319,306** |
| Additions | - | - | 263 | 2,551 | 2,814 |
| Disposals | - | - | - | (186) | (186) |
| Currency translation difference | (4,592) | (10,275) | (2,482) | (4,807) | (22,156) |
| **Balance at 31 December 2018** | **100,995** | **124,709** | **32,357** | **41,717** | **299,778** |
| **Accumulated Depreciation** | | | | | |
| **Balance at 1 January 2018** | **(73,431)** | **(53,635)** | **(31,866)** | **(17,450)** | **(176,382)** |
| Charge for the year | (11,992) | (13,857) | (1,157) | (5,618) | (32,624) |
| Disposals | - | - | - | 76 | 76 |
| Currency translation difference | 3,568 | 3,599 | 2,306 | 2,517 | 11,990 |
| **Balance at 31 December 2018** | **(81,855)** | **(63,893)** | **(30,717)** | **(20,475)** | **(196,940)** |
| **Net Carrying Value** | | | | | |
| **Balance at 1 January 2018** | **32,156** | **81,349** | **2,710** | **26,709** | **142,924** |
| **Balance at 31 December 2018** | **19,140** | **60,816** | **1,640** | **21,242** | **102,838** |

| | Know-how and production technology | Customer relation-ships | Acquired software and licences | Trademarks and others | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at 1 January 2017** | **93,508** | **125,801** | **30,396** | **41,491** | **291,196** |
| Additions | - | 276 | 598 | 870 | 1,744 |
| Disposal due to sale of subsidiary | - | - | (12) | - | (12) |
| Disposals | - | - | - | (1,206) | (1,206) |
| Currency translation difference | 12,079 | 8,907 | 3,594 | 3,004 | 27,584 |
| **Balance at 31 December 2017** | **105,587** | **134,984** | **34,576** | **44,159** | **319,306** |
| **Accumulated Depreciation** | | | | | |
| **Balance at 1 January 2017** | **(54,128)** | **(32,875)** | **(27,330)** | **(13,238)** | **(127,571)** |
| Charge for the year | (11,469) | (16,042) | (1,281) | (3,493) | (32,285) |
| Disposal due to sale of subsidiary | - | - | 12 | - | 12 |
| Disposals | - | - | - | 4 | 4 |
| Currency translation difference | (7,834) | (4,718) | (3,267) | (723) | (16,542) |
| **Balance at 31 December 2017** | **(73,431)** | **(53,635)** | **(31,866)** | **(17,450)** | **(176,382)** |
| **Net Carrying Value** | | | | | |
| **Balance at 1 January 2017** | **39,380** | **92,926** | **3,066** | **28,253** | **163,625** |
| **Balance at 31 December 2017** | **32,156** | **81,349** | **2,710** | **26,709** | **142,924** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 12 Investment in associates and joint ventures

The Group's investment in associates and joint ventures was as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Investment in joint venture EuroChem-Migao Ltd. | 23,019 | 20,845 |
| Investment in associate Agrinos AS | - | 5,401 |
| Others | 15,179 | 16,906 |
| **Total** | **38,198** | **43,152** |

The category "Others" includes investments in joint ventures Thyssen Schachtbau EuroChem Drilling LLC, Biochem Technologies LLC and associates Hispalense de Liquidos S.L., Azottech LLC, which are individually immaterial.

Movements in the carrying amount of the Group's investment in associates and joint ventures were:

| | 2018 | 2017 |
|---|---|---|
| **Carrying amount at 1 January** | **43,152** | **36,500** |
| Acquisition of interest in associates and joint ventures | - | 9,347 |
| Other movement of investment in associate | (201) | - |
| Disposal of interest held in associate due to loss of significant influence | (5,401) | - |
| Share of profit/(loss) of associates and joint ventures, net | 3,395 | (2,803) |
| Share of other comprehensive income/(loss) of associates and joint ventures, net | (917) | (247) |
| Currency translation difference | (1,830) | 355 |
| **Carrying amount at 31 December** | **38,198** | **43,152** |

Reconciliation of the summarised financial information presented to the carrying amount of Group's interest in associates and joint ventures as at 31 December 2018 and 31 December 2017:

| | EuroChem-Migao Ltd. | Others |
|---|---|---|
| **Opening net assets at 1 January 2018** | **41,690** | **19,598** |
| Profit/(loss) for the period, net | 5,943 | 456 |
| Other comprehensive income/(loss) for the period, net | (1,596) | (237) |
| Disposal of net assets of Agrinos AS due to loss of significant influence | - | 5,864 |
| Currency translation difference arising on consolidation | - | (3,369) |
| **Closing net assets at 31 December 2018** | **46,037** | **22,312** |
| Interest, % | 50.00% | N/a |
| Interest in associates and joint ventures | 23,019 | 9,870 |
| Currency translation difference | - | (425) |
| Goodwill | - | 5,734 |
| **Carrying value at 31 December 2018** | **23,019** | **15,179** |

| | EuroChem-Migao Ltd. | Others |
|---|---|---|
| **Opening net assets at 1 January 2017** | **41,033** | **32,693** |
| Net assets at acquisition date | - | 8,801 |
| Profit/(loss) for the period | 1,481 | (23,345) |
| Other comprehensive income/(loss) for the period, net | (824) | 592 |
| Currency translation difference arising on consolidation | - | 857 |
| **Closing net assets at 31 December 2017** | **41,690** | **19,598** |
| Interest, % | 50.00% | N/a |
| Interest in associates and joint ventures | 20,845 | 10,120 |
| Goodwill | - | 12,187 |
| **Carrying value at 31 December 2017** | **20,845** | **22,307** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 12 Investment in associates and joint ventures (continued)

### *Investments in associate Agrinos AS*

Since acquisition of interest in Agrinos AS in January 2016, the Group accounted for this as an investment in associate due to the fact that the Group was able to influence the business decisions of Agrinos AS through the representation in the Board of Directors and potential voting rights. Effective 1 January 2018, the Group does not have significant influence over the company, hence the investment in Agrinos AS is no longer accounted for as an investment in associate and is instead recognised as a financial instrument measured at fair value through OCI.

### *Investments in joint venture EuroChem-Migao Ltd.*

The aggregated assets, liabilities of the joint venture were as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Current assets | 54,712 | 49,084 |
| Non-current assets | 29,269 | 31,420 |
| Current liabilities | (32,760) | (38,576) |
| Non-current liabilities | (246) | (238) |
| Non-controlling interest | (4,938) | - |
| **Net assets** | **46,037** | **41,690** |

The joint venture's revenues and results were as follows:

| | 2018 | 2017 |
|---|---|---|
| Sales | 77,237 | 48,553 |
| Profit | 5,943 | 1,481 |

## 13 Inventories

| | 31 December 2018 | 31 December 2017, adjusted |
|---|---|---|
| Finished goods | 682,656 | 465,967 |
| Materials | 225,227 | 184,245 |
| Catalysts | 79,667 | 80,329 |
| Work in progress | 63,921 | 59,366 |
| Less: provision for obsolete and damaged inventories | (6,781) | (8,285) |
| **Total inventories** | **1,044,690** | **781,622** |

## 14 Trade receivables, prepayments, other receivables and other current assets

| | 31 December 2018 | 31 December 2017, adjusted |
|---|---|---|
| **Trade receivables** | | |
| Trade receivables denominated in US$ | 233,414 | 184,312 |
| Trade receivables denominated in EUR | 59,214 | 57,624 |
| Trade receivables denominated in RUB | 64,082 | 31,171 |
| Trade receivables denominated in other currencies | 32,460 | 24,211 |
| Less: credit loss allowance | (22,334) | (8,359) |
| **Total trade receivables** | **366,836** | **288,959** |
| **Prepayments, other receivables and other current assets** | | |
| Advances to suppliers | 96,722 | 133,052 |
| VAT recoverable and receivable | 134,110 | 165,713 |
| Other taxes receivable | 4,032 | 13,434 |
| Other receivables and other current assets | 67,080 | 25,552 |
| Collateral held by banks to secure derivative transactions | - | 672 |
| Interest receivable | 580 | 272 |
| Less: provision for impairment | (13,323) | (12,058) |
| **Total prepayments, other receivables and other current assets** | **289,201** | **326,637** |
| **Total trade receivables, prepayments, other receivables and other current assets** | **656,037** | **615,596** |

_(all amounts are presented in thousands of US dollars, unless otherwise stated)_

## 14 Trade receivables, prepayments, other receivables and other current assets (continued)

Management believes that the fair value of accounts receivable does not differ significantly from their carrying amounts.

During the years ended 31 December 2018 and 31 December 2017, the Group entered into a number of non-recourse factoring arrangements according to which the trade receivables were sold to a factoring company and, thus, derecognised in the consolidated statement of financial position. As at 31 December 2018, trade receivables of US$120,899 thousand remain sold (31 December 2017: US$107,062 thousand).

As at 31 December 2018, the loss allowance for trade receivables, prepayments, other receivables and other current assets amounted to US$ 35,657 thousand (31 December 2017: US$20,417 thousand). The ageing of these receivables is as follows:

| | 31 December 2018 | 31 December 2017, adjusted |
|---|---|---|
| Less than 3 months | 11,121 | 9,288 |
| From 3 to 12 months | 6,565 | 2,473 |
| Over 12 months | 17,971 | 8,656 |
| **Total gross amount of impaired trade receivables, prepayments and other receivables** | **35,657** | **20,417** |

As at 31 December 2018, trade receivables of US$58,654 thousand (31 December 2017: US$38,655 thousand) were past due but not impaired. Of this amount US$35,318 thousand (31 December 2017: US$19,540 thousand) were covered either by bank guarantees or backed by solid ratings from independent rating agencies or by internal creditworthiness rating and internal payment discipline rating (Note 35). The ageing analysis of these trade receivables from past due date is:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Less than 3 months | 54,627 | 25,329 |
| From 3 to 12 months | 2,504 | 6,710 |
| Over 12 months | 1,523 | 6,616 |
| **Trade accounts receivable past due not impaired** | **58,654** | **38,655** |

Analysis of credit quality of trade receivables is presented in Note 35.

The movements in the ECL allowance/provision for impairment of accounts receivable are:

| | Trade receivables | Other receivables |
|---|---|---|
| **As at 1 January 2018** | **8,359** | **12,058** |
| ECL allowance | 15,888 | 4,534 |
| Write-offs | (272) | (244) |
| ECL allowance reversed | (1,031) | (1,047) |
| Disposal of ECL allowance due to sale of subsidiary | (64) | - |
| Currency translation difference | (546) | (1,978) |
| **Total ECL allowance and provision for impairment of accounts receivable as at 31 December 2018** | **22,334** | **13,323** |

| | Trade receivables | Other receivables |
|---|---|---|
| **As at 1 January 2017** | **5,429** | **7,670** |
| Provision charged | 14,958 | 7,103 |
| Provision used | (14,854) | (1,082) |
| Provision reversed | (919) | (899) |
| Disposal of provision due to sale of subsidiary | (588) | (933) |
| Currency translation difference | 191 | 199 |
| **Total provision for impairment of accounts receivable as at 31 December 2017** | **4,217** | **12,058** |
| Adjustment due to adoption of IFRS 9 | 4,142 | - |
| **Total ECL allowance and provision for impairment of accounts receivable as at 31 December 2017, adjusted** | **8,359** | **12,058** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 15 Cash and cash equivalents, fixed-term deposits and restricted cash

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Cash on hand* | 5,777 | 1,798 |
| Bank balances denominated in US$ | 96,829 | 80,898 |
| Bank balances denominated in RUB | 16,827 | 11,174 |
| Bank balances denominated in EUR | 91,140 | 48,726 |
| Bank balances denominated in other currencies | 10,110 | 9,016 |
| Term deposits denominated in US$ | 77,214 | 42 |
| Term deposits denominated in RUB | 9,467 | 26,479 |
| Term deposits denominated in Euro | 296 | - |
| Term deposits denominated in other currencies | 34,251 | 50,480 |
| **Total cash and cash equivalents** | **341,911** | **228,613** |
| | | |
| Fixed-term deposits in different currencies | 1,801 | 151 |
| **Total fixed-term deposits** | **1,801** | **151** |
| | | |
| Current restricted cash | 2,850 | 20,101 |
| Non-current restricted cash | 2,276 | 22,345 |
| **Total restricted cash** | **5,126** | **42,446** |

* Includes cash on hand denominated in different currencies.

Term deposits as at 31 December 2018 and 31 December 2017 were held to meet short term cash needs and had various original maturities but could be withdrawn on request without any restrictions.

Fixed-term deposits have various original maturities and can be withdrawn with an early notification and/or with a penalty accrued or interest income forfeited.

No bank balances, term and fixed-term deposits are past due or impaired. The credit quality of bank balances, term and fixed-term deposits which is based on the credit ratings of independent rating agencies, Standard & Poor's and Fitch Ratings, is as follows*:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| A to AAA rated | 76,970 | 67,384 |
| BB- to BBB+ rated | 251,675 | 190,222 |
| B- to B+ rated | 2,491 | 6,342 |
| C to CCC rated | 2,293 | 13 |
| Unrated | 9,632 | 5,451 |
| **Total**** | **343,061** | **269,412** |

* Credit ratings as at 16 January 2019 and 17 January 2018, respectively.

** The rest of the consolidated statement of financial position item 'cash and cash equivalents' is cash on hand.

At 31 December 2018, non-current restricted cash consisted of US$1,865 thousand held in bank accounts as security deposits for third parties (31 December 2017: US$2,153 thousand) and US$411 thousand held in deposit against possible environmental obligations in compliance with the statutory rules of the Republic of Kazakhstan (31 December 2017: US$459 thousand). In June 2018, cash held in a debt service reserve account as required by the Usolsky Project Finance Facility Agreement was released due to early repayment of the Facility (31 December 2017: US$19,733 thousand) (Note 19).

At 31 December 2018, current restricted cash consisted of US$954 thousand received under targeted loan agreements with a state industrial development fund (31 December 2017: US$18,166 thousand) and of US$1,896 thousand held at banks under regulatory requirements for state contracts (31 December 2017: US$1,935 thousand).

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 16 Disposal of subsidiaries

In May 2018, the Board of Directors of the Group made a decision to sell two subsidiaries, within the Sales division, located in Ukraine. By the end of May 2018, the Group sold a 100% share in both companies to third parties for a consideration of US$53,064 thousand payable in 5 years in the form of promissory notes denominated in the Ukrainian hryvnia which was discounted to US$29,397 thousand. In the third quarter 2018, a portion of the promissory notes with the carrying value of US$18,043 thousand was sold to a related party for a consideration of US$28,638 thousand denominated in the Ukrainian hryvnia. The result from the sale of promissory notes was recognised within “Gain/(loss) from disposal of subsidiaries, net” in the Consolidated Statement of Profit or Loss. The respective receivable was accounted for within "Prepayments, other receivables and other current assets” as at 31 December 2018. In the fourth quarter 2018, the portion of receivable of US$3,768 thousand was repaid. The remaining part was accounted for within “Other non-current assets” in the Consolidated Statement of Financial Position.

As at date of disposal the assets and liabilities of subsidiaries were as follows:

| | |
|---|---|
| Cash and cash equivalents | 3,477 |
| Trade receivables | 5,957 |
| Prepayments, other receivables and other current assets | 13,047 |
| Inventories | 34,891 |
| **Total current assets** | **57,372** |
| Goodwill | 60 |
| Property, plant and equipment | 5,541 |
| **Total non-current assets** | **5,601** |
| Trade payables | (5,756) |
| Other accounts payable and accrued expenses | (1,892) |
| Income tax payable | (551) |
| **Total current liabilities** | **(8,199)** |
| Deferred income tax liabilities | (114) |
| **Total non-current liabilities** | **(114)** |
| **Net assets** | **54,660** |
| Discounted consideration | (29,397) |
| Currency translation differences reclassified to profit or loss | 25,289 |
| **Loss on disposal** | **50,552** |

The Group recognised a loss on disposal of US$50,552 thousand.

## 17 Equity

***Share capital.*** As at 31 December 2018 and 31 December 2017, the nominal registered amount of the Company’s issued share capital in Swiss francs (“CHF”) was CHF 100 thousand (US$111 thousand). The total authorised number of ordinary shares is 1,000 shares with a par value of CHF 100 (US$111) per share. All authorised shares were issued and fully paid in 2014.

***Dividends.*** During 2018 and 2017 the Group did not declare or pay dividends.

***Capital contribution.*** In 2016, the Group signed an agreement and subsequently several amendments with AIM Capital S.E. to receive a capital contribution in a form of a perpetual loan up to US$1 billion with the availability period to 31 December 2020. In 2016 and in June 2018 the Group received funds of US$250 million and US$600 million, respectively.

***Other reserves within “Retained earnings and other reserves”.*** At 31 December 2018 and 31 December 2017, other reserves of the Company included a cash contribution of US$5,000 thousand from AIM Capital S.E., the parent company.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 18 Bank borrowings and other loans received

| Currency and rate | Interest rate 2018* | Interest rate 2017* | 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|
| **Current loans and borrowings** | | | | |
| Short-term unsecured bank loans | | | | |
| US$ with floating rate | 4.11% - 5.42% | 3.18% - 5.51% | 85,402 | 114,559 |
| US$ with fixed rate | 3.08% - 4.85% | 2.75% | 171,363 | 50,000 |
| RUB with fixed rate | 8.30% - 10.20% | 8.56% - 8.90% | 11,152 | 597,988 |
| Current portion of unsecured long-term bank loans | | | | |
| US$ with floating rate | 4.67% | - | 45,955 | - |
| RUB with fixed rate | 7.60% | 11.05% | 45,703 | 5,309 |
| ARS with fixed rate | 19.00% - 36.50% | 18.00% - 19.50% | 213 | 11 |
| Current portion of secured long-term bank loans | | | | |
| BRL with floating rate | 10.13% | 10.15% | 59 | 107 |
| BRL with fixed rate | 2.94% - 6.80% | 2.94% - 12.17% | 13,550 | 2,598 |
| Less: short-term portion of transaction costs | | | (2,264) | (167) |
| **Total current loans and borrowings** | | | **371,133** | **770,405** |

| Currency and rate | Interest rate 2018* | Interest rate 2017* | 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|
| **Non-current loans and borrowings** | | | | |
| Long-term unsecured bank loans | | | | |
| US$ with floating rate | 3.98% - 4.01% | 3.60% - 3.85% | 1,020,000 | 1,080,000 |
| US$ with fixed rate | 3.45% - 4.75% | - | 550,000 | - |
| Long-term unsecured targeted loans | | | | |
| RUB with fixed rate | 5.00% | 5.00% | 21,592 | 26,042 |
| Long-term portion of unsecured bank loans | | | | |
| US$ with floating rate | 4.67% | - | 379,053 | - |
| RUB with fixed rate | 7.70% | - | 45,271 | - |
| ARS with fixed rate | 22.00% | 19.00%-22.00% | 2 | 16 |
| Long-term portion of secured bank loans | | | | |
| BRL with floating rate | - | 10.65% | - | 44 |
| BRL with fixed rate | 2.94% | 2.94%-12.17% | 1,504 | 14,667 |
| Less: long-term portion of transaction costs | | | (14,147) | (10,564) |
| **Total non-current loans and borrowings** | | | **2,003,275** | **1,110,205** |
| **Total loans and borrowings** | | | **2,374,408** | **1,880,610** |

* Contractual interest rate on 31 December 2018 and 31 December 2017, respectively.

## 18 Bank borrowings and other loans received (continued)

According to IFRS 7, Financial Instruments: Disclosures an entity shall disclose the fair value of financial liabilities. The fair value of short-term bank borrowings and borrowings bearing floating interest rates is not materially different from their carrying amounts.

The fair value of the long-term borrowings bearing a fixed interest rate is estimated based on expected cash flows discounted at a prevailing market interest rate. As at 31 December 2018 the total fair value of long-term loans with fixed interest rates was less than their carrying amount by US$10,481 thousand (31 December 2017: the fair value of long-term loans was less than their carrying amount by US$3,830 thousand).

Under the terms of the loan agreements, the Group is required to comply with a number of covenants and restrictions, including the maintenance of certain financial ratios and financial indebtedness and cross-default provisions. The Group was in compliance with covenants during the periods and as at 31 December 2018 and 31 December 2017.

***Interest rates and outstanding amounts of major loans and borrowings***

In December 2018, the Group signed an uncommitted revolving credit facility with a Russian bank. The funds through this facility may be obtained in multiple currencies. As at 31 December 2018, the outstanding amount was US$150 million.

In June 2018, the Group signed a US$820 million committed credit facility bearing a floating interest rate and maturing in July 2021. As at 31 December 2018, the outstanding amount was US$820 million.

In March 2018, the Group signed a US$200 million committed credit facility bearing a floating interest rate and maturing in April 2021. As at 31 December 2018, the outstanding amount was US$200 million.

In 2017, the Group signed a 3-year uncommitted facility agreement with a Russian bank, the funds through this facility may be obtained in multiple currencies with a credit limit up to US$550 million. As at 31 December 2018, the outstanding amount was RUB 6,320 million (31 December 2017: RUB 14,250 million).

In 2017, the Group signed a US$750 million unsecured credit facility bearing a floating interest rate and maturing in September 2022. As at 31 December 2018, the outstanding amount was US$425 million (31 December 2017: US$750 million).

In 2014, the Group signed an uncommitted revolving credit facility with a Russian bank. The funds through this facility may be obtained in multiple currencies. As at 31 December 2018, the outstanding amount was US$500 million (31 December 2017: US$330 million).

***Undrawn facilities***

As at 31 December 2018, the below facilities had no outstanding balances and are available to the Group:

- US$125 million uncommitted revolving credit facility bearing a floating interest rate, signed in April 2016, maturing in April 2019;
- US$100 million committed credit facility bearing a floating interest rate, signed in December 2018, maturing in December 2023. The drawdown was made in full amount in January 2019.
- US$100 million uncommitted revolving credit facility bearing a floating interest rate, signed in May 2012, maturing in May 2020.
- RUB 20 billion uncommitted revolving credit agreement, signed in September 2016, maturing in September 2019.

***Collaterals and pledges***

As at 31 December 2018, loans of a Brazilian subsidiary totalling US$15,113 thousands were collateralised by property, plant and equipment with the carrying value of US$17,155 thousand (31 December 2017: loans of US$17,416 thousand were collateralised by property, plant and equipment with the carrying value of US$30,748 thousand).

As at 31 December 2018 and 31 December 2017, all other bank borrowings and loans received listed in Note 18 were not secured.

## 19 Project Finance

Due to the non-recourse nature of the Project Finance facilities they are excluded from financial covenant calculations in accordance with the Group's various debt, project, finance, legal and other documents and are presented as a separate line "Project Finance" in the consolidated statement of financial position.

***Usolsky potash project.*** In 2014, the Group signed a US$750 million Non-recourse Project Finance Facility Agreement ("Project Financing" or the "Facility") maturing at the end of 2022 with a floating interest rate based on 3-month Libor for financing the Usolsky potash project located in the Perm region of Russia.

In June 2018, the Project Finance Facility was repaid. As at 31 December 2017, the outstanding balance was US$732,255 thousand shown net of transaction costs of US$17,745 thousand.

***Ammonia project in Kingisepp.*** In 2015, the Group signed a EUR 557 million Non-recourse 13.5-year Project Finance Facility with a floating interest rate based on 3-month Euribor to finance the construction of an ammonia plant in Kingisepp, Russia.

During the year ended 31 December 2018, the Group received funds under the Facility of EUR 186,292 thousand (US$219,309 thousand) (2017: EUR 220,588 thousand (US$257,383 thousand)).

As at 31 December 2018, the outstanding balance was US$441,682 thousand shown net of transaction costs of US$98,916 thousand (31 December 2017: US$227,118 thousand shown net of transaction costs of US$115,232 thousand). The contractual interest rate as at 31 December 2018 was 1.3% p.a. (31 December 2017: 1.3% p.a.).

The fair value of this Facility was not materially different from its carrying amount.

As at 31 December 2018 and 31 December 2017, under the terms of the facility agreement 100% of the shares in EuroChem Northwest JSC, the project owner and wholly-owned subsidiary of the Group, were pledged as collateral. The carrying value of the total assets of the company pledged under the Facility related to the project amounted to US$946,059 thousand as at 31 December 2018 (31 December 2017: US$895,680 thousand).

During the years ended 31 December 2018 and 31 December 2017 the EBITDA of the subsidiary under the Ammonia project was negative of US$4,360 thousand and of US$6,324 thousand, respectively.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 20 Bonds issued

| | | | | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|---|---|---|
| Currency | Rate | Coupon rate, p.a. | Maturity | Fair value | Carrying amount | Fair value | Carrying amount |
| **Current bonds** | | | | | | | |
| RUB | Fixed | 12.40% | 2018 | - | - | 90,017 | 86,805 |
| RUB | Fixed | 8.25% | 2018 | - | - | 310 | 310 |
| RUB | Fixed | 10.60% | 2019 | 217,948 | 215,919 | - | - |
| Less: transaction costs | | | | - | (69) | - | (24) |
| **Total current bonds issued** | | | | **217,948** | **215,850** | **90,327** | **87,091** |
| **Non-current bonds** | | | | | | | |
| US$ | Fixed | 3.80% | 2020 | 493,520 | 500,000 | 502,145 | 500,000 |
| US$ | Fixed | 3.95% | 2021 | 486,265 | 500,000 | 502,760 | 500,000 |
| RUB | Fixed | 10.60% | 2019 | - | - | 269,661 | 260,416 |
| RUB | Fixed | 8.75% | 2020 | 217,862 | 215,919 | 266,666 | 260,416 |
| Less: transaction costs | | | | - | (4,658) | - | (8,419) |
| **Total non-current bonds issued** | | | | **1,197,647** | **1,211,261** | **1,541,232** | **1,512,413** |
| **Total bonds issued** | | | | **1,415,595** | **1,427,111** | **1,631,559** | **1,599,504** |

US$-denominated bonds and RUB-denominated bonds were listed on the Irish Stock Exchange and the Moscow Exchange, respectively. The fair value of the bonds was determined with reference to their market quotations or executable prices.

On 26 June 2018 12.40% RUB-denominated bonds were redeemed at maturity in full amount of US$79,428 thousand or RUB 5,000 million.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 21 Derivative financial assets and liabilities

At 31 December 2018, net derivative financial assets and liabilities were:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | Non-current | Current | Non-current | Current |
| RUB/US$ deliverable forward contracts with a nominal amount of RUB 8,287 million | - | 806 | - | 1,278 |
| RUB/US$ non-deliverable forward contracts with a nominal amount of RUB 1,500 million | - | - | - | 1,101 |
| EUR/US$ non-deliverable forward contracts with a nominal amount of EUR 164 million | - | - | 6,869 | 3,187 |
| BRL/US$ non-deliverable forward contracts with a nominal amount of US$145 million | - | 74 | - | 2,464 |
| RUB/US$ swap contracts with a nominal amount of RUB 2,000 million | - | 246 | - | - |
| Cross currency interest rate swaps | - | - | 50,234 | 4,599 |
| **Total** | **-** | **1,126** | **57,103** | **12,629** |

At 31 December 2017, net derivative financial assets and liabilities were:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | Non-current | Current | Non-current | Current |
| Commodity swaps | - | - | - | 30 |
| RUB/US$ deliverable forward contracts with a nominal amount of RUB 2,470 million | - | 954 | - | - |
| RUB/US$ non-deliverable forward contracts with a nominal amount of RUB 5,500 million | - | 2,530 | - | - |
| EUR/US$ non-deliverable forward contracts with a nominal amount of EUR 67 million | 645 | - | - | - |
| Cross currency interest rate swaps | 6,544 | 15,471 | - | 61,791 |
| **Total** | **7,189** | **18,955** | **-** | **61,821** |

Movements in the carrying amount of derivative financial assets/(liabilities) were:

| | 1 January 2018 | Gain/(loss) from changes of fair value, net | Cash (proceeds)/ payments on derivatives, net | Net results of notional set-offs | Currency translation difference | 31 December 2018 |
|---|---|---|---|---|---|---|
| **Operating activities** | **3,454** | **(46,457)** | **38,935** | **-** | **167** | **(3,901)** |
| Commodity swaps | (30) | 30 | - | - | - | - |
| Foreign exchange deliverable and non-deliverable forward contracts, net | 3,484 | (36,679) | 29,127 | - | 167 | (3,901) |
| Contingent premium put option contracts | - | (9,808) | 9,808 | - | - | - |
| **Financing activities** | **(39,131)** | **(136,163)** | **110,572** | **-** | **17** | **(64,705)** |
| Foreign exchange deliverable and non-deliverable forward contracts, net | 645 | (13,371) | (19) | 2,610 | 17 | (10,118) |
| Foreign exchange swap contracts, net | - | (797) | - | 1,043 | - | 246 |
| Cross currency interest rate swaps, net | (39,776) | (121,995) | 110,591 | (3,653) | - | (54,833) |
| **Total derivative financial assets and liabilities, net** | **(35,677)** | **(182,620)** | **149,507** | **-** | **184** | **(68,606)** |

## 21 Derivative financial assets and liabilities (continued)

Changes in the fair value of derivatives, which are entered into for the purpose of mitigating risks linked to cash flows from operating activities of the Group, are recognised in “Other operating income/(expenses), net” (Note 29), foreign currency derivative contracts and contingent premium put option contracts are recognised in “Foreign exchange gain/(loss) from operating activities, net” and commodity swaps are recognised in “Other operating income/(expenses), net”.

Changes in the fair value of derivatives, which are entered into for the purpose of hedging the financing and investing cash flows, are recognised in “Other financial gain/(loss), net” (Note 30).

***Cross currency interest rate swaps***

In June 2018, the Group signed RUB/US$ cross currency interest rate swap agreements with total notional amount of RUB 6,320 million, which mature in the period from June 2019 to September 2020.

Outstanding at the beginning of the year, RUB/US$ cross currency interest rate swap agreements with total notional amount of RUB 34,250 million matured in the period from July to September 2018.

Outstanding at the beginning of the year, RUB/US$ cross currency interest rate swap agreements with total notional amount of US$235 million matured in September 2018. Settlement of the swaps was performed subject to netting of RUB-denominated payments partly with RUB/US$ deliverable forward contracts signed in the period from August to September 2018 with total notional amount of RUB 8,132 million that matured in September 2018 and partly with RUB/US$ swap contracts signed in September 2018 with total notional amount of RUB 2,000 million, which mature in April 2019.

***Foreign exchange non-deliverable forward contracts***

Outstanding at the beginning of the year, RUB/US$ non-deliverable forward contracts with total notional amount of RUB 5,500 million matured in the period from January to April 2018.

In the period from January to May 2018, the Group signed EUR/US$ non-deliverable forward contracts with total notional amount of EUR 97 million, which mature in the period from May 2020 to November 2021.

In the period from February to April 2018, the Group signed RUB/US$ non-deliverable forward contracts with total notional amount of RUB 23,598 million, out of which contracts with total notional amount of RUB 22,098 million matured in the period from May to December 2018, and the outstanding contract matures in January 2019.

***Foreign exchange deliverable forward contracts***

Outstanding at the beginning of the year, RUB/US$ deliverable forward contracts with total notional amount of RUB 2,470 million matured in the period from March to June 2018.

In the period from March to September 2018, the Group signed RUB/US$ deliverable forward contracts with total notional amount of RUB 11,600 million, out of which contracts with total notional amount of RUB 3,313 million matured in the period from June to October 2018, and the outstanding contracts mature in the period from March to April 2019.

***Put option contracts***

In the period from January to March 2018, the Group signed contingent premium RUB/US$ put option contracts with total notional amount of US$249 million matured in the period from July to October 2018.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 22 Other non-current liabilities and deferred income

| | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| Liability from contingent consideration related to business combination | 33 | 122,866 | 123,001 |
| Deferred payable related to acquisition of additional interest in subsidiary | | 1,500 | 3,000 |
| Deferred payable related to business combination | | 321 | - |
| Deferred payable related to mineral rights acquisition | | 11,088 | 11,785 |
| Provisions for age premium, retirement benefits, pensions and similar obligations | | 22,768 | 25,683 |
| Provision for land restoration | 23 | 17,625 | 26,348 |
| Deferred income − Investment grants received | | 1,889 | 2,584 |
| **Total other non-current liabilities and deferred income** | | **178,057** | **192,401** |

## 23 Provision for land restoration

In accordance with federal, state and local environmental regulations the Group's mining, drilling and processing activities result in asset retirement obligations to restore the disturbed land in regions in which the Group operates.

Movements in the amount of provision for land restoration were as follows:

| | Note | 2018 | 2017 |
|---|---|---|---|
| **As at 1 January** | | **26,348** | **21,433** |
| Change in estimates | 8 | (6,138) | 4,350 |
| Unwinding of the present value discount | 30 | 1,903 | 1,857 |
| Disposal of provision due to sale of subsidiary | | - | (2,486) |
| Currency translation difference | | (4,488) | 1,194 |
| **Total provision for land restoration as at 31 December** | | **17,625** | **26,348** |

During the years ended 31 December 2018 and 31 December 2017, the Group reassessed estimates of provision for land restoration due to changes in inflation, discount rates and expected timing for land restoration. Therefore, the amount of provision for land restoration was recalculated and the appropriate changes were disclosed as a change in estimates.

The principal assumptions used for the calculation of land restoration provision were as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Discount rates | 8.18% - 8.95% | 6.97% - 9.10% |
| Expected inflation rates in Russia | 3.60% - 4.00% | 2.60% - 4.00% |
| Expected timing for land restoration | 2021 - 2070 | 2021 - 2063 |

The present value of expected costs to be incurred for the settlement of land restoration obligations was as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Between 1 and 5 years | 307 | 359 |
| Between 6 and 10 years | - | 1,369 |
| Between 11 and 20 years | 4,261 | 4,637 |
| More than 20 years | 13,057 | 19,983 |
| **Total provision for land restoration** | **17,625** | **26,348** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 24 Trade payables, other accounts payable and accrued expenses

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Trade payables** | | |
| Trade payables denominated in US$ | 136,147 | 170,190 |
| Trade payables denominated in EUR | 143,060 | 167,176 |
| Trade payables denominated in RUB | 86,380 | 127,298 |
| Trade payables denominated in other currencies | 23,972 | 10,257 |
| Trade payables denominated in RUB with irrevocable documentary letter of credit | 80,705 | 38,083 |
| **Total trade payables** | **470,264** | **513,004** |
| **Other accounts payable and accrued expenses** | | |
| Advances received | 157,773 | 82,414 |
| Payroll and social tax | 14,933 | 13,082 |
| Accrued liabilities and other creditors | 204,068 | 199,618 |
| Interest payable | 27,457 | 29,604 |
| Payables for acquisition of associate | - | 3,229 |
| Short term part of deferred payable related to mineral rights acquisition | 1,460 | 1,875 |
| Short term part of deferred payables related to business combination and acquisition of additional interest in subsidiary | 1,500 | 4,697 |
| **Total other payables** | **407,191** | **334,519** |
| **Total trade payables, other accounts payable and accrued expenses** | **877,455** | **847,523** |

As at 31 December 2018, trade payables included payables to suppliers of property, plant and equipment and construction companies of US$123,116 thousand (31 December 2017: US$174,748 thousand). Trade payables included payables with irrevocable documentary letters of credit with a deferred term of payment opened in the amount of US$72,120 thousand (31 December 2017: US$38,083 thousand) under the contracts with the construction companies, of US$6,709 thousand under the contract with suppliers of property, plant and equipment (31 December 2017: nil) and of US$1,875 thousand under operating activities contracts (31 December 2017: nil).

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 25 Sales

The external sales by product group were:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Sales volume (thousand metric tonnes) | Sales (thousand US$) | Sales volume (thousand metric tonnes) | Sales (thousand US$) |
| **Nitrogen products** | **7,813** | **1,837,985** | **8,073** | **1,704,825** |
| Nitrogen fertilizers | 7,797 | 1,835,278 | 8,055 | 1,702,101 |
| Other products | 16 | 2,707 | 18 | 2,724 |
| **Phosphate and complex fertilizers** | **5,685** | **2,317,795** | **5,319** | **1,899,473** |
| Phosphate fertilizers | 2,379 | 1,044,475 | 2,304 | 848,918 |
| Complex fertilizers | 2,907 | 1,097,168 | 2,667 | 915,183 |
| Feed phosphates | 399 | 176,152 | 348 | 135,372 |
| **Potash fertilizers** | **632** | **235,705** | **454** | **148,590** |
| **Mining products** | **5,977** | **422,252** | **5,912** | **435,859** |
| Iron ore concentrate | 5,844 | 381,800 | 5,878 | 405,562 |
| Other products | 133 | 40,452 | 34 | 30,297 |
| **Industrial products** | **1,871** | **632,003** | **1,642** | **532,104** |
| **Hydrocarbons** | **-** | **-** | **74** | **24,860** |
| **Other sales** | **-** | **131,732** | **-** | **119,953** |
| Logistic services | - | 43,728 | - | 36,998 |
| Other products | - | 31,937 | - | 36,597 |
| Other services | - | 56,067 | - | 46,358 |
| **Total sales** | | **5,577,472** | | **4,865,664** |

The sales of fertilizers, mining and industrial products for year ended 31 December 2018 include US$273,449 thousand of revenues from delivery of these products to customers (2017: US$259,950 thousand).

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 26 Cost of sales

The components of cost of sales were:

| | 2018 | 2017 |
|---|---|---|
| Raw materials | 1,204,587 | 1,025,391 |
| Goods for resale | 1,403,816 | 1,024,779 |
| Other materials | 184,508 | 180,752 |
| Energy | 184,709 | 178,330 |
| Utilities and fuel | 84,542 | 73,478 |
| Labour, including contributions to social funds | 244,770 | 231,737 |
| Depreciation and amortisation | 255,366 | 227,348 |
| Repairs and maintenance | 53,253 | 55,725 |
| Production overheads | 78,756 | 70,150 |
| Property tax, rent payments for land and related taxes | 27,236 | 38,598 |
| Impairment /(reversal of impairment)/write-off of idle property, plant and equipment, net | 920 | (480) |
| Provision/(reversal of provision) for obsolete and damaged inventories, net | (68) | (290) |
| Changes in work in progress and finished goods | (293,288) | (47,756) |
| Other costs/(compensations), net | 8,620 | 21,267 |
| **Total cost of sales** | **3,437,727** | **3,079,029** |

## 27 Distribution costs

Distribution costs were:

| | 2018 | 2017 |
|---|---|---|
| Transportation | 530,320 | 511,379 |
| Labour, including contributions to social funds | 87,650 | 79,672 |
| Depreciation and amortisation | 41,511 | 37,414 |
| Repairs and maintenance | 8,033 | 7,140 |
| Provision /(reversal of provision) for impairment of receivables, net | 16,307 | 14,531 |
| Other costs | 61,164 | 51,351 |
| **Total distribution costs** | **744,985** | **701,487** |

## 28 General and administrative expenses

General and administrative expenses were:

| | 2018 | 2017 |
|---|---|---|
| Labour, including contributions to social funds | 122,366 | 122,130 |
| Depreciation and amortisation | 11,459 | 12,328 |
| Audit, consulting and legal services | 13,150 | 14,927 |
| Rent | 6,737 | 7,060 |
| Bank charges | 3,436 | 4,261 |
| Social expenditure | 3,227 | 4,272 |
| Repairs and maintenance | 2,401 | 2,359 |
| Provision/(reversal of provision) for impairment of receivables, net | 2,037 | 5,712 |
| Other expenses | 43,479 | 44,726 |
| **Total general and administrative expenses** | **208,292** | **217,775** |

The total depreciation and amortisation expenses included in the consolidated statement of profit or loss amounted to US$308,336 thousand (2017: US$277,090 thousand).

The total labour costs (including social expenses) included in the consolidated statement of profit or loss amounted to US$454,786 thousand (2017: US$433,539 thousand).

The total statutory pension contributions included in all captions of the consolidated statement of profit or loss amounted to US$64,837 thousand (2017: US$63,880 thousand).

The fees for the audit of the consolidated and statutory financial statements for the year ended 31 December 2018 amounted to US$3,063 thousand (2017: US$3,798 thousand). The auditors also provided the Group with other non-audit services amounting to US$152 thousand (2017: US$718 thousand).

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 29 Other operating income and expenses

The components of other operating (income) and expenses were:

| | 2018 | 2017 |
|---|---|---|
| Sponsorship | 6,752 | 21,013 |
| (Gain)/loss on disposal of property, plant and equipment and intangible assets, net | 8,409 | 8,708 |
| Foreign exchange (gain)/loss from operating activities, net | (3,676) | 5,758 |
| Impairment /(reversal of impairment)/write off of idle property plant and equipment, net | 539 | 5,451 |
| (Gain)/loss on sales and purchases of foreign currencies, net | (4,780) | (1,661) |
| Non-recurring (income)/expenses, net | 6,155 | 6,943 |
| Other operating (income)/expenses, net | (16,355) | (11,112) |
| **Total other operating (income)/expenses, net** | **(2,956)** | **35,100** |

## 30 Other financial gain and loss

The components of other financial (gain) and loss were:

| | Note | 2018 | 2017 |
|---|---|---|---|
| Changes in fair value of cross currency interest rate swaps | 21 | 121,995 | (58,970) |
| Changes in fair value of foreign exchange deliverable and non-deliverable forward contracts | 21 | 13,371 | (1,424) |
| Change in fair value of foreign exchange swap contracts | | 797 | - |
| Unwinding of liability from contingent consideration related to business combination | | 19,095 | 18,879 |
| Unwinding of discount on deferred payables | | 707 | 796 |
| Unwinding of discount on land restoration obligation | 23 | 1,903 | 1,857 |
| Other financial (gain)/loss, net | | 1,936 | (7,443) |
| **Total other financial (gain)/loss, net** | | **159,804** | **(46,305)** |

## 31 Income tax

| | 2018 | 2017 |
|---|---|---|
| Income tax expense – current | 213,953 | 148,216 |
| Deferred income tax – origination and reversal of temporary differences, net | (21,853) | 62,238 |
| Prior periods adjustments for income tax | 2,163 | (6,339) |
| Reassessment of deferred tax assets/ liabilities due to change in the tax rate | 6,158 | 39,129 |
| **Income tax expense** | **200,421** | **243,244** |

A reconciliation between theoretical income tax charge calculated at the applicable tax rates enacted in the countries where Group companies are incorporated, and actual income tax expense calculated as follows:

| | 2018 | 2017 |
|---|---|---|
| **Profit before taxation** | **738,842** | **696,610** |
| Theoretical tax charge at statutory rate of subsidiaries | (176,315) | (177,190) |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Non deductible expenses | (16,189) | (14,564) |
| - (Unrecognised tax loss for the year)/recovery of previously unrecognised tax loss carry forward, net | 2,169 | (6,596) |
| - Adjustment on deferred tax assets/liabilities on prior periods | (1,765) | (12,104) |
| - Reassessment of deferred tax assets/ liabilities due to change in the tax rate | (6,158) | (39,129) |
| Prior periods adjustments recognised in the current period for income tax | (2,163) | 6,339 |
| **Income tax expense** | **(200,421)** | **(243,244)** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 31 Income tax (continued)

The Group companies are subject to tax rates depending on the country of domicile.

Subsidiaries located in Russia applied a tax rate of 20.0% on taxable profits during the year ended 31 December 2018 (2017: 20.0%). Reduced income tax rates are applied at several subsidiaries within a range from 15.5% to 19.3% according to regional tax law and agreements with regional authorities (2017: within a range from 15.5% to 19.3%).

In the third quarter 2018, the Group signed a special investment contract with the Russian authorities in respect of its ammonia project subsidiary, EuroChem Northwest, JSC enacted from 24 July 2018 and effective till 31 December 2025. Under the terms of the contract, the income tax rate is reduced to 5%, the respective effect from reassessment of deferred tax assets and liabilities amounted to US$6,158 thousand for the year ended 31 December 2018.

At the end of 2016, the Group signed special investment contracts with the Russian authorities in respect of its potash project subsidiaries, EuroChem-VolgaKaliy LLC and EuroChem-Usolsky potash complex LLC enacted from 1 January 2017 and effective till 31 December 2025. Under the terms of the contracts, the income tax rates may be reduced to 5% and 0% respectively for the above mentioned subsidiaries. As EuroChem-Usolsky potash complex LLC had a tax loss for the year ended 31 December 2018, the reduced income tax rate was not applied for the year 2018. Under the contract terms of EuroChem-VolgaKaliy LLC, the subsidiary needs to generate revenue from its primary activity to apply for the income tax rate reduction. As at 31 December 2018 the subsidiary did not generate revenue from the production, therefore the reduced income tax rate was not applied by EuroChem-VolgaKaliy LLC for the year 2018.

Subsidiaries located in Europe, North and Latin Americas and Asia are subject to the income tax rates ranging from 7.8% to 34.0% ( 2017: 7.8% to 39.5%).

Starting 1 January 2018, income tax rates in the USA and Belgium were decreased to 26.50% and 29.58%, respectively, following changes in tax legislation in December 2017 (2017: income tax rates in the USA and Belgium were 39.50% and 33.99%, respectively). Starting 1 January 2020, the tax rate in Belgium will be decreased to 25.00%.

At 31 December 2018, the Group had US$171,681 thousand (31 December 2017: US$184,800 thousand) of unused accumulated tax losses carried forwards in respect of which deferred tax asset of US$34,336 thousand (31 December 2017: US$36,960 thousand) had not been recognised as it is not probable that future taxable profit will be available against which the Group can utilise such benefits. These tax losses carried forward expire as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Tax losses carry forwards expiring by: | | |
| - 31 December 2020 | 1,901 | - |
| - 31 December 2021 | 35,840 | 35,490 |
| - 31 December 2022 | 37,224 | 38,720 |
| - 31 December 2025 | 42,178 | 66,050 |
| - 31 December 2026 | 44,565 | 44,540 |
| - 31 December 2027 | 9,973 | - |
| **Tax loss carry forwards** | **171,681** | **184,800** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 31 Income tax (continued)

The movement in deferred tax (assets) and liabilities during 2018 was as follows:

| | 1 January 2018 | Differences recognition and reversals | Disposal of subsidiaries | Reassessment of deferred tax assets/ liabilities due to change in the tax rate | Currency translation difference | 31 December 2018 |
|---|---|---|---|---|---|---|
| **Tax effects of (deductible)/taxable temporary differences** | | | | | | |
| Property, plant and equipment and Intangible assets | 335,944 | 42,727 | - | - | (50,916) | 327,755 |
| Accounts receivable | (4,207) | (4,346) | - | - | 189 | (8,364) |
| Accounts payable | (2,350) | 3,868 | - | - | 314 | 1,832 |
| Inventories | (14,491) | (19,054) | (114) | - | 690 | (32,969) |
| Other | 9,787 | (4,129) | - | - | 432 | 6,090 |
| Tax losses carried-forward | (185,744) | (38,750) | - | 6,158 | 19,764 | (198,572) |
| Less: Unrecognised deferred tax assets | 36,960 | (2,169) | - | - | (455) | 34,336 |
| **Net deferred tax (asset)/liability** | **175,899** | **(21,853)** | **(114)** | **6,158** | **(29,982)** | **130,108** |
| Recognised deferred tax assets | (55,360) | (33,827) | - | - | 6,574 | (82,613) |
| Recognised deferred tax liabilities | 231,259 | 11,974 | (114) | 6,158 | (36,556) | 212,721 |
| **Net deferred tax (asset)/liability** | **175,899** | **(21,853)** | **(114)** | **6,158** | **(29,982)** | **130,108** |

The effect of changes in accounting policy and adoption of new standards was as follows as at 1 January 2018:

| | 31 December 2017, as previously reported | Adjustment, accounting policy | Adjustment, IFRS 9 | 1 January 2018, adjusted |
|---|---|---|---|---|
| **Tax effects of deductible/ taxable temporary differences:** | | | | |
| Property, plant and equipment and Intangible assets | 335,944 | - | - | 335,944 |
| Accounts receivable | (3,215) | - | (992) | (4,207) |
| Accounts payable | (2,350) | - | - | (2,350) |
| Inventories | (23,438) | 8,947 | - | (14,491) |
| Other | 9,787 | - | - | 9,787 |
| Tax losses carried-forward | (185,744) | - | - | (185,744) |
| Less: Unrecognised deferred tax assets | 36,960 | - | - | 36,960 |
| **Net deferred tax (asset)/liability** | **167,944** | **8,947** | **(992)** | **175,899** |
| Recognised deferred tax assets | (63,315) | 8,947 | (992) | (55,360) |
| Recognised deferred tax liabilities | 231,259 | - | | 231,259 |
| **Net deferred tax (asset)/liability** | **167,944** | **8,947** | **(992)** | **175,899** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 31 Income tax (continued)

The movement in deferred tax (assets) and liabilities during 2017 was as follows:

| | 31 December 2016, as previously reported | Differences recognition and reversals | Business combinations | Disposal of subsidiary | Reassessment of deferred tax assets/ liabilities due to change in the tax rate | Currency translation difference | 31 December 2017, as previously reported |
|---|---|---|---|---|---|---|---|
| **Tax effects of (deductible)/taxable temporary differences** | | | | | | | |
| Property, plant and equipment and Intangible assets | 298,373 | 60,081 | (16) | (40,019) | (11,973) | 29,498 | 335,944 |
| Accounts receivable | (5,713) | 2,792 | - | 243 | 73 | (610) | (3,215) |
| Accounts payable | 609 | (78) | - | 153 | 50 | (3,084) | (2,350) |
| Inventories | (28,216) | 5,853 | - | (46) | 98 | (1,127) | (23,438) |
| Other | 997 | 8,535 | - | 98 | (3) | 160 | 9,787 |
| Tax losses carried-forward | (203,470) | (21,541) | - | 9,577 | 50,884 | (21,194) | (185,744) |
| Less: Unrecognised deferred tax assets | 30,246 | 6,596 | - | - | - | 118 | 36,960 |
| **Net deferred tax (asset)/liability** | **92,826** | **62,238** | **(16)** | **(29,994)** | **39,129** | **3,761** | **167,944** |
| Recognised deferred tax assets | (121,464) | 24,016 | (16) | - | 41,722 | (7,573) | (63,315) |
| Recognised deferred tax liabilities | 214,290 | 38,222 | - | (29,994) | (2,593) | 11,334 | 231,259 |
| **Net deferred tax (asset)/liability** | **92,826** | **62,238** | **(16)** | **(29,994)** | **39,129** | **3,761** | **167,944** |

The effect of changes in accounting policy was as follows as at 1 January 2017:

| | 31 December 2016, as previously reported | Adjustment, accounting policy | 1 January 2017, adjusted |
|---|---|---|---|
| **Tax effects of deductible/ taxable temporary differences:** | | | |
| Property, plant and equipment and Intangible assets | 298,373 | - | 298,373 |
| Accounts receivable | (5,713) | - | (5,713) |
| Accounts payable | 609 | - | 609 |
| Inventories | (28,216) | 8,947 | (19,269) |
| Other | 997 | - | 997 |
| Tax losses carried-forward | (203,470) | - | (203,470) |
| Less: Unrecognised deferred tax assets | 30,246 | - | 30,246 |
| **Net deferred tax (asset)/liability** | **92,826** | **8,947** | **101,773** |
| Recognised deferred tax assets | (121,464) | 8,947 | (112,517) |
| Recognised deferred tax liabilities | 214,290 | - | 214,290 |
| **Net deferred tax (asset)/liability** | **92,826** | **8,947** | **101,773** |

The total amount of the deferred tax charge for 2018 and 2017 is recognised in profit or loss.

## 32 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. The Company has no dilutive potential ordinary shares and, therefore, the diluted earnings per share equals the basic earnings per share.

| | 2018 | 2017 |
|---|---|---|
| Profit for the period attributable to owners of the parent | 538,448 | 453,466 |
| Weighted average number of ordinary shares outstanding | 1,000 | 1,000 |
| **Earnings per share – basic and diluted** | **538.45** | **453.47** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 33 Balances and transactions with related parties

The Group's related parties are considered to include the ultimate beneficiaries, affiliates and entities under common ownership and control within the Group and/or entities having common principal ultimate beneficiaries. The relationships with those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below:

| Financial statements caption | Nature of relationship | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **Consolidated statement of financial position** | | | |
| **Assets** | | | |
| Non-current originated loans | Associates | - | 4,024 |
| Non-current originated loans | Other related parties* | - | 43,501 |
| Other non-current assets including: | | | |
| Interest receivable | Other related parties* | - | 655 |
| Other non-current assets | Other related parties* | 9,431 | - |
| Trade receivables | Joint ventures | 272 | 1,018 |
| Trade receivables | Other related parties* | 1,356 | 441 |
| Other receivables | Other related parties* | 24,176 | - |
| **Liabilities** | | | |
| Liability from contingent consideration related to business combination (Note 22) | Other related parties* | 122,866 | 123,001 |
| Non-current bonds issued | Parent company | 27,864 | - |
| Trade payables | Joint ventures | 1,959 | 1,784 |
| Trade payables | Other related parties* | 2,846 | 1,277 |
| **Consolidated statement of profit or loss** | | | |
| Sales | Joint ventures | 7,327 | 3,533 |
| Sales | Other related parties* | 16,660 | 4,593 |
| Cost of sales | Other related parties* | (13) | (792) |
| Distribution costs | Other related parties* | (4,502) | (7,897) |
| Interest income | Other related parties* | 172 | 1,525 |
| Gain/(loss) from disposal of subsidiaries, net | Other related parties* | 4,799 | - |
| Other financial gain | Other related parties* | - | 7,356 |
| **Consolidated statement of cash flows** | | | |
| (Increase)/decrease in trade receivables | Joint ventures | 742 | (1,011) |
| (Increase)/decrease in trade receivables | Other related parties* | (1,049) | - |
| Increase/(decrease) in trade payables | Other related parties* | 1,825 | 1,250 |
| Capital expenditure on property, plant and equipment and other intangible assets | Joint ventures | (3,609) | (10,762) |
| Proceeds from sale of interest in associate | Other related parties* | - | 60,749 |
| Originated loans | Associates | - | (4,024) |
| Originated loans | Other related parties* | - | (30,850) |
| Repayment of originated loans | Other related parties* | 21,100 | 9,469 |
| Interest received | Other related parties* | 172 | 3,455 |
| Other investing activities | Other related parties* | 3,768 | 9,511 |
| Capital contribution (Note 17) | Parent company | 600,000 | - |

* Other related parties are represented by the companies under common control with the Group and/or by the company ultimately controlled by one of the Group's shareholders or key management personnel.

In the first quarter 2018, the Group acquired from the parent company of the Group, AIM Capital S.E., a company owning a land plot for a project to construct a nitrogen fertilizers plant. The company is located in the US. The Group treats this transaction as an asset acquisition.

In November 2018, the Group sold two subsidiaries, each owning a bulk carrier sea vessel, to a company, which is a related party of the Group.

***Management compensation.*** The total key management personnel compensation amounted to US$16,496 thousand and US$17,933 thousand for the year ended 31 December 2018 and 31 December 2017, respectively. This compensation relates to individuals, who are members of the Management Board, for their services in full time positions. Compensation is made up of an annual fixed remuneration plus a performance bonus accrual.

## 34 Contingencies, commitments and operating risks

### *i Capital expenditure commitments*

As at 31 December 2018, the Group had contractual commitments for capital expenditures of US$499,134 thousand (31 December 2017: US$846,280 thousand), including amounts denominated in RUB of US$253,368 thousand and in EUR of US$162,235 thousand, which will represent cash outflows in the next 5 years according to the contractual terms.

US$130,154 thousand and US$166,135 thousand of the total amount relate to the development of potassium salt deposits and the construction of mining facilities at the Gremyachinskoe and Verkhnekamskoe potash licence areas, respectively (31 December 2017: US$184,809 thousand and US$253,578 thousand, respectively).

US$57,235 thousand of the total amount relates to the construction of the Ammonia Plant at Kingisepp, Russia (31 December 2017: US$212,928 thousand).

### *ii Tax legislation*

Management of the Group believes that its interpretation of the tax legislation is appropriate and the Group's tax position will be sustained.

Given the scale and international nature of the Group's business, intra-group transfer pricing and issues such as controlled foreign corporations' legislation, beneficial ownership, permanent establishment and tax residence issues, are inherent tax risks just as they are for other international businesses. Changes in tax laws or their application with respect to tax matters in the countries where the Group has subsidiaries could increase the Group's effective tax rate.

The majority of the Group's production subsidiaries are located in Russia and are required to comply with Russian tax, currency and customs legislation. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments than the Management of the Group, and it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review with possible extension of this period under certain circumstances.

Where management believes that it is probable that certain tax positions taken by the Group may not be sustained if challenged by the tax authorities, the Group recognises provisions for related taxes, interest and penalties. There were no such provisions recorded by the Group at 31 December 2018 and 31 December 2017.

### *iii Insurance policies*

The Group obtains risk insurance cover as mandated by statutory requirements. The Group also holds voluntary insurance policies covering directors' and officers' liability (D&O insurance), general third party and product liability, physical property damage and business interruption insurance at major production plants, as well as insurance policies related to trade operations, including export shipments, and credit insurance of certain trade debtors.

The Group also carries voluntary life and accident insurance for employees.

As part of the Verkhnekamskoe potash project, the Group has insured construction risks of all mining and surface facilities related to this project including third party liability during construction works. The insurance covers the risks of destruction and damage related to all facilities including those previously constructed starting from November 2014 to July 2020, which are not handed-over to date, including a two year guarantee period, which already started in respect of the handed-over facilities. Operational part of the Project has been insured under property and business interruption cover.

As a part of the Ammonia project at Kingisepp, the Group has insured construction risks of all facilities related to this project including third party liability, project cargo, delay-in-start up, insurance covering loan payments and compulsory insurance of hazardous objects.

## 34 Contingencies, commitments and operating risks (continued)

### *iv Environmental matters*

The Group's plants and operations are subject to numerous national, state and local environmental laws and regulations. The Group's management regularly evaluates its obligations under these laws and regulations and believes that the Group's plants and operations are in compliance with environmental laws and regulations. The estimated cost of known environmental obligations has been provided for in these consolidated financial statements in accordance with the Group's accounting policies.

The environmental laws and regulations are essentially complex and tend to change over time. The scope, extent and speed of this change may vary substantially in different jurisdictions. Accordingly, the Group's management system provides for ongoing monitoring of the key trends in applicable environmental laws and regulations. Though it is inherently difficult to estimate precisely all costs associated with current and newly proposed environmental requirements. The Group's management does not expect these costs to have a material effect on the Group's financial position or liquidity.

### *v Legal proceedings*

During the reporting period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the results of operations or the financial position of the Group.

### *vi Operating environment of the Group*

The Group operates in the fertilizer industry with production assets in Russia, Lithuania, Belgium, Kazakhstan, China and sales networks in Europe, Russia, the CIS, North and Latin America, Central and South East Asia. The highly competitive nature of the market makes prices of the Group's key products relatively volatile.

Possible deteriorating economic conditions may have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. Debtors of the Group may also become adversely affected by the financial and economic environment, which could in turn impact their ability to repay amounts owed or fulfil obligations undertaken.

Management is unable to predict all developments which could have an impact on the industry and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes all necessary measures are being taken to support the sustainability and growth of the Group's business in the current circumstances.

## 35 Financial and capital risk management

### 35.1 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group.

***(a) Market risk***

***(i) Foreign currency risk***

The Group is exposed to foreign exchange risk to the extent that its future cash inflows and outflows over a certain period of time are denominated in different currencies.

The objective of the Group's foreign exchange risk management is to minimise the volatility of the Group's cash flows arising from fluctuations in exchange rates versus the US$ (which is viewed by the Group as its base currency), while simultaneously achieving at least average annual market exchange rates for the Group's non-US$ purchases. Management focuses on assessing the Group's future cash flows in currencies other than US$ and managing operational currency position - the gaps arising between inflows and outflows. Management also pursues to avoid open transactional currency positions by balancing non-dollar cash assets and liabilities.

The Group includes a number of subsidiaries with Russian rouble as functional currency which have a significant volume of US$-denominated transactions as well as several subsidiaries with US$ functional currency having RUB-denominated transactions. At 31 December 2018, if the RUB had been down/up against the US$ by 10%, all other things being equal, the after tax result for the year and equity would have been US$59,378 thousand lower/higher (2017: US$60,086 thousand lower/higher), purely as a result of foreign exchange gains/losses on translation of US$-denominated assets and liabilities at subsidiaries with RUB as a functional currency and RUB-denominated assets and liabilities at subsidiaries with US$ as a functional currency and with no regard to the impact of this appreciation/depreciation on sales.

The Group is disclosing the impact of such a 10% shift in the manner set out above to ease the calculation for the users of these consolidated financial statements of the impact on the after tax profit and equity resulting from subsequent future exchange rate changes; this information is not used by the management for foreign currency risk management purposes.

The Group believes that it benefits from the strengthening of US$ exchange rate versus the RUB and the EUR, and the other way around. This is mainly due to the fact that in terms of economic substance, as opposed to purely settlement perspective, the Group's revenues are directly or indirectly US$-denominated, whereas a significant portion of its operating and/ capital costs is denominated in RUB and EUR.

During 2018 and 2017, the Group entered into foreign exchange non-deliverable and deliverable forward contracts in order to achieve lower RUB and EUR exchange rates for its RUB and EUR purchases than the average annual exchange rates. The Group also routinely enters into forward and swap agreements aimed at lowering the cost of its debt portfolio in US$ terms.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 35 Financial and capital risk management (continued)

### 35.1 Financial risk management (continued)

The table below summarises the Group's financial assets and liabilities which are subject to foreign currency risk as at 31 December 2018:

| Functional currency | RUB | US$ | Other foreign currencies |
|---|---|---|---|
| **Foreign currency** | **US$** | **RUB** | **Other foreign currencies** |
| **ASSETS** | | | |
| **Non-current financial assets:** | | | |
| Restricted cash | - | - | 876 |
| US$/RUB cross currency swaps (gross amount) | - | 273,182 | - |
| Other non-current assets | - | - | 9,431 |
| **Total non-current financial assets** | **-** | **273,182** | **10,307** |
| **Current financial assets:** | | | |
| Trade receivables | - | - | 106,223 |
| Other receivables | - | - | 24,176 |
| US$/RUB cross currency swaps (gross amount) | - | 98,746 | - |
| RUB/US$ deliverable forward contracts | - | 119,288 | - |
| Cash and cash equivalents | 17,258 | 3,760 | 117,394 |
| **Total current financial assets** | **17,258** | **221,794** | **247,793** |
| **Total financial assets** | **17,258** | **494,976** | **258,100** |
| **LIABILITIES** | | | |
| **Non-current financial liabilities:** | | | |
| Bank borrowings | - | 45,271 | - |
| Bonds issued | 500,000 | - | - |
| Project Finance | - | - | 509,460 |
| EUR/US$ non-deliverable forward contracts | - | - | 6,869 |
| Liability from contingent consideration related to business combination | - | - | 122,866 |
| Deferred payable related to acquisition of additional interest in subsidiary | 1,500 | - | - |
| Deferred payable related to mineral rights acquisition | - | - | 10,295 |
| **Total non-current financial liabilities** | **501,500** | **45,271** | **649,490** |
| **Current liabilities:** | | | |
| Bank borrowings and loans received | - | 45,703 | 106,765 |
| Project Finance | - | - | 31,138 |
| EUR/US$ non-deliverable forward contracts | - | - | 3,187 |
| RUB/US$ non-deliverable forward contracts | - | 1,101 | - |
| BRL/US$ non-deliverable forward contracts | - | - | 2,464 |
| Trade payables | 4,299 | - | 112,122 |
| Interest payables | 4,169 | 458 | 3,102 |
| Deferred payable related to acquisition of additional interest in subsidiary | 1,500 | - | - |
| Deferred payable related to mineral rights acquisition | - | - | 1,225 |
| **Total current financial liabilities** | **9,968** | **47,262** | **260,003** |
| **Total financial liabilities** | **511,468** | **92,533** | **909,493** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 35 Financial and capital risk management (continued)

### 35.1 Financial risk management (continued)

The Group's financial assets and liabilities subject to foreign currency risk as at 31 December 2017 are presented below:

| Functional currency | RUB | US$ | Other foreign currencies |
|---|---|---|---|
| **Foreign currency** | **US$** | **RUB** | **Other foreign currencies** |
| **ASSETS** | | | |
| **Non-current financial assets:** | | | |
| Restricted cash | 19,733 | - | 1,024 |
| Originated loans | 43,501 | - | - |
| US$/RUB cross currency swaps (gross amount) | - | 294,564 | - |
| EUR/US$ non-deliverable forward contracts | - | - | 645 |
| **Total non-current financial assets** | **63,234** | **294,564** | **1,669** |
| **Current financial assets:** | | | |
| Trade receivables | 757 | - | 49,223 |
| Interest receivables | 655 | - | - |
| US$/RUB cross currency swaps (gross amount) | - | 840,232 | - |
| RUB/US$ non-deliverable forward contracts | - | 2,530 | - |
| Cash and cash equivalents | 25,028 | 274 | 55,066 |
| **Total current financial assets** | **26,440** | **843,036** | **104,289** |
| **Total financial assets** | **89,674** | **1,137,600** | **105,958** |
| **LIABILITIES** | | | |
| **Non-current financial liabilities:** | | | |
| Bonds issued | 500,000 | - | - |
| Project Finance | 750,000 | - | 342,350 |
| Liability from contingent consideration related to business combination | - | - | 123,001 |
| Deferred payable related to acquisition of additional interest in subsidiary | 3,000 | - | - |
| Deferred payable related to mineral rights acquisition | - | - | 10,656 |
| **Total non-current financial liabilities** | **1,253,000** | **-** | **476,007** |
| **Current liabilities:** | | | |
| Bank borrowings and loans received | - | 594,616 | 24,559 |
| Trade payables | 8,011 | - | 204,970 |
| Interest payables | 8,269 | 2,091 | 1,696 |
| Deferred payable related to acquisition of additional interest in subsidiary | 1,500 | - | - |
| Deferred payable related to acquisition of associate | - | - | 3,229 |
| Deferred payable related to mineral rights acquisition | - | - | 1,600 |
| **Total current financial liabilities** | **17,780** | **596,707** | **236,054** |
| **Total financial liabilities** | **1,270,780** | **596,707** | **712,061** |

The Group's sales for the years ended 31 December 2018 and 31 December 2017 are presented in the table below:

| | US$ | EUR | RUB | Other currencies | Total |
|---|---|---|---|---|---|
| | 2,802,514 | 1,120,085 | 1,091,677 | 563,196 | 5,577,472 |
| 2018 | 50% | 20% | 20% | 10% | 100% |
| | 2,370,967 | 974,492 | 985,285 | 534,920 | 4,865,664 |
| 2017 | 49% | 20% | 20% | 11% | 100% |

In practice, as noted above, while assessing and managing its exposure to foreign currency risk, the Group's Treasury views most of the Group's sales as predominantly US$-denominated, regardless of the settlement currency. The Group's Treasury views all currencies other than the US$ as foreign currency risk exposures of the Group, while the US$ is viewed as the Group's base economic currency against which all exposures are measured.

## 35 Financial and capital risk management (continued)

### 35.1 Financial risk management (continued)

#### *(ii) Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's principal interest rate risk arises from long-term and short-term borrowings.

The Group is exposed to the risk from floating interest rates primary from borrowings and loans denominated in foreign currencies.

The Group had US$1,530,410 thousand of US$ denominated loans outstanding at 31 December 2018 (31 December 2017: US$1,944,559 thousand) bearing floating interest rates varying from 1-month Libor +1.55% to 1-month Libor +2.20%, 3-month Libor +2.00%, 6-month Libor +2.75% (2017: from 1-month Libor +1.65% to 1-month Libor +2.32%, from 3-month Libor +1.7% to 3-month Libor +3.5%, from 12-month Libor +2.95% to 12-month Libor +3.4%).

The Group's profit after tax for the year ended 31 December 2018 and equity would have been US$1,261 thousand, or 0.2 % lower/higher (2017: US$2,115 thousand, or 0.5 % lower/higher) if the US$ Libor interest rate was 10 bps higher/lower than its actual level during the year.

During 2018 and 2017, the Group did not hedge this exposure using financial instruments.

The Group has a formal policy of determining how much maximum unhedged exposure it should have to interest rate risk on the basis of the assessment of the likely interest rate changes on the Group's cash flows. The Group performs periodic analysis of the current interest rate environment on the basis of which management makes decisions on the appropriate mix of fixed-rate and variable-rate debt for both existing and planned new borrowings.

#### *(iii) Financial investments risk*

The Group can be exposed to equity securities price risk because of investments that can be held by the Group. As at 31 December 2018 and 31 December 2017, the Group was not exposed to equity securities price risk.

The Group does not enter into any transactions with financial instruments whose value is exposed to the value of any commodities traded on a public market.

#### *(b) Credit risk*

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Financial assets, which potentially subject Group entities to credit risk, consist principally of originated loans, trade receivables, advances to suppliers and contractors, as well as cash and bank deposits. The objective of managing credit risk is to prevent losses of liquid funds deposited with or invested in financial institutions or the loss in value of receivables.

The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets, which at 31 December 2018 amounted to US$762,113 thousand (31 December 2017: US$644,831 thousand). The Group has no significant concentrations of credit risk.

***Cash and cash equivalents, restricted cash and fixed-term deposits.*** Cash and term deposits are mainly placed in major multinational banks and banks with independent credit ratings. No bank balances and term deposits are past due or impaired. (See the analysis by credit quality of bank balances, term and fixed-term deposits in Note 15).

***Originated loans.*** Originated loans are issued to companies which are under common control with the Group and to associated company or joint venture of the Group.

***Trade receivables.*** Trade receivables are subject to a policy of active credit risk management which focuses on an assessment of ongoing credit evaluation and account monitoring procedures. The objective of the management of trade receivables is to sustain the growth and profitability of the Group by optimising asset utilisation while maintaining risk at an acceptable level.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 35 Financial and capital risk management (continued)

### 35.1 Financial risk management (continued)

Receivables management is geared towards collecting all outstanding accounts punctually and in full to avoid the loss of receivables. Additionally, the Group sells certain trade receivables to a factor on a non-recourse basis.

***Advances to Suppliers and Contractors.*** Advances given to suppliers and contractors are subject to a policy of the supplier credit risk management which focuses on ongoing credit limit evaluation and monitoring goods/services supply contract performance.

The monitoring and controlling of credit risk is performed by the corporate treasury function of the Group. The credit policy requires the performance of credit evaluations and ratings of all counterparties, including customers, suppliers and contractors. The credit quality of each new customer, supplier or contractor is analysed using internal credit rating before the Group provides it with the terms of delivery and payment, or terms of advance payments in the case of suppliers and contractors. The Group gives preference to counterparties with an independent credit rating. New counterparties without an independent credit rating are evaluated with reference to Group's credit policy which is based on minimum of two ratings: internal creditworthiness rating and internal payment discipline rating. The credit quality of other counterparties is assessed taking into account their financial position, past experience and other factors.

Customers, suppliers and contractors that do not meet the credit quality requirements are supplied on a prepayment basis only and receive no advance payments.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 14).

The major part of trade receivables that is not impaired relates to wholesale distributors and steel producers for which the credit exposures and related ratings are presented below:

| Group of customers | Rating agency | Credit rating/Other | 31 December 2018 | 31 December 2017 |
|---|---|---|---:|---:|
| Wholesale customers | - | Credit Insurance | - | 2,829 |
| Wholesale customers | - | Letter of credit | 2,713 | 19,337 |
| Wholesale customers | - | Bank guarantee | 2,152 | 2,362 |
| Wholesale customers and steel producers | Fitch | 2018: A+ to BBB-<br>2017: A+ to BBB- | 21,988 | 18,594 |
| Wholesale customers | Dun & Bradstreet Credibility Corp.* | Minimum risk of failure | 36,359 | 18,425 |
| Wholesale customers | Dun & Bradstreet Credibility Corp.* | Lower than average risk | 45,316 | 6,482 |
| Wholesale customers | Dun & Bradstreet Credibility Corp.* | Average risk of failure | 25,389 | 50,462 |
| Wholesale customers | CreditInfo | A-very good | 3,814 | 1,627 |
| Wholesale customers | CreditInfo | Lower than average risk | 3,478 | 5,460 |
| Wholesale customers | CreditInfo | Average risk of failure | 3,418 | 1,212 |
| Wholesale customers | Other local credit agencies | - | 25,557 | - |
| Wholesale customers | Counterparties with internal credit rating | Minimum risk of failure | 1,250 | 10,868 |
| Wholesale customers | Counterparties with internal credit rating | Lower than average risk | 29,153 | 43,773 |
| Wholesale customers | Counterparties with internal credit rating | Average risk of failure | 3,701 | 13,733 |
| **Total** | | | **204,288** | **195,164** |

* Independent credit rating agencies used by the Group for evaluation of customers' credit quality.

The rest of trade receivables is analysed by management who believes that the balance of the receivables is of good quality due to strong business relationships with these customers. The credit risk of every individual customer is monitored.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 35 Financial and capital risk management (continued)

### 35.1 Financial risk management (continued)

### *(c) Liquidity risk*

Liquidity risk results from the Group's potential inability to meet its financial liabilities, such as settlements of financial debt and payments to suppliers. The Group's approach to liquidity risk management is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

While managing its liquidity, the Group aims to ensure that it is sufficient to meet its short-term existing and potential obligations. At the same time, the Group strives to minimise its idle cash balances. These goals are achieved by ensuring, among other things, that there is a sufficient amount of undrawn committed bank facilities at the Group's disposal at all times. This may result, from time to time, in the Group's current liabilities exceeding its current assets.

In order to take advantage of financing opportunities in the international capital markets, the Group maintains credit ratings from Standard & Poor's, Fitch and Moody's. As at 31 December 2018, Standard & Poor's affirmed the Group's rating at BB "minus" with positive outlook (31 December 2017: BB "minus" with stable outlook), Fitch affirmed at BB with stable outlook (31 December 2017: BB with negative outlook) and Moody's affirmed at Ba2 with stable outlook (31 December 2017: Ba2 with stable outlook).

Cash flow forecasting is performed throughout the Group. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 18) at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the time remaining from the reporting date to the contractual maturity date.

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| **As at 31 December 2018** | | | | | |
| Trade payables | 470,264 | - | - | - | 470,264 |
| *Gross-settled swaps:*** | | | | | |
| - inflows | (98,746) | (273,182) | - | - | (371,928) |
| - outflows | 90,815 | 316,070 | - | - | 406,885 |
| *Deliverable forward contracts:* | | | | | |
| - inflows | (119,288) | - | - | - | (119,288) |
| - outflows | 118,175 | - | - | - | 118,175 |
| Non-deliverable forward contracts | 6,752 | 4,030 | 2,839 | - | 13,621 |
| Bank borrowings* | 471,786 | 1,164,788 | 953,050 | - | 2,589,624 |
| Project Finance* | 41,223 | 65,270 | 196,253 | 294,256 | 597,002 |
| Bonds issued* | 285,262 | 754,487 | 519,805 | - | 1,559,554 |
| Other current and non-current liabilities | 2,811 | 2,811 | 216,545 | 13,058 | 235,225 |
| **Total** | **1,269,054** | **2,034,274** | **1,888,492** | **307,314** | **5,499,134** |
| **As at 31 December 2017** | | | | | |
| Trade payables | 513,004 | - | - | - | 513,004 |
| *Gross-settled swaps:*** | - | - | - | - | - |
| - inflows | (840,232) | (22,785) | (271,779) | - | (1,134,796) |
| - outflows | 849,615 | 9,218 | 264,382 | - | 1,123,215 |
| Commodity swaps | 30 | - | - | - | 30 |
| *Deliverable forward contracts:* | | | | | |
| - inflows | (42,882) | - | - | - | (42,882) |
| - outflows | 41,176 | - | - | - | 41,176 |
| Bank borrowings* | 855,982 | 130,507 | 1,072,831 | 7,510 | 2,066,830 |
| Project Finance* | 51,475 | 216,974 | 778,532 | 228,825 | 1,275,806 |
| Bonds issued* | 184,381 | 336,235 | 1,318,858 | - | 1,839,474 |
| Other current and non-current liabilities | 9,799 | 2,773 | 254,685 | 14,271 | 281,528 |
| **Total** | **1,622,348** | **672,922** | **3,417,509** | **250,606** | **5,963,385** |

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as at 31 December 2018 and 31 December 2017, respectively.
** Payments in respect of the gross settled swaps will be accompanied by related cash inflows.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 35 Financial and capital risk management (continued)

### 35.1 Financial risk management (continued)

The Group controls the minimum required level of liquidity, consisting of cash balances, as well as committed undrawn bank facilities available for short-term payments in accordance with the financial policy of the Group. Such liquidity are represented by current cash balances on bank accounts, bank deposits, short-term investments, cash and other financial instruments, which may be classified as cash equivalents in accordance with IFRS, as well as undrawn committed bank facilities.

As at 31 December 2018, the Group had US$100 million in committed undrawn facilities with major international banks (31 December 2017: US$299 million).

The Group assesses liquidity on a weekly basis using a twelve-month rolling cash flow forecast.

### 35.2 Capital risk management

The Group's objective when managing capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, to have available the necessary financial resources for investing activities and to maintain an optimal capital structure in order to reduce the cost of capital. The Group considers total capital under management to be equity excluding cumulative currency translation differences as shown in the IFRS consolidated statement of financial position. This is considered more appropriate than alternatives, such as the value of equity shown in the Company's statutory financial (accounting) reports.

The Group monitors capital on the basis of the gearing ratio. Additionally, the Group monitors the adequacy of its debt levels using the net debt to EBITDA ratio.

***Gearing ratio***

The gearing ratio is determined as net debt to net worth. The net worth is calculated as shareholder's equity excluding the cumulative currency translation differences as this component of equity has no economic or cash flow significance. For the purposes of the Group's covenants in its external borrowing agreements, where appropriate, net debt consists of the sum of short-term borrowings, long-term borrowings and bonds balance outstanding, less cash and cash equivalents, fixed-term deposits and current restricted cash.

The gearing ratio as at 31 December 2018 and 31 December 2017 is shown in the table below:

| | 31 December 2018 | 31 December 2017, adjusted |
|---|---|---|
| Total debt | 3,801,519 | 3,480,114 |
| Less: cash and cash equivalents and fixed-terms deposits and current restricted cash | 346,562 | 248,865 |
| **Net debt** | **3,454,957** | **3,231,249** |
| Share capital | 111 | 111 |
| Retained earnings and other reserves | 6,578,487 | 5,442,999 |
| **Net worth** | **6,578,598** | **5,443,110** |
| **Gearing ratio** | **0.53** | **0.59** |

***Net Debt/EBITDA***

The Group's covenants under the terms of loan agreements and issued Eurobonds stipulate that Net Debt/EBITDA should not exceed the level of three and a half times (3.5x). For the purpose of the ratio calculation, net debt is determined in the same way as described in the Gearing ratio section.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 35 Financial and capital risk management (continued)

### 35.2 Capital risk management (continued)

The ratio of net debt to EBITDA as at 31 December 2018 and 31 December 2017 is shown in the table below:

| | Note | 2018 | 2017 |
|---|---|---|---|
| **EBITDA** | 7 | **1,516,926** | **1,130,438** |
| Elimination of EBITDA of subsidiaries under the Project Finance | 19 | 4,360 | 5,015 |
| Elimination of EBITDA of Ukrainian subsidiaries from 1 January 2018 to the date of disposal | | (3,755) | - |
| Elimination of EBITDA of disposed shipping companies from 1 January 2018 to the date of disposal | | (6,352) | - |
| Elimination of EBITDA of LLC Severneft-Urengoy from 1 January 2017 to the date of sale | | - | (15,580) |
| EBITDA of acquired assets from 1 January 2017 to the date of acquisition | | - | 1,734 |
| EBITDA of Hispalense de Liquidos SL from 1 January 2017 to the date of acquisition | | - | 481 |
| **Covenant EBITDA** | | **1,511,179** | **1,122,088** |
| Net debt | | **3,454,957** | **3,231,249** |
| **Net debt/Covenant EBITDA** | | **2.29** | **2.88** |

For the purpose of this calculation, covenant EBITDA includes EBITDA of acquired associates and subsidiaries for the period from 1 January to the date of acquisition, excluding EBITDA of subsidiaries under the Project Finance for the year and EBITDA of subsidiaries from 1 January to the date of sale.

# EUROCHEM GROUP

# INTERNATIONAL FINANCIAL REPORTING STANDARDS

# CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR’S REPORT

# 31 DECEMBER 2017

## Contents

# EuroChem Group AG

## Zug

# Report of the statutory auditor to the General Meeting on the consolidated financial statements 2017

pwc

# Report of the statutory auditor

## to the General Meeting of EuroChem Group AG

## Zug

## Report on the audit of the consolidated financial statements

### Opinion

We have audited the consolidated financial statements of EuroChem Group AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

### Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Our audit approach

**Overview**


Overall Group materiality: US$ 44 million

- We conducted full scope audit work at 8 significant reporting units audited by component teams based in 4 countries.
- In addition we performed audit of significant financial statement line items of 14 reporting units, with the involvement of component teams in 6 countries.
- Our audit scope addressed over 80% of the Group's revenue and more than 75% of the total assets.

As key audit matter the following area of focus has been identified:

- Impairment assessment of potash mine projects and related mineral rights

*PricewaterhouseCoopers AG, Grafenauweg 8, Postfach, CH-6302 Zug, Switzerland*
*Telefon: +41 58 792 68 00, Telefax: +41 58 792 68 10, www.pwc.ch*

***Audit scope***

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made by management; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The Group's consolidated financial statements are prepared based on the financial information of its components, i.e. individual companies of the Group, and represent a consolidation of over 80 companies in over 20 countries comprising the Group's operating business and head office functions.

For the purpose of the group audit the significance of components was assessed based on the component's individual share (more than 10%) in the Group's revenue, expenses, total assets or total liabilities. If we considered a component to be significant, we audited its financial information based on the materiality level determined for the component in the context of the group audit. In certain cases, when an additional audit evidence for the purpose of expressing our opinion on the consolidated financial statements was required, we performed audit procedures for individual balances and types of operations on selected components of the Group. We selected these components for audit procedures on individual balances and types of operations separately for each financial statement line item included in the scope of our audit, considering the level of audit evidence obtained from the audit of financial information of those significant components.

In the audit process, the group engagement team worked closely with component audit teams in Germany, Belgium, Russian Federation, Kazakhstan, United States of America, Ukraine, Brazil and Lithuania. As part of providing direction and supervision over the work of the component auditors, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the consolidated financial statements as a whole.

For the purpose of our audit procedures of the complex and specific areas we also engaged specialists in taxation, IFRS methodology, as well as experts in valuation of non-current assets and pension liabilities.

In overall, our audit procedures performed at the level of significant components and other components of the Group, including testing of selected controls, detailed testing, analytical procedures and procedures on consolidation provided us with a coverage of over 80% of the Group's revenue and more than 75% of the total assets.

By performing the procedures at components, combined with additional procedures at the group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

***Materiality***

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

| | |
|---|---|
| *Overall Group materiality* | US$ 44 million |
| *How we determined it* | 5% of average profit before tax for the last three years |
| *Rationale for the materiality benchmark applied* | We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. The use of the average number for the last three years helps dampen the potential effect of short-term volatility in fertiliser prices and foreign currency rates. We chose 5%, which is within the range of acceptable quantitative materiality thresholds by the auditing profession. |

***Key audit matters***

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

**Impairment assessment of potash mine projects and related mineral rights**

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| As at 31 December 2017, the carrying amount of non-current assets (construction in progress and mineral rights) related to two potash mine projects, Verkhnekamskoe in the Perm and Gremyachinskoe in the Volgograd region (the "Potash mine projects"), is US$ 3,325 million, including mineral rights of US$ 151 million.<br><br>We continued to focus on the impairment assessment of Potash mine projects and related mineral rights due to the significance of this area to the consolidated financial statements (about 41% of total non-current assets) and the subjective nature of judgements and assumptions that management are required to make in determining both whether there are impairment indicators and in the process of impairment assessment, which are affected | We obtained the valuation models for each Potash mine project (discounted cash flow models) used by management to determine the recoverable amount of the relevant assets. We engaged our internal valuation experts to assist us in evaluating the methodology and assumptions used in the impairment calculations described below.<br><br>Our audit procedures related to the management's assessment of non-current assets impairment of Potash mine projects and related mineral rights included:<br><br>• analysis of the methodology used by Group's management for the impairment test purposes; |

| | |
|---|---|
| by the projected future market and economic terms that are inherently uncertain.<br><br>Management considered the long-term development period, requirements for timely completion of projects and license compliance as potential impairment indicators as at 31 October 2017 and therefore proceeded with a full impairment assessment of these assets.<br><br>Under the impairment assessment, management prepared value in use models based on discounted cash flows (DCF) and compared the carrying value of CGUs with the Potash mine projects non-current assets' carrying value, including mineral rights. As part of this assessment, the Group's management performed analysis of the business performance, industry outlook and operational plans and calculated the recoverable amounts of non-current assets by cash generating units.<br><br>Management assessed the risk of possible delays in the construction and development of the potash deposits which may result in the risk of non-compliance with the terms of the mining licenses and potential impairment of the related non-current assets.<br><br>Management has compared the recoverable amount of non-current assets related to the two potash mine projects, including mineral rights, determined as their value in use, with the carrying amount of these assets and concluded that no impairment should be recognised in respect of these assets as at 31 December 2017.<br><br>*Refer to Note 2 'Basis of preparation and significant accounting policies', Note 9 'Mineral rights' and Note 8 'Property, plant and equipment' for more information.* | • examination of the mathematical accuracy of the valuation models for each Potash mine projects;<br><br>• assessment of key assumptions such as macroeconomic forecasts: inflation rates, foreign exchange rates, future market potash prices, capital investments, sales volumes and discount rate (weighted average cost of capital (WACC)) applied and whether these are in line with both the approved budgets and strategy – the Group's Potash Strategy for 2017-2021 years and also externally available and reliable sources (including macroeconomic forecasts);<br><br>• comparing, on a sample basis and with the benefit of hindsight, the accuracy of budgets used in prior year valuation models with the actual results of the current year;<br><br>• re-performing sensitivity analysis around the key assumptions such as future market potash prices, discount rate, sales volume, capital investments, foreign exchange rates and inflation rates to ascertain the extent of change in those assumptions that either individually or collectively would be required for the non-current assets and mineral rights to be impaired;<br><br>• obtaining management's and Board of Directors' written representations related to impairment test including their position in relation to the future water inflow and its effect for the overall development of the potash project in the Volgograd region.<br><br>Our audit procedures in relation to management's assessment of the risk of possible delays in the construction and development of the potash deposits which may result in the risk of non-compliance with the terms of the mining licenses and potential impairment of the related non-current assets, comprised:<br><br>• testing of compliance with the key terms of the licenses, including analysis of supporting documentation provided by management to confirm that all the key dates and key terms stated in the licenses have been complied with, on a sample basis;<br><br>• interviews with geologists responsible for the potash projects and discussion of the stage of |

the mining processes, as well as the current estimate of reserves;

- obtaining confirmation from the Group's management and Board of Directors that they regularly monitor the status of the development of the potash deposits, the companies are ready to execute the terms of licenses with respect to mining conditions, that all required reports have been submitted on a timely basis and that there have been no issues of non-compliance with the terms of mining licenses.

Based on the above procedures, we found that the key assumptions and judgements used for assessment of impairment for potash projects in the Volgograd and Perm regions are reasonable and supported by the available evidence and we concur with the conclusion that an impairment is not required.

### *Other information in the annual report*

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements of EuroChem Group AG and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

### *Responsibilities of the Board of Directors for the consolidated financial statements*

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

### *Auditor's responsibilities for the audit of the consolidated financial statements*

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

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

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

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

## *Report on other legal and regulatory requirements*

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

| | |
|---|---|
| Joanne Burgener | Christopher Vohrer |
| Audit expert<br>Auditor in charge | Audit expert |

Zug, 7 February 2018

Enclosure:

- Consolidated financial statements (consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and notes)

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

| | Note | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets:** | | | |
| Property, plant and equipment | 8 | 6,918,004 | 5,297,313 |
| Mineral rights | 9 | 372,809 | 455,488 |
| Goodwill | 10 | 516,830 | 468,223 |
| Intangible assets | 11 | 142,924 | 163,625 |
| Investment in associates and joint ventures | 12 | 43,152 | 36,500 |
| Originated loans | 15 | 51,046 | 53,178 |
| Restricted cash | 16 | 22,345 | 18,170 |
| Derivative financial assets | 22 | 7,189 | - |
| Deferred income tax assets | 32 | 63,315 | 121,464 |
| Other non-current assets | | 52,199 | 83,690 |
| **Total non-current assets** | | **8,189,813** | **6,697,651** |
| **Current assets:** | | | |
| Inventories | 13 | 746,457 | 678,754 |
| Trade receivables | 14 | 293,101 | 267,786 |
| Prepayments, other receivables and other current assets | 14 | 326,637 | 315,185 |
| Income tax receivable | | 58,999 | 32,133 |
| Originated loans | 15 | - | 412 |
| Derivative financial assets | 22 | 18,955 | 13,602 |
| Restricted cash | 16 | 20,101 | 45,994 |
| Fixed-term deposits | 16 | 151 | 294 |
| Cash and cash equivalents | 16 | 228,613 | 285,605 |
| **Total current assets** | | **1,693,014** | **1,639,765** |
| **TOTAL ASSETS** | | **9,882,827** | **8,337,416** |
| **LIABILITIES AND EQUITY** | | | |
| **Equity attributable to owners of the parent:** | | | |
| Share capital | 18 | 111 | 111 |
| Cumulative currency translation differences | | (1,347,833) | (1,749,745) |
| Retained earnings and other reserves | | 5,419,931 | 4,966,855 |
| | | **4,072,209** | **3,217,221** |
| Non-controlling interests | | 165 | 1,371 |
| **Total equity** | | **4,072,374** | **3,218,592** |
| **Non-current liabilities:** | | | |
| Bank borrowings and other loans received | 19 | 1,110,205 | 1,305,671 |
| Project finance | 20 | 959,373 | 573,022 |
| Bonds issued | 21 | 1,512,413 | 824,848 |
| Derivative financial liabilities | 22 | - | 75,209 |
| Deferred income tax liabilities | 32 | 231,259 | 214,290 |
| Other non-current liabilities and deferred income | 23 | 192,401 | 166,456 |
| **Total non-current liabilities** | | **4,005,651** | **3,159,496** |
| **Current liabilities:** | | | |
| Bank borrowings and other loans received | 19 | 770,405 | 1,075,418 |
| Bonds issued | 21 | 87,091 | 323,856 |
| Derivative financial liabilities | 22 | 61,821 | 703 |
| Trade payables | 25 | 513,004 | 284,549 |
| Other accounts payable and accrued expenses | 25 | 334,519 | 221,396 |
| Income tax payable | | 10,909 | 18,912 |
| Other taxes payable | | 27,053 | 34,494 |
| **Total current liabilities** | | **1,804,802** | **1,959,328** |
| **Total liabilities** | | **5,810,453** | **5,118,824** |
| **TOTAL LIABILITIES AND EQUITY** | | **9,882,827** | **8,337,416** |

The accompanying notes on pages 5 to 67 are an integral part of these consolidated financial statements.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

| | Note | 2017 | 2016 |
|---|---|---|---|
| Sales | 26 | 4,865,664 | 4,375,090 |
| Cost of sales | 27 | (3,079,029) | (2,759,422) |
| **Gross profit** | | **1,786,635** | **1,615,668** |
| Distribution costs | 28 | (701,487) | (592,553) |
| General and administrative expenses | 29 | (217,775) | (170,240) |
| Other operating income/(expenses), net | 30 | (35,100) | (1,642) |
| **Operating profit** | | **832,273** | **851,233** |
| Share of profit/(loss) from associates and joint ventures, net | | (2,803) | 23,385 |
| Gain on sale of associate | | - | 23,641 |
| Loss on sale of subsidiary | 17 | (60,205) | - |
| Interest income | | 11,864 | 18,148 |
| Interest expense | | (131,393) | (131,557) |
| Financial foreign exchange gain/(loss), net | | 569 | 148,929 |
| Other financial gain/(loss), net | 31 | 46,305 | 23,137 |
| **Profit before taxation** | | **696,610** | **956,916** |
| Income tax expense | 32 | (243,244) | (248,929) |
| **Profit** | | **453,366** | **707,987** |
| **Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods** | | | |
| Currency translation differences | | 402,254 | 654,840 |
| Share of other comprehensive income/(loss) of associates and joint ventures, net | 12 | (247) | - |
| **Total other comprehensive income that may be reclassified to profit or loss in subsequent periods** | | **402,007** | **654,840** |
| **Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods** | | | |
| Remeasurements of post-employment benefit obligations, net of tax | | (390) | (137) |
| **Total other comprehensive loss for the period that will not be reclassified to profit or loss in subsequent periods** | | **(390)** | **(137)** |
| **Total other comprehensive income** | | **401,617** | **654,703** |
| **Total comprehensive income** | | **854,983** | **1,362,690** |
| **Profit/(loss) attributable to:** | | | |
| Owners of the parent | | 453,466 | 707,496 |
| Non-controlling interests | | (100) | 491 |
| | | **453,366** | **707,987** |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Owners of the parent | | 854,988 | 1,362,195 |
| Non-controlling interests | | (5) | 495 |
| | | **854,983** | **1,362,690** |
| Earnings per share – basic and diluted | 33 | 453.47 | 707.50 |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Operating profit** | | 832,273 | 851,233 |
| Income tax paid | | (177,255) | (155,724) |
| **Operating profit less income tax paid** | | **655,018** | **695,509** |
| | | | |
| Depreciation and amortisation | 29 | 277,090 | 219,195 |
| (Gain)/loss on disposals, impairment and write-off of property, plant and equipment, net | | 10,314 | 23,542 |
| Change in provision for impairment of receivables and provision for obsolete and damaged inventories, net | | 19,953 | (7,362) |
| Other non-cash (income)/expenses, net | | 6,771 | 53,535 |
| **Gross cash flow** | | **969,146** | **984,419** |
| | | | |
| Changes in operating assets and liabilities: | | | |
| Trade receivables | | (7,547) | 65,495 |
| Advances to suppliers | | (49,582) | 20,223 |
| Other receivables | | (13,257) | (35,668) |
| Inventories | | (35,587) | 102,643 |
| Trade payables | | 104,735 | 7,079 |
| Advances from customers | | 16,961 | (49,078) |
| Other payables | | 22,603 | 7,064 |
| Restricted cash | | 41,148 | 3,310 |
| **Net cash – operating activities** | | **1,048,620** | **1,105,487** |
| **Cash flows from investing activities** | | | |
| Capital expenditure on property, plant and equipment and intangible assets | | (1,479,152) | (1,288,308) |
| Investment grant received | | - | 1,033 |
| Purchase of mineral rights | | - | (34,907) |
| Other payments related to mineral rights | | (10,374) | (17,206) |
| Investment in associates | | (4,517) | (10,403) |
| Investment in joint venture | | (1,997) | - |
| Proceeds from sale of interest in associate | 34 | 60,749 | 82,852 |
| Acquisition of subsidiaries, net of cash | | (3,204) | (76,718) |
| Deferred compensation related to business combination, paid | | (6,795) | (37,797) |
| Proceeds from sale of property, plant and equipment | | 4,828 | 569 |
| Proceeds from sale of subsidiary | 17 | 225,174 | - |
| Cash proceeds/(payments) on derivatives, net | | - | (932) |
| Net change in fixed-term deposits | | 137 | 8,699 |
| Originated loans | 15 | (38,554) | (106,749) |
| Repayment of originated loans | 15 | 11,963 | 185,990 |
| Interest received | | 13,488 | 19,265 |
| Other investing activities | | (9,414) | - |
| **Net cash – investing activities** | | **(1,237,668)** | **(1,274,612)** |
| | | | |
| **Free cash outflow** | | **(189,048)** | **(169,125)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from bank borrowings and other loans received | 19 | 3,128,323 | 3,236,329 |
| Funds received under the Project Finance Facilities | 20 | 416,938 | 385,489 |
| Repayment of bank borrowings and other loans | 21 | (3,655,674) | (3,641,808) |
| Proceeds from bonds, net of transaction costs | | 767,522 | 713,918 |
| Repayment of bonds | | (324,033) | (441,515) |
| Prepaid and additional transaction costs related to bank borrowings and bonds | | (17,129) | (15,302) |
| Prepaid and additional transaction costs related to Project Finance Facilities | | (4,463) | (115,532) |
| Return of collateral provided to banks to secure derivative transactions | | - | 25,180 |
| Interest paid | | (210,585) | (174,233) |
| Cash proceeds/(payments) on derivatives, net | 22 | 24,316 | (99,088) |
| Dividends paid to non-controlling interests in subsidiary | | (598) | (72) |
| Capital contribution | 18 | - | 250,000 |
| Other financial activities | | (3,214) | (782) |
| **Net cash – financing activities** | | **121,403** | **122,584** |
| Effect of exchange rate changes on cash and cash equivalents | | 10,653 | 2,477 |
| **Net decrease in cash and cash equivalents** | | **(56,992)** | **(44,064)** |
| **Cash and cash equivalents at the beginning of the period** | **16** | **285,605** | **329,669** |
| **Cash and cash equivalents at the end of the period** | **16** | **228,613** | **285,605** |

The accompanying notes on pages 5 to 67 are an integral part of these consolidated financial statements.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

| | Attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Cumulative currency translation differences | Retained earnings and other reserves | Total | Non-controlling interests | Total equity |
| **Balance at 1 January 2016** | **111** | **(2,404,581)** | **4,009,496** | **1,605,026** | **894** | **1,605,920** |
| **Comprehensive income/(loss)** | | | | | | |
| Profit | - | - | 707,496 | 707,496 | 491 | 707,987 |
| *Other comprehensive income* | | | | | | |
| Currency translation differences | - | 654,836 | - | 654,836 | 4 | 654,840 |
| Actuarial loss on post employment benefit obligations | - | - | (137) | (137) | - | (137) |
| *Total other comprehensive income/(loss)* | **-** | **654,836** | **(137)** | **654,699** | **4** | **654,703** |
| **Total comprehensive income** | **-** | **654,836** | **707,359** | **1,362,195** | **495** | **1,362,690** |
| **Transactions with owners** | | | | | | |
| Acquisition of subsidiary | - | - | - | - | 54 | 54 |
| Dividends paid to non-controlling interests in subsidiaries | - | - | - | - | (72) | (72) |
| Capital contribution | - | - | 250,000 | 250,000 | - | 250,000 |
| **Total transactions with owners** | - | **-** | **250,000** | **250,000** | **(18)** | **249,982** |
| **Balance at 31 December 2016** | **111** | **(1,749,745)** | **4,966,855** | **3,217,221** | **1,371** | **3,218,592** |
| **Balance at 1 January 2017** | **111** | **(1,749,745)** | **4,966,855** | **3,217,221** | **1,371** | **3,218,592** |
| **Comprehensive income/(loss)** | | | | | | |
| Profit/(loss) | - | - | 453,466 | 453,466 | (100) | 453,366 |
| *Other comprehensive income/(loss)* | | | | | | |
| Currency translation differences | - | 402,159 | - | 402,159 | 95 | 402,254 |
| Share of other comprehensive income/(loss) of associate and joint ventures, net | - | (247) | - | (247) | - | (247) |
| Actuarial loss on post employment benefit obligations | - | - | (390) | (390) | - | (390) |
| *Total other comprehensive income/(loss)* | **-** | **401,912** | **(390)** | **401,522** | **95** | **401,617** |
| **Total comprehensive income/(loss)** | **-** | **401,912** | **453,076** | **854,988** | **(5)** | **854,983** |
| **Transactions with owners** | | | | | | |
| Dividends paid to non-controlling interests in subsidiaries | - | - | - | - | (598) | (598) |
| Acquisition of additional interest in subsidiary | - | - | - | - | (603) | (603) |
| **Total transactions with owners** | - | **-** | **-** | **-** | **(1,201)** | **(1,201)** |
| **Balance at 31 December 2017** | **111** | **(1,347,833)** | **5,419,931** | **4,072,209** | **165** | **4,072,374** |

## 1 The EuroChem Group and its operations

The EuroChem Group comprises the parent entity, EuroChem Group AG (the “Company”) and its subsidiaries (collectively the “Group” or “EuroChem Group”). The Company was incorporated under the laws of Switzerland on 16 July 2014 and has its registered office at: Baarerstrasse, 37, 6300, Zug, Switzerland.

These consolidated financial statements were authorised for issue by the Board of Directors of the Company on 7 February 2018.

A company that holds business interests beneficially for Mr. Andrey Melnichenko indirectly owns 100% of AIM Capital SE, registered in the Republic of Cyprus (31 December 2016: 100%), which in turn owns 90% (31 December 2016: 90%) of the share capital of EuroChem Group AG, the remaining 10% of the Company were held indirectly by Mr. Dmitry Strezhnev (31 December 2016: 10%)

The Group’s principal activity is the production of mineral fertilizers (nitrogen- and phosphate-based) as well as mineral extraction (apatite, phosphate rock, iron-ore, baddeleyite and hydrocarbons), and the operation of a distribution network. In November 2017, a subsidiary of the Group engaged in the production of hydrocarbons was sold and now the Group focuses on the exploration and subsequent development of hydrocarbon fields in Russia and Kazakhstan. The Group is developing potassium salts deposits to start the production and marketing of potassium fertilizers. The Group’s main production facilities are located in Russia, Lithuania, Belgium, Kazakhstan and China (the joint venture’s production facilities). The Group’s distribution assets are located globally across Europe, Russia, North and Latin America, Central and South East Asia.

## 2 Basis of preparation and significant accounting policies

***Basis of preparation.*** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and derivative financial instruments, which are accounted for at fair value.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

***Functional and presentation currency.*** The functional currency of each of the Group’s entities is the currency of the primary economic environment in which the entity operates.

While the Company’s functional currency is the US dollar (“US$”), the functional currency for each of the Group’s subsidiaries is determined separately. The functional currency of subsidiaries located in Russia is the Russian rouble (“RUB”); the functional currency of subsidiaries located in the Eurozone is the Euro (“EUR”), the functional currency of subsidiaries in North America and in Switzerland carrying trading activities is the US$.

Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at year-end official exchange rates are recognised in profit and loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss are recognised in profit and loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to bank borrowings, third party loans, intragroup loans and deposits are presented in the consolidated statement of profit or loss and other comprehensive income in a separate line “Financial foreign exchange gain/(loss), net”. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income within “Other operating income/(expenses), net”.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 2 Basis of preparation and significant accounting policies (continued)

The presentation currency of the Group is the US$ since the management considers the US$ to be more appropriate for the understanding and comparability of consolidated financial statements. The results and financial position of each of the Group's subsidiaries were translated to the presentation currency as required by IAS 21, "The Effects of Changes in Foreign Exchange Rates":

(i) assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;

(ii) income and expenses for each consolidated statement of profit or loss and other comprehensive income are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at a historical rate; and

(iv) all resulting exchange differences are recognised as currency translation differences in other comprehensive income.

At 31 December 2017, the official exchange rates were: US$ 1 = RUB 57.6002, US$ 1 = EUR 0.8364 (31 December 2016: US$ 1 = RUB 60.6569, US$ 1 = EUR 0.9506). Average rates for the year ended 31 December 2017 were: US$ 1 = RUB 58.3529, US$ 1 = EUR 0.8855 (2016: US$ 1 = RUB 67.0349, US$ 1 = EUR 0.9031).

***Consolidated financial statements.*** Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest on a transaction-by-transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill" or "bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

## 2 Basis of preparation and significant accounting policies (continued)

***Purchases and sales of non-controlling interests.*** The Group applies the economic entity model to account for transactions with owners of non-controlling interest that do not result in a loss of control. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

***Disposals of subsidiaries and associates.*** When the Group ceases to have control or significant influence, any retained interest is remeasured to its fair value at the date when control or significant influence is lost, with the change in carrying amount recognised in profit or loss.

***Property, plant and equipment.*** Property, plant and equipment are stated at historical cost, less accumulated depreciation and a provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The cost of replacing major parts or components of property, plant and equipment items is capitalised and the replaced part is retired. Minor repair and maintenance costs are expensed when incurred.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit and loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit and loss.

***Capitalisation of borrowing costs.*** General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

***Depreciation.*** Land as well as assets under construction are not depreciated. Depreciation of other items of property, plant and equipment (other than oil and gas assets) is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives from the time they are ready for use:

| | Depreciation method | Useful lives in years (for straight-line method) |
|---|---|---|
| Buildings and land improvements | straight-line/unit-of-production | 15 to 85 |
| Transfer devices | straight-line/unit-of-production | 25 to 50 |
| Machinery and equipment | straight-line | 2 to 35 |
| Transport | straight-line | 5 to 40 |
| Other items | straight-line | 1 to 15 |

Depreciation of oil and gas and mining assets is calculated using the unit-of-production method.

## 2 Basis of preparation and significant accounting policies (continued)

The residual value of an asset is the estimated amount that the Group would currently obtain from disposing of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

***Remaining useful life of property, plant and equipment.*** Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and the estimated period during which these assets will bring economic benefit to the Group.

***Development expenditures.*** Development expenditures incurred by the Group are capitalised and accumulated separately in the assets under construction category for each area of interest in which economically recoverable resources have been identified. Such expenditures comprise cost directly attributable to the construction of a mine and the related infrastructure.

***Exploration assets.*** Exploration and evaluation costs related to an area of interest are written off as incurred except they are carried forward as an asset in the consolidated statement of financial position if the rights of the area of interest are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area of interest. Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. In accordance with IFRS 6, "Exploration for and Evaluation of Mineral Resources", exploration assets are measured applying the cost model described in IAS 16, "Property, Plant and Equipment" after initial recognition. Depreciation and amortisation are not calculated for exploration assets because the economic benefits that the assets represent are not consumed until the production phase. Capitalised exploration and evaluation expenditure is written off where the above conditions are no longer satisfied.

All capitalised exploration and evaluation expenditures are assessed for impairment if facts and circumstances indicate that impairment may exist. Exploration and evaluation assets are also tested for impairment once commercial reserves are found, before the assets are transferred to development properties.

***Operating leases.*** Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit and loss on a straight-line basis over the period of the lease. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

***Goodwill.*** Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. The carrying value of CGU containing goodwill is compared to the relevant amount, which is the higher of value in use and the fair value less cost of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

## 2 Basis of preparation and significant accounting policies (continued)

***Mineral rights.*** Mineral rights include rights for evaluation, exploration and production of mineral resources under the licences or agreements. Such assets are carried at cost, amortisation is charged on a straight line basis over the shorter of the valid period of the license or the agreement, or the expected life of mine, starting from the date when production activities commence. The costs directly attributable to acquisition of rights for evaluation, exploration and production or related costs unavoidably arising from licences and related agreements (such as social and infrastructure objects construction) are capitalised as a part of the mineral rights. If the reserves related to the mineral rights are not economically viable, the carrying amount of such mineral rights is written off.

Mineral resources are recognised as assets when acquired as part of a business combination and then depleted using the unit-of-production method based on total proved mineral reserves. Proved mineral reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits and were determined by independent professional appraisers when acquired as part of a business combination and are subject to updates in future periods.

***Intangible assets other than goodwill.*** The Group's intangible assets other than goodwill have definite useful lives and primarily include acquired core process technology, distribution agreements, customer relationships, trademarks, capitalised computer software costs and other intangible assets.

These assets are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets with definite useful lives are amortised using the straight-line method over their useful lives:

| | Useful lives in years |
|---|---|
| Land use rights | 50 |
| Know-how and production technology | 5 – 18 |
| Trademarks | 15 |
| Customer relationships | 10 |
| Distribution agreement | 8 |
| Software licences | 5 |

The Group tests intangible assets for impairment whenever there are indications that intangible assets may be impaired.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost of disposal.

***Impairment of non-financial assets.*** Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

***Financial instruments – key measurement terms.*** Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

## 2 Basis of preparation and significant accounting policies (continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

*Cost* is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

***The effective interest method*** is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

***Classification of financial assets.*** The Group classifies its financial assets into the following measurement categories: a) loans and receivables; b) available-for-sale financial assets; c) financial assets held to maturity and d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

As at 31 December 2017 and 31 December 2016, the Group did not have any financial assets other than loans and receivables and financial assets at fair value through profit and loss (derivative financial instruments).

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. They are included in the current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets.

## 2 Basis of preparation and significant accounting policies (continued)

The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

***Classification of financial liabilities.*** The Group's financial liabilities have the following measurement categories: (a) derivative liabilities and (b) other financial liabilities. Derivative liabilities are carried at fair value with changes in value recognised in profit or loss for the year (as financial gain /loss or operating income/expense) in the period in which they arise (Note 22). Other financial liabilities are carried at amortised cost. The Group's other financial liabilities comprise "trade and other payables" and "borrowings and bonds" and "project finance" in the consolidated statement of financial position. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

***Initial recognition of financial instruments.*** Trading investments and derivatives are initially recorded at their fair value. All other financial assets and liabilities are initially recorded at their fair value plus transaction costs. The fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between the fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at their trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the Group becomes a party to the contractual provisions of the instrument.

***Derecognition of financial assets.*** The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

***Derivative financial instruments.*** The Group's derivative financial instruments comprise forwards, options and swap contracts in foreign exchange, securities and commodities. Derivative financial instruments, including forward rate agreements, options and interest rate swaps, are carried at their fair value. All derivative instruments are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss.

The Group has no derivatives accounted for as hedges.

***Offsetting financial instruments.*** Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

***Associates.*** Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of results of associates.

## 2 Basis of preparation and significant accounting policies (continued)

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

***Joint arrangements.*** Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses, movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

***Income taxes.*** Income taxes have been provided for in the consolidated financial statements in accordance with tax legislation enacted or substantively enacted by the reporting date for each country where the Group companies are registered. The income tax expense comprises current tax and deferred tax and is recognised in profit and loss unless it relates to transactions that are recognised in other comprehensive income or directly in equity.

The Group companies are subject to tax rates depending on the country of domicile (Note 32).

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not be reversed through dividends or upon disposal in the foreseeable future.

## 2 Basis of preparation and significant accounting policies (continued)

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in associates and joint arrangements except for deferred income tax liabilities for which the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary differences will not be reversed in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference, a deferred income tax liability is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in associates and joint arrangements only to the extent that it is probable the temporary difference will be reversed in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

***Uncertain tax positions.*** The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge.

***Inventories.*** Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted-average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

***Trade and other receivables.*** Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

***Factoring arrangements.*** The Group enters into non-recourse factoring arrangements under which trade receivables can be sold and therefore are derecognised in the full amount from trade receivables as the Group does not retain substantially all risks and rewards of ownership and no longer retain control over the asset sold. The Group continues to collect and service the receivables and then transfers to the purchaser the collected amounts of the trade receivables sold less loss reserve. Loss reserve is recognised as other receivable. Factoring fees (e.g. running costs etc.) are recognised as other financial expense.

***Impairment of financial assets carried at amortised cost.*** Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

## 2 Basis of preparation and significant accounting policies (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows, in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset have substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the profit or loss for the year.

***Prepayments.*** Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are recognised in profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

***Cash and cash equivalents.*** Cash and cash equivalents include cash in hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Term deposits for longer than three months that are repayable on demand within one working day without penalties or that can be redeemed/withdrawn, subject to the interest income being forfeited, are classified as cash equivalents if the deposit is held to meet short term cash needs and there is no significant risk of a change in value as a result of an early withdrawal. Other term deposits are included into fixed-term deposits.

Cash and cash equivalents are carried at amortised cost using the effective interest method.

Restricted balances are excluded from cash and cash equivalents. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in non-current assets in the consolidated statement of financial position.

## 2 Basis of preparation and significant accounting policies (continued)

Bank overdrafts are included as a component of cash and cash equivalents for the purposes of consolidated statement of cash flows. As at 31 December 2017 and 31 December 2016, the Group did not have any bank overdrafts.

In managing the business, management focuses on a number of cash flow measures including “gross cash flow” and “free cash flow”. Gross cash flow refers to the operating profit after income tax and adjusted for items which are not of a cash nature, which have been charged or credited to profit and loss. The gross cash flow is available to finance movements in operating assets and liabilities, investing and financing activities.

Free cash flows are the cash flows available to the debt or equity holders of the business.

Since these terms are not standard IFRS measures EuroChem Group’s definition of gross cash flow and free cash flow may differ from that of other companies.

***Fixed-term deposits.*** Fixed-term deposits are deposits held with banks and have various original maturities and can be withdrawn with early notification and/or with penalty accrued or interest income forfeited. They are included in the current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets.

***Share capital.*** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the consolidated statement of changes in equity as a share premium.

***Capital contribution.*** Capital contributions received from shareholders in a form of a perpetual loan which does not require repayment, or for which the Group will be able to avoid any payments is classified as a component of equity within retained earnings and others reserves in the consolidated statement of changes in equity.

***Dividends.*** Dividends are recognised as a liability and deducted from equity in the period in which they are declared and approved. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

***Value added tax (“VAT”).*** Output VAT related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. VAT incurred on purchases may be offset, subject to certain restrictions, against VAT related to revenues, or can be reclaimed in cash from the tax authorities under certain circumstances. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

***Borrowings.*** Borrowings are initially recognised at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost using the effective interest method.

***Trade and other payables.*** Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

***Investment grants.*** Investment grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Investment grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit and loss on a straight-line basis over the expected lives of the related assets.

## 2 Basis of preparation and significant accounting policies (continued)

***Provisions for liabilities and charges.*** Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

***Asset retirement obligations.*** The Group's mining, extraction and processing activities are subject to requirements under federal, state and local environmental regulations which result in asset retirement obligations. Such retirement obligations include restoration costs primarily relating to mining and drilling operations, decommissioning of underground and surfacing operating facilities.

The present value of a liability for asset retirement obligation is recognised in the period in which it is incurred if respective costs could be reliably estimated. The estimated future land restoration costs discounted to present value, are capitalised in underlying items of property, plant and equipment and then depreciated over the useful life of such assets based on the unit-of-production method for oil and gas assets and on the straight-line basis for other assets. The unwinding of the obligation is recognised in profit and loss as part of other financial gain/loss. Actual restoration costs are recognised as expenses against the provision when incurred.

Changes to estimated future costs are recognised in the consolidated statement of financial position by either increasing or decreasing the provision for land restoration and asset to which it relates. The Group reassesses its estimation of land restoration provision as at the end of each reporting period.

***Revenue recognition.*** Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Revenues from sales of services are recognised in the period the services are provided, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Sales are shown net of VAT and other sales taxes.

Revenues are measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed.

Interest income is recognised on a time-proportion basis using the effective interest method.

***Employee benefits.*** Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

A number of the Group's European subsidiaries operates defined benefit pension plans, which represent an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Remeasurements of post-employment benefit obligations are recognised in other comprehensive income. The defined pension obligation of the Group is not material.

## 2 Basis of preparation and significant accounting policies (continued)

***Earnings/(loss) per share.*** Earnings/(loss) per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

***Segment reporting.*** A segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

***Changes in presentation.*** There were the following changes in presentation:

- starting 1 January 2017 the Group changed its treatment of foreign exchange revaluation of cash and cash equivalents to “financial foreign exchange gain/loss” (previously: “foreign exchange gains/losses from operating activity”). This was done due to the centralisation of management of cash and cash equivalents by the Group Treasury regardless of jurisdiction or legal entity in the course of 2016;
- the presentation of divisional sales (Note 7) was changed by the grossing up of certain intra-group revenues which were previously presented on a net basis;
- sales to Turkey are reallocated from Asia Pacific to Europe (Note 7);
- sales of certain products are reallocated from Nitrogen product group to Industrial products (Note 26).

The comparative figures are presented and reallocated respectively to reflect these changes.

## 3 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause an adjustment to the carrying amount of assets and liabilities include:

***Taxation.*** Judgments are required in determining tax liabilities (Note 36). The Group recognises liabilities for taxes based on estimates of whether additional taxes will be due. Where the final outcome of various tax matters is different from the amounts that were initially recorded, such differences will impact the tax assets and liabilities in the period in which such determination is made.

***Deferred income tax asset recognition.*** The recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances (Note 32).

***Related party transactions.*** The Group enters into transactions with related parties in the normal course of business (Note 34). These transactions are priced at market rates. Judgement is applied in determining whether transactions are priced at market or non-market rates where there is no active market for such transactions. Judgements are made by comparing prices for similar types of transactions with unrelated parties.

## 3 Critical accounting estimates and judgements in applying accounting policies (continued)

***Capital contribution.*** The Group classified the capital contribution received from a shareholder in a form of perpetual loan which does not require repayment, or for which the Group will be able to avoid any payments as component of equity.

***Acquisition of interest in associate company Agrinos AS.*** In January 2016, the Group entered into an equity investment agreement with Agrinos AS, according to which the Group acquired 18.78% interest in the company and obtained the representation right in the Board of Directors. In August 2016, the Group's share in Agrinos AS changed to 14.52% after the company completed the conversion of the convertible bonds. The Group recognises its interest in Agrinos AS as an investment in associate in the consolidated statement of financial position due to the fact that the Group is able to influence the business decisions of Agrinos AS through the representation in the Board of Directors and potential voting rights.

***Recognition of 100% interest in Fertilizantes Tocantins Ltda.*** In 2016, the Group entered into agreement with Fertilizantes Tocantines Ltda, according to which the Group acquired 50% interest plus one share and entered into put and call options for the remaining 50% interest minus one share to be executed in 2022. Since put and call options will be executed simultaneously at the same exercise price, the judgement was applied that the risks and rewards associated with 100% interest in Fertilizantes Tocantins Ltda were transferred to the Group on 1 September 2016, thus, no non-controlling interest was recognised and the transaction was accounted for as the acquisition of 100% interest in the company.

## 4 Adoption of new or revised standards and interpretations

The following amendments and improvements to standards became effective from 1 January 2017:

- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses;
- Annual Improvements to IFRSs 2014-2016 cycle;
- Amendments to IAS 7, Disclosure Initiative. Reconciliation of movements in liabilities arising from financing activities is presented in Note 6.

These amendments and improvements to standards did not have any impact or did not have a material impact on the Group's consolidated financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2017, and have not been early adopted by the Group:

- IFRS 9, Financial Instruments. Financial assets are required to be classified into three measurement categories. Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest. IFRS 9 introduces expected credit losses impairment model, which means that anticipated as opposed to incurred credit losses will be recognised resulting in earlier recognition of impairment. The Group has finalised its review of the impact of IFRS 9 and, considering the nature of financial instruments currently held by the Group, has assessed that the changes have no significant effect on the Group's consolidated financial statements;
- IFRS 15, Revenue from Contracts with Customers and amendments to IFRS 15 and associated amendments to various other standards. The standard outlines the principles an entity must apply to measure and recognise revenue and the related cash flows. The Group has completed its review of the potential impact of IFRS 15 with the focus being to understand whether the timing and amount of revenue recognised could differ under IFRS 15. As the majority of the Group's revenue is derived from arrangements in which the transfer of risks and rewards coincides with the fulfilment of the performance obligations, the changes in respect of timing and amount of revenue currently recognised by the Group were assessed and have no material effect on the Group's consolidated financial statements;
- IFRS 16, Leases. The Group is currently assessing the impact of the standard on its consolidated financial statements;
- IFRIC 22, Foreign Currency Transactions and Advance Consideration;
- IFRIC 23, Uncertainty over Income Tax Treatments;

## 4 Adoption of new or revised standards and interpretations (continued)

- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture;
- Amendments to IFRS 2, Share-based Payment;
- Amendments to IFRS 4, Applying IFRS 9 Financial instruments with IFRS 4, Insurance contracts;
- Amendments to IAS 40, Transfers of Investment property;
- IFRS 17, Insurance contracts;
- Amendments to IFRS 9, Prepayment Features with Negative Compensation;
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRSs 2014-2016 cycle – amendments to IFRS 1 and IAS 28;
- Annual improvements to IFRSs 2015-2017 cycle.

Unless otherwise described above, the new standards, amendments to standards and interpretations are expected to have no impact or to have a non-material impact on the Group's consolidated financial statements.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 5 Principal subsidiaries, associates and joint ventures

The Group had the following principal subsidiaries, associates and joint ventures as at 31 December 2017:

| Name | Nature of business | Percentage of ownership | Country of registration |
|---|---|---|---|
| EuroChem Group AG | Holding company | - | Switzerland |
| **Subsidiaries:** | | | |
| Industrial Group Phosphorite, LLC | Manufacturing | 100% | Russia |
| Novomoskovsky Azot, JSC | Manufacturing | 100% | Russia |
| Novomoskovsky Chlor, LLC | Manufacturing | 100% | Russia |
| Nevinnomyssky Azot, JSC | Manufacturing | 100% | Russia |
| EuroChem-Belorechenskie Minudobrenia, LLC | Manufacturing | 100% | Russia |
| Kovdorsky GOK, JSC | Mining | 100% | Russia |
| Lifosa AB | Manufacturing | 100% | Lithuania |
| EuroChem Antwerpen NV | Manufacturing | 100% | Belgium |
| EuroChem-VolgaKaliy, LLC | Potash project under development | 100% | Russia |
| EuroChem-Usolsky potash complex, LLC | Potash project under development | 100% | Russia |
| EuroChem-ONGK, LLC | Gas project under development | 100% | Russia |
| EuroChem-NorhtWest, JSC | Ammonia project under development | 100% | Russia |
| EuroChem-Fertilizers, LLP | Mining | 100% | Kazakhstan |
| Astrakhan Oil and Gas Company, LLC | Gas project under development | 100% | Russia |
| Sary-Tas Fertilizers, LLP | Other service | 85.79% | Kazakhstan |
| EuroChem Karatau, LLP | Manufacturing | 100% | Kazakhstan |
| Kamenkovskaya Oil and Gas Company LLP | Gas project under development | 100% | Kazakhstan |
| EuroChem Trading GmbH | Trading | 100% | Switzerland |
| EuroChem Trading USA Corp | Trading | 100% | USA |
| Ben-Trei Ltd. | Distribution | 100% | USA |
| EuroChem Agro SAS | Distribution | 100% | France |
| EuroChem Agro Asia Pte. Ltd. | Distribution | 100% | Singapore |
| EuroChem Agro Iberia SL | Distribution | 100% | Spain |
| EuroChem Agricultural Trading Hellas SA | Distribution | 100% | Greece |
| EuroChem Agro Spa | Distribution | 100% | Italy |
| EuroChem Agro GmbH | Distribution | 100% | Germany |
| EuroChem Agro México SA de CV | Distribution | 100% | Mexico |
| EuroChem Agro Hungary Kft | Distribution | 100% | Hungary |
| Agrocenter EuroChem Srl | Distribution | 100% | Moldova |
| EuroChem Agro Bulgaria Ead | Distribution | 100% | Bulgaria |
| EuroChem Agro doo Beograd | Distribution | 100% | Serbia |
| EuroChem Agro Turkey Tarım Sanayi ve Ticaret LtdŞti. | Distribution | 100% | Turkey |
| Emerger Fertilizantes S.A. | Distribution | 100% | Argetina |
| EuroChem Comercio de Produtos Quimicos Ltda. | Distribution | 100% | Brazil |
| Fertilizantes Tocantines Ltda | Distribution | 50% plus 1 share | Brazil |
| EuroChem Agro Trading (Shenzhen) Co., Ltd. | Distribution | 100% | China |
| EuroChem Trading RUS, LLC | Distribution | 100% | Russia |
| AgroCenter EuroChem-Ukraine, LLC | Distribution | 100% | Ukraine |
| AgroCenter Ukraine, LLC | Distribution | 100% | Ukraine |
| Ural-RemStroiService, LLC | Repair and constructions | 100% | Russia |
| Kingisepp RemStroiService, LLC | Repair and constructions | 100% | Russia |
| Novomoskovsk RemStroiService, LLC | Repair and constructions | 100% | Russia |
| Nevinnomyssk RemStroiService, LLC | Repair and constructions | 100% | Russia |
| Volgograd RemStroiService, LLC | Repair and constructions | 100% | Russia |
| Berezniki Mechanical Works, JSC | Repair and constructions | 100% | Russia |
| Tulagiprochim, JSC | Design engineering | 100% | Russia |
| TOMS-project, LLC | Design engineering | 100% | Russia |
| Harvester Shipmanagement Ltd. | Logistics | 100% | Cyprus |
| Eurochem Logistics International, UAB | Logistics | 100% | Lithuania |
| EuroChem Terminal Sillamäe Aktsiaselts | Logistics | 100% | Estonia |
| EuroChem Terminal Ust-Luga, LLC | Logistic project under development | 100% | Russia |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 5 Principal subsidiaries, associates and joint ventures (continued)

| Name | Nature of business | Percentage of ownership | Country of registration |
|---|---|---|---|
| Tuapse Bulk Terminal, LLC | Logistics | 100% | Russia |
| Murmansk Bulkcargo Terminal, LLC | Logistics | 100% | Russia |
| Depo-EuroChem, LLC | Logistics | 100% | Russia |
| EuroChem-Energo, LLC | Other service | 100% | Russia |
| EuroChem Usolsky Mining S.à r.l. | Holding company | 100% | Luxemburg |
| EuroChem International Holding B.V. | Holding company | 100% | Netherlands |
| MCC EuroChem JSC | Holding company | 100% | Russia |
| **Associates:** | | | |
| Agrinos AS | Holding company* | 14.52% | Norway |
| Hispalense de Líquidos S.L. | Distribution | 50% minus 1 share | Spain |
| Azottech, LLC | Blusting and drilling | 24.89% | Russia |
| **Joint ventures***:* | | | |
| EuroChem – Migao Ltd. | Holding company | 50.0% | Hong-Kong** |
| Thyssen Schachtbau EuroChem Drilling, LLC | Drilling | 45.0% | Russia |
| Biochem Technologies LLC | Reseach in biotechnology | 10.0% | Russia |

* represents the country of incorporation of holding company, a producer in biological crop nutrition products;

** represents the country of incorporation of holding company which owns manufacturing facilities located in Yunnan, China

During the year ended 31 December 2017, the main changes in Group's structure were as follows:

| Name | Nature of business | Main changes in 2017 | Percentage of ownership as at 31 December 2017 |
|---|---|---|---|
| **Subsidiaries:** | | | |
| EuroChem Agro Bulgaria Ead | Distribution | Acquisition of 100% (Note 35) | 100% |
| Emerger Fertilizantes S.A. | Distribution | Acquisition of 100% (Note 35) | 100% |
| Agrocenter EuroChem Srl | Distribution | Incorporation of subsidiary | 100% |
| Agrocenter Ukraine, LLC | Distribution | Incorporation of subsidiary | 100% |
| EuroChem Agro doo Beograd | Distribution | Incorporation of subsidiary | 100% |
| TOMS-project, LLC | Design engineering | Acquisition of remaining 49% of share capital | 100% |
| Agrosphere, CJSC | Logistics | Merger with Murmansk Bulkcargo Terminal, LLC | 100% |
| AgroCenter EuroChem-Volgograd, LLC | Distribution | Merger with EuroChem Trading RUS, LLC | - |
| AgroCenter EuroChem-Krasnodar, LLC | Distribution | Merger with EuroChem Trading RUS, LLC | - |
| AgroCenter EuroChem-Lipetsk, LLC | Distribution | Merger with EuroChem Trading RUS, LLC | - |
| AgroCenter EuroChem-Orel, LLC | Distribution | Merger with EuroChem Trading RUS, LLC | - |
| AgroCenter EuroChem-Nevinnomyssk, LLC | Distribution | Merger with EuroChem Trading RUS, LLC | - |
| Severneft-Urengoy, LLC | Hydrocarbon extraction | Sale of subsidiary (Note 17) | - |
| **Associates** ***:*** | | | |
| Hispalense de Líquidos S.L. | Distribution | Acquisition of interest (Note 12) | 50% minus 1 share |
| Azottech, LLC | Blusting and drilling | Acquisition of interest (Note 12) | 24.89% |
| **Joint ventures***:* | | | |
| Biochem Technologies LLC | Reseach in biotechnology | Acquisition of interest (Note 12) | 10% |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 6 Fair value of financial instruments

Management applies judgment in categorising financial instruments using the fair value hierarchy. The significance of a valuation input is assessed against the fair value measurement in its entirety.

### *Recurring fair value measurements*

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

### *a) Financial instruments carried at fair values*

The recurring fair value measurements are included into Level 2 of the fair value hierarchy and are as follows.

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Financial assets** | | |
| **Current Financial assets** | | |
| Non-deliverable foreign exchange forward contracts | 2,530 | 12,457 |
| Deliverable foreign exchange forward contracts | 954 | 237 |
| Commodity swaps | - | 908 |
| Cross-currency interest swaps | 15,471 | - |
| **Total current financial assets** | **18,955** | **13,602** |
| **Non-current Financial assets** | | |
| Non-deliverable foreign exchange forward contracts | 645 | **-** |
| Cross-currency interest swaps | 6,544 | **-** |
| **Total non-current financial assets** | **7,189** | **-** |
| **Total assets recurring fair value measurements** | **26,144** | **13,602** |

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Financial liabilities** | | |
| **Current Financial liabilities** | | |
| Commodity swaps | 30 | 703 |
| Cross-currency interest swaps | 61,791 | - |
| **Total current financial liabilities** | **61,821** | **703** |
| **Non-current Financial liabilities** | | |
| Cross-currency interest swaps | - | 75,209 |
| **Total non-current financial liabilities** | - | **75,209** |
| **Total liabilities recurring fair value measurements** | **61,821** | **75,912** |

For derivative financial instruments at fair value through profit or loss, which typically include foreign exchange forward contracts, cross currency interest rate swaps, commodity swaps etc., the fair values are based on recurring mark-to-market valuations provided by the financial institutions which deal in these financial instruments.

### *b) Assets and liabilities not measured at fair value but for which fair value is disclosed*

### *Financial assets and liabilities carried at amortised cost*

Loans received and bank borrowings are carried at amortised cost. The fair value of floating rate instruments normally approximates their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The carrying amounts of trade and other receivables, trade and other payables, contingent consideration related to business combinations and originated loans approximate their fair values and are included into level 3 of fair value hierarchy. Cash and cash equivalents and fixed-terms deposits are carried at amortised cost which approximates their current fair value, included in Level 2 of fair value hierarchy. The fair values in level 2 and level 3 of the fair value hierarchy were estimated using the discounted cash flows valuation technique.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 6 Fair value of financial instruments (continued)

Fair values analysed by level in the fair value hierarchy and the carrying value of liabilities not measured at fair value are as follows:

| | 31 December 2017 | | | |
|---|---|---|---|---|
| | Level 1 Fair value | Level 2 Fair value | Level 3 Fair value | Carrying value |
| **Financial liabilities** | | | | |
| - RUB-denominated bonds payable | 626,654 | - | - | 606,790 |
| - US$-denominated bonds payable | 1,004,905 | - | | 992,714 |
| - Long-term RUB -denominated fixed interest loans | - | - | 22,662 | 26,042 |
| - Long-term BRL-denominated fixed interest loans | - | - | 16,785 | 17,265 |
| **Total financial liabilities** | **1,631,559** | - | **39,447** | **1,642,811** |

| | 31 December 2016 | | | |
|---|---|---|---|---|
| | Level 1 Fair value | Level 2 Fair value | Level 3 Fair value | Carrying value |
| **Financial liabilities** | | | | |
| - RUB-denominated bonds payable | 338,460 | - | - | 329,343 |
| - US$-denominated bonds payable | 830,200 | - | - | 819,361 |
| - Long-term BRL-denominated fixed interest loans | - | - | 20,672 | 21,744 |
| **Total financial liabilities** | **1,168,660** | - | **20,672** | **1,170,448** |

The following information sets out the key inputs relevant to the determination of the fair value of the liabilities for which fair value information is provided as a disclosure only.

- For US$ and RUB-denominated bonds traded on organised financial markets (Irish stock exchange and Moscow Exchange) quotations or executable prices are used as the key inputs to fair value determination. These instruments are included in level 1 of fair value hierarchy.
- The fair value of long-term loans and borrowings bearing a fixed interest rate is determined by a discounted cash flows method. The discount factor applied to principal and interest repayments in the valuation model is calculated as a risk free rate at the reporting date adjusted for the Group's credit risk. The Group's credit risk component in the discount factor at inception is assumed to remain unchanged on the reporting date and is calculated as a difference between the contract interest rate and the risk-free interest rate in effect at loan inception date for debt instruments with similar maturities. These instruments are included in level 3 of fair value hierarchy.

During the years ended 31 December 2017 and 31 December 2016 there were no transfers between levels 1, 2 and 3 of the fair value hierarchy.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 6 Fair value of financial instruments (continued)

The Group's financial assets and liabilities were as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Financial assets** | | |
| **Non-current financial assets** | | |
| Restricted cash | 22,345 | 18,170 |
| Originated loans | 51,046 | 53,178 |
| Derivative financial assets | 7,189 | - |
| Other non-current assets including: | | |
| Long-term other receivables | 2,514 | 516 |
| Interest receivable | 698 | 2,645 |
| **Total non-current financial assets** | **83,792** | **74,509** |
| **Current financial assets** | | |
| Restricted cash | 20,101 | 45,994 |
| Trade receivables | 293,101 | 267,786 |
| Originated loans | - | 412 |
| Derivative financial assets | 18,955 | 13,602 |
| Other receivables and other current assets including: | | |
| Receivable due to sale of associate | - | 59,760 |
| Other receivables | 3,316 | 4,532 |
| Collateral held by banks to secure derivative transactions | 672 | 928 |
| Interest receivable | 272 | 165 |
| Fixed-term deposits | 151 | 294 |
| Cash and cash equivalents | 228,613 | 285,605 |
| **Total current financial assets** | **565,181** | **679,078** |
| **Total financial assets** | **648,973** | **753,587** |
| **Financial liabilities** | | |
| **Non-current financial liabilities** | | |
| Bank borrowings and other loans received | 1,110,205 | 1,305,671 |
| Bonds issued | 1,512,413 | 824,848 |
| Project finance | 959,373 | 573,022 |
| Derivative financial liabilities | - | 75,209 |
| Other non-current liabilities including: | | |
| Contingent liability related to business combination | 123,001 | 106,655 |
| Long-term portion of deferred payables related to acquisition of additional interest in subsidiary | 3,000 | - |
| Long-term portion of deferred payables related to mineral rights acquisition | 11,785 | 13,448 |
| **Total non-current financial liabilities** | **3,719,777** | **2,898,853** |
| **Current financial liabilities** | | |
| Bank borrowings and other loans received | 770,405 | 1,075,418 |
| Bonds issued | 87,091 | 323,856 |
| Derivative financial liabilities | 61,821 | 703 |
| Trade payables | 513,004 | 284,549 |
| Other accounts payable and accrued expenses including: | | |
| Interest payable | 29,604 | 18,002 |
| Payable for acquisition of associate | 3,229 | - |
| Short-term portion of deferred payables related to business combinations and acquisition of additional interest in subsidiary | 4,697 | 8,344 |
| Short-term portion of deferred payables related to mineral rights acquisition | 1,875 | 1,262 |
| **Total current financial liabilities** | **1,471,726** | **1,712,134** |
| **Total financial liabilities** | **5,191,503** | **4,610,987** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 6 Fair value of financial instruments (continued)

As required by the amendment of IAS 7 the Group presents the reconciliation of movements in liabilities arising from financing activities:

| | Bank borrowings and other loans received | Bonds issued | Project finance | Interest payable | Other non-current assets | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | **2,381,089** | **1,148,704** | **573,022** | **18,003** | **(49,134)** | **4,071,684** |
| ***Cash flows*** | | | | | | |
| Proceeds from bank borrowings and other loans received | 3,128,323 | - | - | - | - | **3,128,323** |
| Funds received under the Project Finance Facilities | - | - | 416,938 | - | - | **416,938** |
| Proceeds from bonds, net of transaction costs | - | 767,522 | - | - | - | **767,522** |
| Repayment of bank borrowings and other loans | (3,655,674) | - | - | - | - | **(3,655,674)** |
| Repayment of bonds | - | (324,033) | - | - | - | **(324,033)** |
| Prepaid and additional transaction costs | (11,566) | (5,563) | (4,463) | - | - | **(21,592)** |
| Interest paid | - | - | - | (210,585) | - | **(210,585)** |
| ***Non-cash flows*** | | | | | | |
| Loans acquired in a business combination | 6,585 | - | - | - | - | **6,585** |
| Interest expenses accrued | - | - | - | 220,733 | - | **220,733** |
| Amortisation of transaction costs | 16,567 | 2,728 | 15,050 | - | - | **34,345** |
| Financial foreign exchange gain/(loss), net | 15,388 | (33,317) | (30,338) | (344) | - | **(48,611)** |
| Currency translation difference, net | (102) | 43,463 | 40,603 | 1,797 | (2,305) | **83,456** |
| Reclassification of prepaid and additional transaction costs related to Project Finance Facilities | - | - | (51,439) | - | 51,439 | **-** |
| **Balance at 31 December 2017** | **1,880,610** | **1,599,504** | **959,373** | **29,604** | **-** | **4,469,091** |

## 7 Segment information

The Group has a vertically integrated business model conducted by five operating divisions, representing reportable segments, which are *Mining, Oil & Gas, Fertilizers, Logistics and Sales*:

- *Mining* division encompasses the extraction of ores to obtain apatite, baddeleyite and iron-ore concentrates, phosphorite; as well as the development of potassium salts deposits (potash);
- *Oil & Gas* division is focused on the exploration and subsequent development of hydrocarbons fields after a sale of the subsidiary engaged in the production of hydrocarbons (natural gas and gas condensate) in November 2017;
- *Fertilizers* division includes the production of mineral fertilizers (nitrogen, phosphate and complex) and organic synthesis products;
- *Logistics* division covers all supply chain operations including transportation services, purchase and delivery of raw materials and finished goods, as well as freight forwarding and other logistics services;
- *Sales* division is responsible for the sale of the complete range of products produced by the Group as well as third-party products through the Group's global distribution network spanning across Europe, Russia, North and Latin America, Central and South East Asia.

Activities not assigned to a particular division are reported in "Other". These include certain service activities, central management and other items. All intersegment transactions and unrealised profit in inventory from intragroup sales are eliminated through "Elimination".

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 7 Segment information (continued)

The review of financial reports of the Group, evaluation of the operating results and allocation of resources between the operating divisions are performed by the Management Board (considered to be the chief operating decision maker in the Group). The development and approval of strategies, market and risk analysis, investment focus, technological process changes are undertaken mostly in accordance with the operating divisions. Budgets and financial reports are prepared in a standard format according to the IFRS accounting policy adopted by the Group. Sales between divisions are carried out on an arm's length basis.

The Management Board assesses the performance of the operating divisions based on, among other factors, a measure of EBITDA (profit before taxation adjusted by interest expense, depreciation and amortisation, financial foreign exchange gain or loss, other non-cash and one-off items, excluding profit attributed to non-controlling interests), allocated by division according to internal rules. Since the EBITDA term is not a standard IFRS measure, EuroChem Group's definition of EBITDA may differ from that of other companies.

The division results for the year ended 31 December 2017 were:

| | External sales | Internal sales | Total sales | EBITDA |
|---|---|---|---|---|
| Mining | 11,067 | 630,163 | 641,230 | 287,268 |
| Oil&Gas | 27,794 | 45,573 | 73,367 | 14,642 |
| Fertilizers | 54,743 | 2,892,290 | 2,947,033 | 690,165 |
| Logistics | 39,003 | 187,489 | 226,492 | 96,342 |
| Sales | 4,727,633 | 9,738 | 4,737,371 | 90,836 |
| Other | 5,424 | 70,483 | 75,907 | (37,298) |
| Elimination | - | (3,835,736) | (3,835,736) | (11,517) |
| **Total** | **4,865,664** | **-** | **4,865,664** | **1,130,438** |

The division results for the year ended 31 December 2016 were:

| | External sales | Internal sales | Total sales | EBITDA |
|---|---|---|---|---|
| Mining | 9,947 | 598,960 | 608,907 | 286,364 |
| Oil&Gas | 24,064 | 47,627 | 71,691 | 10,538 |
| Fertilizers | 50,100 | 2,740,143 | 2,790,243 | 615,273 |
| Logistics | 36,433 | 160,265 | 196,698 | 75,549 |
| Sales | 4,216,640 | 6,838 | 4,223,478 | 71,607 |
| Other | 37,906 | 18,976 | 56,882 | 8,448 |
| Elimination | - | (3,572,809) | (3,572,809) | 65,136 |
| **Total** | **4,375,090** | **-** | **4,375,090** | **1,132,915** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 7 Segment information (continued)

A reconciliation of EBITDA to profit before taxation is provided below:

| | Note | 2017 | 2016 |
|---|---|---|---|
| **EBITDA** | | **1,130,438** | **1,132,915** |
| Depreciation and amortisation | 29 | (277,090) | (219,195) |
| Impairment and write-off of idle property, plant and equipment | 27,30 | (4,971) | (18,668) |
| Non-recurring income/(expenses), net | 30 | (6,943) | (2,777) |
| Gain on sale of associate | | - | 23,641 |
| Loss on sale of subsidiary | 17 | (60,205) | - |
| Interest expense | | (131,393) | (131,557) |
| Financial foreign exchange gain/(loss), net | | 569 | 148,929 |
| Other financial gain/(loss), net | 31 | 46,305 | 23,137 |
| Non-controlling interests | | (100) | 491 |
| **Profit before taxation** | | **696,610** | **956,916** |

The divisional capital expenditure on property, plant and equipment, intangible assets and mineral rights for the years ended 31 December 2017 and 31 December 2016 were:

| | 2017 | 2016 |
|---|---|---|
| Mining | 770,106 | 667,182 |
| Oil&Gas | 35,696 | 50,297 |
| Fertilisers | 634,805 | 592,993 |
| Logistics | 17,414 | 11,378 |
| Sales | 27,608 | 7,837 |
| Other | 7,528 | 5,232 |
| Elimination | (3,631) | 5,502 |
| **Total capital expenditure** | **1,489,526** | **1,340,421** |

The analysis of non-current assets other than financial instruments, deferred income tax assets and other non-current assets by geographical location was:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Russia | 6,576,921 | 5,209,261 |
| Europe | 837,556 | 711,716 |
| Kazakhstan | 179,345 | 211,092 |
| Other countries | 400,081 | 289,080 |
| **Total** | **7,993,903** | **6,421,149** |

The main Group's manufacturing facilities are based in Russia, Lithuania, Belgium, Kazakhstan and China (joint venture's production facilities).

The analysis of Group sales by region was:

| | 2017 | 2016 |
|---|---|---|
| Europe | 1,534,840 | 1,590,461 |
| Russia | 965,249 | 804,327 |
| Latin America | 807,327 | 463,591 |
| North America | 591,028 | 658,368 |
| Asia Pacific | 490,088 | 444,772 |
| CIS* | 362,579 | 350,968 |
| Africa | 114,553 | 62,603 |
| **Total sales** | **4,865,664** | **4,375,090** |

* including associate states

The sales are allocated to regions based on the destination country. During the year ended 31 December 2017, the Group had sales in excess of 10% to Russia, Brazil and the United States of America, representing 19.9%, 12.5% and 11.0% of total revenues, respectively (2016: sales to Russia and the United States of America representing 18.4% and 14.6% of total revenues, respectively).

During the years ended 31 December 2017 and 31 December 2016, there were no sales in excess of 10% to one customer.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 8 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were:

| | Buildings | Land and Land Improvements | Transfer devices | Machinery and equipment | Transport | Other | Assets under construction | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **Balance at 1 January 2017** | **549,402** | **620,761** | **299,921** | **1,671,370** | **244,569** | **125,182** | **3,130,257** | **6,641,462** |
| Additions through business combinations | 1,088 | 458 | - | 308 | - | - | - | 1,854 |
| Additions and transfers from assets under construction | 49,016 | 125,541 | 27,802 | 319,406 | 54,668 | 16,648 | 1,216,313 | 1,809,394 |
| Disposal due to sale of subsidiary (Note 17) | (7,889) | (136,632) | (35,325) | (15,141) | (739) | (2,300) | (51,022) | (249,048) |
| Disposals | (4,623) | - | (1,589) | (29,101) | (11,759) | (872) | (3,961) | (51,905) |
| Changes in estimates of asset retirement obligations (Note 24) | - | 4,350 | - | - | - | - | - | 4,350 |
| (Impairment)/reversal of impairment/write-off of idle property, plant and equipment | (3,424) | (1,383) | (224) | (1,935) | 30 | (156) | 1,205 | (5,887) |
| Currency translation difference | 31,939 | 35,740 | 22,100 | 122,941 | 14,016 | 7,468 | 176,916 | 411,120 |
| **Balance at 31 December 2017** | **615,509** | **648,835** | **312,685** | **2,067,848** | **300,785** | **145,970** | **4,469,708** | **8,561,340** |
| **Accumulated Depreciation** | | | | | | | | |
| **Balance at 1 January 2017** | **(138,104)** | **(123,421)** | **(123,777)** | **(780,770)** | **(113,865)** | **(64,212)** | **-** | **(1,344,149)** |
| Charge for the year | (27,192) | (38,273) | (23,761) | (155,829) | (21,353) | (15,791) | - | (282,199) |
| Disposal due to sale of subsidiary (Note 17) | 2,427 | 15,791 | 9,314 | 6,082 | 587 | 1,595 | - | 35,796 |
| Disposals | 3,324 | - | 1,122 | 25,742 | 10,813 | 733 | - | 41,734 |
| (Impairment)/reversal of impairment/write-off of idle property, plant and equipment | 46 | 7 | - | 849 | (3) | 17 | - | 916 |
| Currency translation difference | (9,290) | (7,150) | (8,928) | (59,074) | (6,781) | (4,211) | - | (95,434) |
| **Balance at 31 December 2017** | **(168,789)** | **(153,046)** | **(146,030)** | **(963,000)** | **(130,602)** | **(81,869)** | **-** | **(1,643,336)** |
| **Net Carrying Value** | | | | | | | | |
| **Balance at 1 January 2017** | **411,298** | **497,340** | **176,144** | **890,600** | **130,704** | **60,970** | **3,130,257** | **5,297,313** |
| **Balance at 31 December 2017** | **446,720** | **495,789** | **166,655** | **1,104,848** | **170,183** | **64,101** | **4,469,708** | **6,918,004** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 8 Property, plant and equipment (continued)

| | Buildings | Land and Land Improvements | Transfer devices | Machinery and equipment | Transport | Other | Assets under construction | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **Balance at 1 January 2016** | **403,536** | **403,290** | **240,498** | **1,344,200** | **180,487** | **93,359** | **1,718,707** | **4,384,077** |
| Additions through business combinations | 47,373 | 893 | - | 11,786 | 636 | 569 | 1,429 | 62,686 |
| Additions and transfers from assets under construction | 47,910 | 137,512 | 23,138 | 161,302 | 31,981 | 17,099 | 1,000,535 | 1,419,477 |
| Disposals | (4,275) | (1,753) | (3,540) | (28,737) | (4,595) | (1,744) | (353) | (44,997) |
| Changes in estimates of asset retirement obligations (Note 24) | - | 4,501 | - | - | - | - | - | 4,501 |
| Impairment/write-off of idle property, plant and equipment | (726) | (5,841) | (256) | (3,017) | (303) | (49) | (11,238) | (21,430) |
| Currency translation difference | 55,584 | 82,159 | 40,081 | 185,836 | 36,363 | 15,948 | 421,177 | 837,148 |
| **Balance at 31 December 2016** | **549,402** | **620,761** | **299,921** | **1,671,370** | **244,569** | **125,182** | **3,130,257** | **6,641,462** |
| **Accumulated Depreciation** | | | | | | | | |
| **Balance at 1 January 2016** | **(105,303)** | **(87,510)** | **(92,373)** | **(603,541)** | **(85,365)** | **(44,120)** | **-** | **(1,018,212)** |
| Charge for the year | (20,767) | (23,524) | (19,579) | (119,336) | (15,503) | (13,525) | - | (212,234) |
| Disposals | 3,416 | 1,533 | 2,946 | 26,189 | 3,862 | 1,608 | - | 39,554 |
| Impairment/write-off of idle property, plant and equipment | 173 | 684 | 74 | 1,515 | 267 | 49 | - | 2,762 |
| Currency translation difference | (15,623) | (14,604) | (14,845) | (85,597) | (17,126) | (8,224) | - | (156,019) |
| **Balance at 31 December 2016** | **(138,104)** | **(123,421)** | **(123,777)** | **(780,770)** | **(113,865)** | **(64,212)** | **-** | **(1,344,149)** |
| **Net Carrying Value** | | | | | | | | |
| **Balance at 1 January 2016** | **298,233** | **315,780** | **148,125** | **740,659** | **95,122** | **49,239** | **1,718,707** | **3,365,865** |
| **Balance at 31 December 2016** | **411,298** | **497,340** | **176,144** | **890,600** | **130,704** | **60,970** | **3,130,257** | **5,297,313** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 8 Property, plant and equipment (continued)

***Impairment and write-off of idle property, plant and equipment***

During the year ended 31 December 2017, the Group decided to write off certain production equipment with the cost and accumulated depreciation of US$ 5,887 thousand and US$ 916 thousand, respectively (2016: the cost and accumulated depreciation of US$ 21,430 thousand and US$ 2,762 thousand, respectively). As a result, a loss of US$ 4,971 thousand, was recognised in these consolidated financial statements (2016: US$ 18,668 thousand) (Notes 27, 30).

***Evaluation expenditures***

*Potash fields.* At 31 December 2017, the Group has capitalised expenses relating to the evaluation stage of the potash fields of US$ 30,924 thousand, including borrowing costs capitalised of US$ 5,826 thousand (31 December 2016: US$ 17,684 thousand, including borrowing costs capitalised of US$ 3,046 thousand).

*Hydrocarbons fields.* At 31 December 2017, the Group has capitalised expenses relating to the evaluation stage of the hydrocarbon fields of US$ 6,541 thousand (31 December 2016: US$ 4,835 thousand).

These expenses were included in the assets under construction of “Property, plant and equipment” in the consolidated statement of financial position. Substantially, these costs have been paid in the same period when incurred.

***Borrowing costs capitalised***

During the year ended 31 December 2017, borrowing costs totalling US$ 123,692 thousand were capitalised in property, plant and equipment at an average interest rate of 5.42% p.a. (2016: US$ 79,835 thousand capitalised at an average interest rate of 4.80% p.a.).

***Operating leases***

As at 31 December 2017, the land plots under the main production facilities were owned by the Group. Also, several Group subsidiaries occupied the land under non-cancellable operating lease agreements, for which the future minimum payments are as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Shorter than 1 year | 3,798 | 3,403 |
| Between 1 and 5 years | 13,677 | 12,850 |
| Longer than 5 years | 96,465 | 92,754 |
| **Total payments** | **113,940** | **109,007** |

## 9 Mineral rights

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Rights for exploration and production: | | |
| Verkhnekamskoe potash deposit | 75,456 | 69,899 |
| Gremyachinskoe potash deposit | 75,397 | 64,608 |
| Kok-Jon and Gimmelfarbskoe phosphate deposits | 13,842 | 14,509 |
| Kovdorsky apatite deposits | 2,541 | 2,542 |
| Rights for exploration, evaluation and extraction: | | |
| Belopashninskiy potash deposit | 15,366 | 14,592 |
| Ozinsky hydrocarbon deposit | 4,281 | 4,065 |
| Perelyubsko-Rubezhinskiy hydrocarbon deposit | 383 | 364 |
| Vostochno-Perelyubskiy potash deposit | 406 | 386 |
| Zapadno-Perelyubskiy potash deposit | 521 | 495 |
| Rights for proven and unproven mineral resources: | | |
| Zapadno-Yaroyakhinsky hydrocarbon deposit (Note 17) | - | 107,059 |
| Astrakhan hydrocarbon deposit | 148,708 | 141,214 |
| Kamenkovsky hydrocarbon deposit | 35,908 | 35,755 |
| **Total mineral rights** | **372,809** | **455,488** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 9 Mineral rights (continued)

Under the terms of valid licences for the exploration and development of mineral resource deposits, the Group is required to comply with a number of conditions, including preparation of design documentation, commencement of the construction of mining facilities and commencement of the extraction of mineral resources by certain dates. If the Group fails to materially comply with the terms of the licence agreements there are circumstances whereby the licences can be revoked. Management of the Group believes that the Group faces no material regulatory risks in relation to the validity and operation of any of its licences.

As of 31 December 2017, all deposits under licences for the exploration, evaluation and extraction were in the exploration phase.

***Verknekamskoe and Gremyachinskoe potash deposits***

In accordance with the conditions of licence agreements and related licence amendments for developing the potash deposits, the Group has major commitments.

The licence terms in respect of the timing of Verkhnekamskoe potash deposit were renegotiated in 2014 allowing the Group some flexibility as to the timing of first extraction as the amended terms state it is subject to 'Project Documentation'. The Group is in compliance with the new terms and will continue on this basis without requiring further licence revision.

The licence terms in respect of the timing of Gremyachinskoe potash deposit were revised in September 2016 requiring potash extraction (first ore) no later than 1 November 2018 .

The Group continues with construction of the mining and surface facilities at both sites.

Management believes that each stage under the current licence terms for both of the Verkhnekamskoe and the Gremyachinskoe potash deposits development will be completed according to the revised and approved schedules.

As at 31 December 2017, both of the Verkhnekamskoe and Gremyachinskoe potash deposits were in the development phase with the shaft sinking completed for the first two shafts at Verkhnekamskoe and two shafts at Gremyachinskoe while the third shaft has been delayed due to a water inflow which is being managed. Management worked out a program which will allow to continue sinking at the third shaft and not to breach any of the terms of the licence agreement for Gremyanchinskoe deposit.

As 31 December 2017, the carrying amount of property, plant and equipment (including construction in progress) related to Verknekamskoe and Gremyachinskoe potash deposits was US$ 3,174 million.

## 10 Goodwill

Movements in goodwill arising from the acquisition of subsidiaries are:

| | 2017 | 2016 |
|---|---|---|
| **Carrying amount at 1 January** | **468,223** | **330,781** |
| Acquisition of subsidiaries | 11,580 | 148,346 |
| Currency translation difference | 37,027 | (10,904) |
| **Carrying amount at 31 December** | **516,830** | **468,223** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 10 Goodwill (continued)

***Goodwill impairment test***

Goodwill is allocated to cash-generating units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment, as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| EuroChem Antwerpen NV | 308,412 | 271,370 |
| EuroChem Agro | 20,781 | 18,285 |
| Ben-Trei Ltd. | 20,803 | 20,803 |
| Fertilizantes Tocantines Ltda | 144,265 | 146,827 |
| TOMS-project, LLC | 11,753 | 5,672 |
| Emerger Fertilizantes S.A. | 5,301 | - |
| Other | 5,515 | 5,266 |
| **Total carrying amount of goodwill** | **516,830** | **468,223** |

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on development strategy and financial budgets approved by management covering a five year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Management determined budgeted prices and expenses based on past performance and market expectations. The weighted average growth rate used is consistent with the forecasts included in industry reports.

Assumptions used for value-in-use calculations are listed below:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Adjusted US$ WACC rates, % p.a. | 6.50%-9.27% | 8.85%-9.7% |
| Adjusted BRL WACC rates, % p.a. | 8.21% | 16.4% |
| Long-term EUR annual inflation rate, % p.a. | 1.4%-1.9% | 1.4%-1.6% |
| Long-term US$ annual inflation rate, % p.a. | 2.1%-2.3% | 2.20%-2.46% |
| Long-term BRL annual inflation rate, % p.a. | 4.0% | 3.9% |
| Estimated nominal growth rate beyond the five-year period, % p.a. | 2.3% | 2.0% |

The Group did not recognise any goodwill impairment at 31 December 2017 and 31 December 2016.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 11 Intangible assets

Movements in the carrying amount of intangible assets were:

| | Know-how and production technology | Customer relation-ships | Acquired software and licences | Other | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at 1 January 2017** | **93,508** | **125,801** | **30,396** | **41,491** | **291,196** |
| Additions | - | 276 | 598 | 870 | 1,744 |
| Disposal due to sale of subsidiary | - | - | (12) | - | (12) |
| Disposals | - | - | - | (1,206) | (1,206) |
| Currency translation difference | 12,079 | 8,907 | 3,594 | 3,004 | 27,584 |
| **Balance at 31 December 2017** | **105,587** | **134,984** | **34,576** | **44,159** | **319,306** |
| **Accumulated Depreciation** | | | | | |
| **Balance at 1 January 2017** | **(54,128)** | **(32,875)** | **(27,330)** | **(13,238)** | **(127,571)** |
| Charge for the year | (11,469) | (16,042) | (1,281) | (3,493) | (32,285) |
| Disposal due to sale of subsidiary | - | - | 12 | - | 12 |
| Disposals | - | - | - | 4 | 4 |
| Currency translation difference | (7,834) | (4,718) | (3,267) | (723) | (16,542) |
| **Balance at 31 December 2017** | **(73,431)** | **(53,635)** | **(31,866)** | **(17,450)** | **(176,382)** |
| **Net Carrying Value** | | | | | |
| **Balance at 1 January 2017** | **39,380** | **92,926** | **3,066** | **28,253** | **163,625** |
| **Balance at 31 December 2017** | **32,156** | **81,349** | **2,710** | **26,709** | **142,924** |

| | Know-how and production technology | Customer relation-ships | Acquired software and licences | Other | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at 1 January 2016** | **92,757** | **77,301** | **29,630** | **30,160** | **229,848** |
| Additions | 224 | - | 591 | 5,497 | 6,312 |
| Additions through business combinations | - | 48,171 | - | 6,103 | 54,274 |
| Currency translation difference | 527 | 329 | 175 | (269) | 762 |
| **Balance at 31 December 2016** | **93,508** | **125,801** | **30,396** | **41,491** | **291,196** |
| **Accumulated Depreciation** | | | | | |
| **Balance at 1 January 2016** | **(41,455)** | **(19,303)** | **(26,142)** | **(10,144)** | **(97,044)** |
| Charge for the year | (11,208) | (11,748) | (962) | (3,191) | (27,109) |
| Currency translation difference | (1,465) | (1,824) | (226) | 97 | (3,418) |
| **Balance at 31 December 2016** | **(54,128)** | **(32,875)** | **(27,330)** | **(13,238)** | **(127,571)** |
| **Net Carrying Value** | | | | | |
| **Balance at 1 January 2016** | **51,302** | **57,998** | **3,488** | **20,016** | **132,804** |
| **Balance at 31 December 2016** | **39,380** | **92,926** | **3,066** | **28,253** | **163,625** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 12 Investment in associates and joint ventures

The Group's investment in associates and joint ventures were as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Investment in joint venture EuroChem-Migao Ltd. | 20,845 | 20,517 |
| Investment in joint venture Thyssen Schachtbau EuroChem Drilling LLC | 7,485 | 7,358 |
| Investment in associate Agrinos AS | 5,401 | 8,625 |
| Investment in associate Hispalense de Liquidos S.L. | 5,953 | - |
| Investment in joint venture Biochem Technologies, LLC | 1,913 | - |
| Investment in associate Azottech, LLC | 1,555 | - |
| **Total investment in associates and joint ventures** | **43,152** | **36,500** |

Movements in the carrying amount of the Group's investment in associates and joint ventures were:

| | 2017 | 2016 |
|---|---|---|
| **Carrying amount at 1 January** | **36,500** | **102,755** |
| Acquisition of interest in associates and joint venture | 9,347 | 10,403 |
| Disposal of interest held in PJSC "Murmansk Commercial Seaport" due to sale | - | (110,313) |
| Share of profit/(loss) of associates and joint ventures, net | (2,803) | 19,040 |
| Share of other comprehensive income/(loss) of associates and joint ventures, net | (247) | - |
| Currency translation difference | 355 | 14,615 |
| **Carrying amount at 31 December** | **43,152** | **36,500** |

Reconciliation of the summarised financial information presented to the carrying amount of Group's interest in associates and joint ventures as at 31 December 2017 and 31 December 2016:

| | EuroChem-Migao Ltd. | Agrinos AS | Hispalense de Liquidos S.L. | Others |
|---|---|---|---|---|
| **Opening net assets 1 January 2017** | **41,033** | **16,343*** | **-** | **16,350** |
| Net assets at acquisition date | - | - | 4,739 | 4,062 |
| Profit/(loss) for the period | 1,481 | (22,578)* | 37 | (804) |
| Other comprehensive income/(loss) for the period, net | (824) | 371 | 221 | - |
| Currency translation difference arising on consolidation | - | - | - | 857 |
| **Closing net assets at 31 December 2017** | **41,690** | **(5,864)** | **4,997** | **20,465** |
| Interest, % | 50.00% | 14.52% | 49.99% | - |
| Interest in associates and joint ventures | 20,845 | (851) | 2,498 | 8,473 |
| Goodwill | - | 6,252 | 3,455 | 2,480 |
| **Carrying value at 31 December 2017** | **20,845** | **5,401** | **5,953** | **10,953** |

*-financial information of Agrinos AS was presented as at 30 September 2016 being the most recent available financial statements of the associate

**-loss for the period of Agrinos AS includes the result for the 2017 and for the fourth quarter 2016

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 12 Investment in associates and joint ventures (continued)

| | PJSC Murmansk Commercial Seaport | EuroChem-Migao Ltd. | Agrinos AS | Other |
|---|---|---|---|---|
| **Opening net assets 1 January 2016** | **126,829** | **36,560** | **-** | **13,260** |
| Net assets at acquisition date | - | - | 9,561 | - |
| Profit/(loss) for the period | 42,541 | 4,478 | (12,242) | 378 |
| Accrued dividends on preference shares for the period** | (4,797) | - | - | - |
| Disposal of interest held in PJSC "Murmansk Commercial Seaport" due to sale | (187,214) | - | - | - |
| Capital increase | - | - | 2,801 | - |
| Currency translation difference arising on consolidation | 22,641 | (5) | 16,223 | 2,712 |
| **Closing net assets at 31 December 2016** | **n/a** | **41,033** | **16,343*** | **16,350** |
| Interest, % | | 50.00% | 14.52% | 45.00% |
| Interest in associates and joint ventures | | 20,517 | 2,373 | 7,358 |
| Goodwill | | - | 6,252 | - |
| **Carrying value at 31 December 2016** | **-** | **20,517** | **8,625** | **7,358** |

*-financial information of Agrinos AS was presented as at 30 September 2016 being the most recent available financial statements of the associate

** represents theoretical dividends on preference shares, determined as 10% of statutory profit for the reporting period.

### *Investment in joint venture EuroChem-Migao Ltd.*

The aggregated assets, liabilities of joint venture were as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Current assets | 49,084 | 38,179 |
| Non-current assets | 31,420 | 32,176 |
| Current liabilities | (38,576) | (29,063) |
| Non-current liabilities | (238) | (259) |
| **Net assets** | **41,690** | **41,033** |

The joint venture's revenues and results were as follows:

| | 2017 | 2016 |
|---|---|---|
| Sales | 48,553 | 43,626 |
| Profit | 1,481 | 4,478 |

### *Investment in joint venture Thyssen Schachtbau EuroChem Drilling LLC*

The aggregated assets, liabilities of joint venture were as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Current assets | 10,708 | 7,947 |
| Non-current assets | 7,718 | 9,299 |
| Current liabilities | (1,451) | (475) |
| Non-current liabilities | (342) | (421) |
| **Net assets** | **16,633** | **16,350** |

The joint venture's revenue and result were as follows:

| | 2017 | 2016 |
|---|---|---|
| Sales | 10,424 | 3,890 |
| Profit/(loss) | (577) | 378 |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 12 Investment in associates and joint ventures (continued)

### *Investment in associate Agrinos AS*

The aggregated assets, liabilities of the associate were as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Current assets | 15,552 | 12,429 |
| Non-current assets | 8,629 | 9,963 |
| Current liabilities | (10,767) | (9,202) |
| Non-current liabilities | (20,799) | (1,495) |
| Non-controlling interest | 1,521 | 1,142 |
| **Net assets** | **(5,864)** | **12,837** |

The associate's revenues and results were as follows:

| | 2017 | 2016* |
|---|---|---|
| Sales | 9,034 | 6,844 |
| Loss | (20,801) | (14,020) |

* The comparatives were presented since the acquisition date.

### *Acquisition of associate Hispalense de Liquidos S.L.*

In June 2017, the Group acquired 50% minus 1 share of interest in the company Hispalense de Líquidos S.L., a fertilizer distributor with own liquid blending facilities, located in the South of Spain.

The aggregated assets, liabilities of the associate were as follows:

| | 31 December 2017 |
|---|---|
| Current assets | 7,964 |
| Non-current assets | 5,851 |
| Current liabilities | (6,143) |
| Non-current liabilities | (2,675) |
| **Net assets** | **4,997** |

The associate's revenues and results were as follows:

| | From the date of acquisition to 31 December 2017 |
|---|---|
| Sales | 7,641 |
| Profit | 37 |

### *Acquisition of joint venture Biochem Technologies, LLC.*

In April 2017, the Group acquired 10% share of interest in Biochem Techonologies, LLC, the company specialises in agricultural and industrial biotechnologies and located in the Moscow region, Russia.

The aggregated assets, liabilities of the joint venture were as follows:

| | 31 December 2017 |
|---|---|
| Current assets | 461 |
| Non-current assets | 47 |
| Current liabilities | (42) |
| Non-current liabilities | (694) |
| **Net assets** | **(228)** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 12 Investment in associates and joint ventures (continued)

***Acquisition of associate Azottech, LLC.***

In December 2017, the Group acquired 24,89% share of interest in Azottech, LLC, the company specialises in drilling and blasting operations and located in the Perm region, Russia.

The aggregated assets, liabilities of the associate were as follows:

| | 31 December 2017 |
|---|---|
| Current assets | 3,607 |
| Non-current assets | 1,753 |
| Current liabilities | (1,296) |
| Non-current liabilities | (4) |
| **Net assets** | **4,060** |

## 13 Inventories

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Finished goods | 430,802 | 375,534 |
| Materials | 184,245 | 182,535 |
| Catalysts | 80,329 | 72,007 |
| Work in progress | 59,366 | 57,257 |
| Less: provision for obsolete and damaged inventories | (8,285) | (8,579) |
| **Total inventories** | **746,457** | **678,754** |

## 14 Trade receivables, prepayments, other receivables and other current assets

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Trade receivables** | | |
| Trade receivables denominated in US$ | 184,312 | 140,323 |
| Trade receivables denominated in EUR | 57,624 | 78,914 |
| Trade receivables denominated in RUB | 31,171 | 29,804 |
| Trade receivables denominated in other currencies | 24,211 | 24,174 |
| Less: provision for impairment | (4,217) | (5,429) |
| **Total trade receivables** | **293,101** | **267,786** |
| **Prepayments, other receivables and other current assets** | | |
| Advances to suppliers | 133,052 | 79,432 |
| VAT recoverable and receivable | 165,713 | 152,210 |
| Other taxes receivable | 13,434 | 7,145 |
| Other receivables and other current assets | 25,552 | 23,215 |
| Receivable due to sale of associate | - | 59,760 |
| Collateral held by banks to secure derivative transactions | 672 | 928 |
| Interest receivable | 272 | 165 |
| Less: provision for impairment | (12,058) | (7,670) |
| **Total prepayments, other receivables and other current assets** | **326,637** | **315,185** |
| **Total trade receivables, prepayments, other receivables and other current assets** | **619,738** | **582,971** |

Management believes that the fair value of accounts receivable does not differ significantly from their carrying amounts.

During the years ended 31 December 2017 and 31 December 2016, the Group entered into a number of non-recourse factoring arrangements according to which the trade receivables were sold to the factoring company and, thus, derecognised in the consolidated statement of financial position. As at 31 December 2017, trade receivables of US$ 107,062 thousand remain sold (31 December 2016: US$ 69,031 thousand).

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 14 Trade receivables, prepayments, other receivables and other current assets (continued)

As at 31 December 2017, trade receivables, prepayments, other receivables and other current assets of US$ 16,275 thousand (31 December 2016: US$ 13,099 thousand) were individually impaired due to the fact that counterparties are facing significant financial difficulties. The ageing of these receivables is as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Less than 3 months | 6,098 | 612 |
| From 3 to 12 months | 1,692 | 764 |
| Over 12 months | 8,485 | 11,723 |
| **Total gross amount of impaired trade receivables, prepayments and other receivables** | **16,275** | **13,099** |

As at 31 December 2017, trade receivables of US$ 38,655 thousand (31 December 2016: US$ 54,740 thousand) were past due but not impaired. Of this amount US$ 19,540 thousand (31 December 2016: US$ 31,736 thousand) were covered either by bank guarantees or backed by solid ratings from independent rating agencies or by internal creditworthiness rating and internal payment discipline rating (Note 37). The ageing analysis of these trade receivables from past due date is:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Less than 3 months | 25,329 | 40,242 |
| From 3 to 12 months | 6,710 | 7,212 |
| Over 12 months | 6,616 | 7,286 |
| **Trade accounts receivable past due not impaired** | **38,655** | **54,740** |

Analysis of credit quality of trade receivables is presented in Note 37.

The movements in the provision for impairment of accounts receivable are:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Trade receivables | Other receivables | Trade receivables | Other receivables |
| **As at 1 January** | **5,429** | **7,670** | **11,509** | **4,433** |
| Provision charged | 14,958 | 7,103 | 792 | 2,436 |
| Provision used | (14,854) | (1,082) | (68) | (269) |
| Provision reversed | (919) | (899) | (9,129) | (401) |
| Provision acquired in a business combination | - | - | 2,214 | 544 |
| Disposal of provision due to sale of subsidiary | (588) | (933) | - | - |
| Currency translation difference | 191 | 199 | 111 | 927 |
| **Total provision for impairment of accounts receivable as at 31 December** | **4,217** | **12,058** | **5,429** | **7,670** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 15 Originated loans

| | Note | Interest rate 2017* | Interest rate 2016* | 31 December 2017 | 31 December 2016 |
|---|---|---|---|---|---|
| *Non-current originated loans* | | | | | |
| Unsecured US$-denominated loans to related party which is entity under common control with Group | 34 | 2.40% | 3.2%-3.8% | 43,501 | 53,178 |
| Unsecured US$ denominated loan to associate | 34 | 9.00% | - | 4,024 | - |
| Unsecured US$ denominated loan to 3-rd party | | 5.00% | - | 3,000 | - |
| Secured RUB-denominated loan to joint venture | 34 | 11.95% | - | 521 | - |
| **Total non-current originated loans** | | | | **51,046** | **53,178** |
| *Current originated loans* | | | | | |
| Unsecured RUB-denominated loan to 3-rd party | | - | 13.4% | - | 412 |
| **Total current originated loans** | | | | - | **412** |
| **Total originated loans** | | | | **51,046** | **53,590** |

* Contractual interest rate as at 31 December 2017 and 31 December 2016, respectively.

Movements in Group's originated loans were as follows:

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Balance as at 1 January** | | **53,590** | **132,818** |
| Originated loans to parent company | 34 | - | 106,350 |
| Originated loans to associate | 34 | 4,024 | - |
| Originated loan to joint venture | | 680 | |
| Originated loans to related parties | 34 | 30,850 | - |
| Originated loan to 3-rd party | | 3,000 | 399 |
| Reclassification of intragroup loan provided to subsidiary before its sale | | 2,308 | - |
| Repayment of loan provided to subsidiary after its sale | | (2,113) | - |
| Repayment of originated loan by parent company | 34 | - | (150,350) |
| Repayment of originated loans by related party | 34 | (9,677) | (35,640) |
| Repayment of originated loan by joint venture | | (173) | - |
| Reclassification of loan issued to 3-rd party to other receivables | | (433) | - |
| Intragroup elimination of loans provided to asset holders before acquisition | | (30,850) | - |
| Foreign exchange gain/(loss), net | | (2,921) | (9,855) |
| Currency translation differences | | 2,761 | 9,868 |
| **Balance as at 31 December** | | **51,046** | **53,590** |

## 16 Cash and cash equivalents, fixed-term deposits and restricted cash

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Cash on hand* | 1,798 | 65 |
| Bank balances denominated in US$ | 80,898 | 79,126 |
| Bank balances denominated in RUB | 11,174 | 37,519 |
| Bank balances denominated in EUR | 48,726 | 67,083 |
| Bank balances denominated in other currencies | 9,016 | 10,999 |
| Term deposits denominated in US$ | 42 | 14,050 |
| Term deposits denominated in RUB | 26,479 | 51,588 |
| Term deposits denominated in other currencies | 50,480 | 25,175 |
| **Total cash and cash equivalents** | **228,613** | **285,605** |
| Fixed-term deposits in different currencies | 151 | 294 |
| **Total fixed-term deposits** | **151** | **294** |
| Current restricted cash | 20,101 | 45,994 |
| Non-current restricted cash | 22,345 | 18,170 |
| **Total restricted cash** | **42,446** | **64,164** |

* Includes cash on hand denominated in different currencies.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 16 Cash and cash equivalents, fixed-term deposits and restricted cash (continued)

Term deposits as at 31 December 2017 and 31 December 2016 were held to meet short term cash needs and had various original maturities but could be withdrawn on request without any restrictions.

Fixed-term deposits have various original maturities and can be withdrawn with an early notification and/or with a penalty accrued or interest income forfeited.

No bank balances, term and fixed-term deposits are past due or impaired. The credit quality of bank balances, term and fixed-term deposits which is based on the credit ratings of independent rating agencies Standard & Poor's and Fitch Ratings is as follows*:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| A to AAA rated | 67,384 | 112,905 |
| BB- to BBB+ rated | 190,222 | 201,552 |
| B- to B+ rated | 6,342 | 2,598 |
| C to CCC rated | 13 | 13,928 |
| Unrated | 5,451 | 19,015 |
| **Total**** | **269,412** | **349,998** |

* Credit ratings as at 17 January 2018 and 14 January 2017, respectively.

** The rest of the consolidated statement of financial position item 'cash and cash equivalents' is cash on hand.

At 31 December 2017, non-current restricted cash consisted of US$ 19,733 thousand (31 December 2016: US$ 15,802 thousand) held in a debt service reserve account as required by the Usolsky Project Finance Facility Agreement (Note 20) and US$ 2,612 thousand (31 December 2016: US$ 2,368 thousand) held in bank accounts as security deposits for third parties.

At 31 December 2017, current restricted cash consisted of:

- US$ 18,166 thousand received under targeted loan agreements with a state development fund;
- US$ 1,935 thousand held at banks under regulatory requirements for state contracts.

At 31 December 2016 current restricted cash consisted of US$ 30,358 thousand held at bank as required by pre-export finance club facility and US$ 15,636 thousand held at banks as a guarantee for import transactions to comply with Ukrainian legislation.

## 17 Disposal of subsidiary

In October 2017, the Board of Directors of the Group made a decision to sell Severneft-Urengoy, LLC, a subsidiary within the Oil & Gas division. In November 2017, after certain conditions were fulfilled and approval from Russia's Federal Anti-Monopoly Service was received, the Group sold 100% share of Severneft-Urengoy, LLC to an unrelated company. The total proceeds (denominated in RUB) of US$ 225,174 thousand were fully received in cash.

As at date of disposal the assets and liabilities of the subsidiary were as follows:

| | |
|---|---|
| Cash and cash equivalents | 153 |
| Trade and other receivables | 2,706 |
| Inventories | 3,206 |
| Property, plant and equipment | 213,252 |
| Mineral rights | 111,124 |
| Trade payables and other liabilities | (12,582) |
| Provision for land restoration | (2,486) |
| Deferred income tax asset/(liability) – net | (29,994) |
| **Net assets** | **285,379** |

The Group recognised a loss on disposal of US$ 60,205 thousand.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 18 Equity

***Share capital.*** As at 31 December 2017 and 31 December 2016, the nominal registered amount of the Company's issued share capital in Swiss francs ("CHF") was CHF 100 thousand (US$ 111 thousand). The total authorised number of ordinary shares is 1,000 shares with a par value of CHF 100 (US$ 111) per share. All authorised shares were issued and fully paid in 2014.

***Dividends.*** During 2016 and 2017 the Group did not declare or pay dividends.

***Capital contribution.*** In 2016, the Group signed an agreement with the parent company AIM Capital SE to receive the capital contribution in a form of a perpetual loan up to US$ 1.5 billion, funds of US$ 250,000 thousand were transferred to the Group in the fourth quarter 2016.

***Other reserves within "Retained earnings and other reserves".*** At 31 December 2017 and 31 December 2016, other reserves of the Company included cash contribution of US$ 5,000 thousand from AIM Capital SE, the parent company.

## 19 Bank borrowings and other loans received

| Currency and rate | Interest rate 2017* | Interest rate 2016* | 31 December 2017 | 31 December 2016 |
|---|---|---|---|---|
| **Current loans and borrowings** | | | | |
| Short-term unsecured bank loans | | | | |
| US$ with floating rate | 3.18% - 5.51% | 2.26%-3.52% | 114,559 | 605,000 |
| US$ with fixed rate | 2.75% | 2.55%-5.95% | 50,000 | 55,738 |
| RUB with fixed rate | 8.56% - 8.90% | - | 597,988 | - |
| BRL with floating rate | - | 20.70%-26.58% | - | 1,486 |
| BRL with fixed rate | - | 10.51% | - | 307 |
| Short-term secured bank loans | | | | |
| US$ with fixed rate | - | 5.20% | - | 12,417 |
| BRL with fixed rate | - | 2.50%-8.70% | - | 23 |
| Current portion of unsecured long-term bank loans | | | | |
| US$ with floating rate | - | 2.75% | - | 400,000 |
| RUB with fixed rate | 11.05% | - | 5,309 | - |
| BRL with floating rate | - | 21.36% | - | 205 |
| BRL with fixed rate | - | 15.50% | - | 533 |
| ARS with fixed rate | 18.0%-19.50% | - | 11 | - |
| Current portion of secured long-term bank loans | | | | |
| BRL with floating rate | 10.15% | 10.65% | 107 | 109 |
| BRL with fixed rate | 2.94% - 12.17% | 3.00%-12.17% | 2,598 | 2,108 |
| Less: short-term portion of transaction costs | | | (167) | (2,508) |
| **Total current loans and borrowings** | | | **770,405** | **1,075,418** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 19 Bank borrowings and other loans received (continued)

| Currency and rate | Interest rate 2017* | Interest rate 2016* | 31 December 2017 | 31 December 2016 |
|---|---|---|---|---|
| **Non-current loans and borrowings** | | | | |
| Long-term unsecured bank loans | | | | |
| US$ with floating rate | 3.60% - 3.85% | 3.56% | 1,080,000 | 200,000 |
| Long-term secured bank loan | | | | |
| US$ with floating rate | - | 3.51% | - | 800,000 |
| Loan-term unsecured targeted loans | | | | |
| RUB with fixed rate | 5.00% | - | 26,042 | - |
| Long-term portion of unsecured bank loans | | | | |
| US$ with floating rate | - | 2.75% | - | 300,000 |
| BRL with floating rate | - | 21.36% | - | 150 |
| BRL with fixed rate | - | 15.50% | - | 1,065 |
| ARS with fixed rate | 19.00%-22.00% | - | 16 | - |
| Long-term portion of secured bank loans | | | | |
| BRL with floating rate | 10.65% | 10.65% | 44 | 154 |
| BRL with fixed rate | 2.94%-12.17% | 3.00%-12.17% | 14,667 | 17,708 |
| Less: long-term portion of transaction costs | | | (10,564) | (13,406) |
| **Total non-current loans and borrowings** | | | **1,110,205** | **1,305,671** |
| **Total loans and borrowings** | | | **1,880,610** | **2,381,089** |

* Contractual interest rate on 31 December 2017 and 31 December 2016, respectively.

Movements in the Group's bank borrowings and other loans received were as follows:

| | Currency | 2017 | 2016 |
|---|---|---|---|
| **Balance as at 1 January** | | **2,381,089** | **2,685,412** |
| Bank loans received | US$ | 2,349,592 | 3,017,084 |
| Bank loans received | RUB | 743,737 | 214,569 |
| Targeted loans received | RUB | 25,889 | - |
| Bank loans received | UAH | 9,105 | 4,676 |
| Bank loans acquired in a business combination | US$ | - | 33,556 |
| Bank loans acquired in a business combination | BRL | - | 44,445 |
| Bank loans acquired in a business combination | ARS | 30 | - |
| Loan acquired in a business combination | EUR | 6,555 | - |
| Bank loans repaid | US$ | (3,478,130) | (3,052,510) |
| Loan repaid | EUR | (6,555) | (210,700) |
| Bank loans repaid | RUB | (155,431) | (344,873) |
| Bank loans repaid | UAH | (9,175) | (4,615) |
| Loan repaid to related party | US$ | - | (9,000) |
| Bank loans repaid | BRL | (6,383) | (20,110) |
| Capitalisation and amortisation of transaction costs, net | | 5,001 | 5,027 |
| Foreign exchange (gain)/loss, net | | 15,388 | 27,750 |
| Currency translation differences, net | | (102) | (9,622) |
| **Balance as at 31 December** | | **1,880,610** | **2,381,089** |

The Group's bank borrowings and other loans received mature:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| - within 1 year | 770,405 | 1,075,418 |
| - between 1 and 2 years | 82,438 | 360,734 |
| - between 2 and 5 years | 1,021,632 | 936,624 |
| - more than 5 years | 6,135 | 8,313 |
| **Total bank borrowings and other loans received** | **1,880,610** | **2,381,089** |

According to IFRS 7, Financial Instruments: Disclosures, an entity shall disclose the fair value of financial liabilities. The fair value of short-term bank borrowings and borrowings bearing floating interest rates is not materially different from their carrying amounts.

## 19 Bank borrowings and other loans received (continued)

The fair value of the long-term borrowings bearing a fixed interest rate is estimated based on expected cash flows discounted at a prevailing market interest rate. As at 31 December 2017 the total fair value of long-term loans with fixed interest rates was less than their carrying amount by US$ 3,830 thousand (31 December 2016: the fair value of long-term loans was less than their carrying amount by US$ 740 thousand).

Under the terms of the loan agreements, the Group is required to comply with a number of covenants and restrictions, including the maintenance of certain financial ratios and financial indebtedness and cross-default provisions. The Group was in compliance with covenants during the periods and as at 31 December 2017 and 31 December 2016.

***Interest rates and outstanding amounts of major loans and borrowings***

In September 2017, the Group signed a 1-year uncommitted facility agreement with a Russian bank, the funds through this facility may be obtained in multiple currencies with a credit limit up to US$ 550 million. As at 31 December 2017, the outstanding amount was RUB 14,250 million (31 December 2016: nil).

In August 2017, the Group signed a US$ 750 million unsecured credit facility bearing a floating interest rate and maturing in September 2022. As at 31 December 2017, the outstanding amount was US$ 750 million (31 December 2016: nil).

In 2016, the Group signed a RUB 20 billion 3-year revolving uncommitted credit agreement, bearing a fixed interest rate. As at 31 December 2017, the outstanding amount was RUB 20 billion (31 December 2016: nil).

In 2016, the Group signed a pre-export finance club facility of US$ 800 million bearing interest at 1-month Libor +2.75% and maturing in October 2021. In July 2017, the loan was fully repaid (31 December 2016: outstanding amount was US$ 800 million).

In 2016, the Group signed a US$ 250 million term loan facility bearing a floating interest rate and maturing in September 2017. In September 2017, the loan was fully repaid (31 December 2016: US$ 250 million).

In 2014, the Group signed a US$ 100 million uncommitted revolving credit facility bearing a floating interest rate and maturing in December 2018 with credit limit increased to US$ 150 million in 2015. As at 31 December 2017, the outstanding amount was US$ 50 million (31 December 2016: US$ 150 million).

In 2014, the Group signed an uncommitted revolving credit facility with a Russian bank. The funds through this facility may be obtained in multiple currencies. During the year ended 31 December 2017, the facility was utilised and repaid several times. As at 31 December 2017, the outstanding amount was US$ 330 million (31 December 2016: US$ 330 million).

In 2013, the Group obtained a credit facility of US$ 1.3 billion bearing interest at 3-month Libor +1.8% and maturing in September 2018. In December 2017, the loan was fully repaid (31 December 2016: US$ 700 million).

***Undrawn facilities***

In December 2017, the Group signed two credit facilities, described below, which had no outstanding balances as at 31 December 2017 and are available to the Group:

- US$ 125 million committed revolving credit facility bearing a floating interest rate maturing in December 2019;
- RUB 10 billion committed revolving fixed-interest rate credit agreement maturing in December 2018.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 19 Bank borrowings and other loans received (continued)

***Collaterals and pledges***

As at 31 December 2017, loans of a Brazilian subsidiary totaling US$ 17,416 thousands were collaterised by property, plant and equipment with the carrying value of US$ 30,748 thousand (31 December 2016: loans of US$ 32,519 thousand were collaterised by property, plant and equipment with the carrying value of US$ 42,193 thousand).

As at 31 December 2016, the pre-export finance club facility of US$ 800 million was collateralised by future export proceeds of the Group under sales contracts with certain customers and cash balances of US$ 30,358 thousand on the bank accounts.

As at 31 December 2017 and 31 December 2016, all other bank borrowings and loans received listed in Note 19 were not secured.

## 20 Project finance

Due to the non-recourse nature of the Project Finance facilities they are excluded from financial covenant calculations in accordance with the Group's various debt, project, finance, legal and other documents and are presented as a separate line "Project finance" in the consolidated statement of financial position.

***Usolsky potash project.*** In 2014, the Group signed a US$ 750 million Non-recourse Project Finance Facility Agreement ("Project Financing" or the "facility") maturing at the end of 2022 with a floating interest rate based on 3-month Libor for financing the Usolsky potash project located in the Perm region of Russia.

During the year ended 31 December 2017, the Group received the final tranche of the facility amounting to US$ 159,555 thousand (2016: US$ 311,989 thousand).

As at 31 December 2017, the outstanding balance was US$ 732,255 thousand shown net of transaction costs of US$ 17,745 thousand (31 December 2016: US$ 573,022 thousand shown net of transaction costs of US$ 17,423 thousand). The contractual interest rate as at 31 December 2017 was 5.17 % p.a. (31 December 2016: 4.51% p.a.).

The facility matures:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| - between 1 and 2 years | 142,875 | - |
| - between 2 and 5 years | 589,380 | 418,419 |
| - more than 5 years | - | 154,603 |
| **Total Project Finance** | **732,255** | **573,022** |

The fair value of this facility was not materially different from its carrying amount.

As at 31 December 2017, in compliance with terms of the facility agreement the Group held US$ 19,733 thousand on a debt service reserve account (31 December 2016: US$ 15,802 thousand) (Note 16).

As at 31 December 2017 and 31 December 2016, under the terms of the Project Finance Facility Agreement 100% of the shares in EuroChem Usolsky Mining S.à r.l., the project owner and wholly-owned subsidiary of the Group, were pledged as collateral. The carrying value of the total assets of the company pledged under the facility related to the project amounted to US$ 1,839,401 thousand (31 December 2016: US$ 1,250,802 thousand).

During the years ended 31 December 2017 and 31 December 2016, the EBITDA of subsidiaries under the Usolsky potash project was US$ 1,309 thousand and US$ 2,034 thousand, respectively, solely due to foreign exchange impact.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 20 Project finance (continued)

***Ammonia project in Kingisepp.*** In 2015, the Group signed a EUR 557 million Non-recourse 13.5-year Project Finance Facility with a floating interest rate based on 3-month Euribor to finance the construction of an ammonia plant in Kingisepp, Russia.

During the year ended 31 December 2017, the Group received funds under the facility of EUR 220,588 thousand (US$ 257,383 thousand) (2016: EUR 65,753 thousand or US$ 73,795 thousand).

As at 31 December 2017, the outstanding balance was US$ 227,118 thousand shown net of prepaid transaction costs of US$ 115,232 thousand. As at 31 December 2016, the funds received of US$ 69,172 thousand was netted off with transaction costs of US$ 69,172 thousand, the amount of incurred transaction costs of US$ 49,134 thousand that exceeded received funds was presented into Other non-current assets in the consolidated statement of financial position. The contractual interest rate as at 31 December 2017 was 1.3% p.a. (31 December 2016: 1.3% p.a.).

The facility matures:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| - between 1 and 2 years | 364 | - |
| - between 2 and 5 years | 76,589 | - |
| - more than 5 years | 150,165 | - |
| **Total Project Finance** | **227,118** | **-** |

The fair value of this facility was not materially different from its carrying amount.

In January 2018, the Group received funds under the Project Finance Facility of EUR 40,034 thousand (US$ 48,955 thousand).

As at 31 December 2017 and 31 December 2016, under the terms of the facility agreement 100% of the shares in EuroChem-NorthWest JSC, the project owner and wholly-owned subsidiary of the Group, were pledged as collateral. The carrying value of the total assets of the company pledged under the Facility related to the project amounted to US$ 895,680 thousand as at 31 December 2017 (31 December 2016: US$ 590,100 thousand).

During the years ended 31 December 2017 and 31 December 2016, the EBITDA of the subsidiary under the Ammonia project was negative of US$ 6,324 thousand and of US$ 1,005 thousand, respectively.

## 21 Bonds issued

| | | | | 31 December 2017 | | 31 December 2016 | |
|---|---|---|---|---|---|---|---|
| Currency | Rate | Coupon rate, p.a. | Maturity | Fair value | Carrying amount | Fair value | Carrying amount |
| **Current bonds** | | | | | | | |
| USD | Fixed | 5.125% | 2017 | - | - | 331,865 | 324,033 |
| RUB | Fixed | 12.40% | 2018 | 90,017 | 86,805 | - | - |
| RUB | Fixed | 8.25% | 2018 | 310 | 310 | - | - |
| Less: transaction costs | | | | - | (24) | - | (177) |
| **Total current bonds issued** | | | | **90,327** | **87,091** | **331,865** | **323,856** |
| **Non-current bonds** | | | | | | | |
| US$ | Fixed | 3.80% | 2020 | 502,145 | 500,000 | 498,335 | 500,000 |
| US$ | Fixed | 3.95% | 2021 | 502,760 | 500,000 | - | - |
| RUB | Fixed | 12.40% | 2018 | - | - | 85,563 | 82,431 |
| RUB | Fixed | 8.25% | 2018 | - | - | 288 | 294 |
| RUB | Fixed | 10.60% | 2019 | 269,661 | 260,416 | 252,609 | 247,293 |
| RUB | Fixed | 8.75% | 2020 | 266,666 | 260,416 | - | - |
| Less: transaction costs | | | | | (8,419) | - | (5,170) |
| **Total non-current bonds issued** | | | | **1,541,232** | **1,512,413** | **836,795** | **824,848** |
| **Total bonds issued** | | | | **1,631,559** | **1,599,504** | **1,168,660** | **1,148,704** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 21 Bonds issued (continued)

US$-denominated bonds and RUB-denominated bonds were listed on the Irish Stock Exchange and the Moscow Exchange, respectively. The fair value of the bonds was determined with reference to their market quotations or executable prices.

In May 2017, the Group issued RUB-denominated bonds totaling RUB 15 billion bearing a semi-annual coupon rate of 8.75% p. a. maturing in May 2020.

In July 2017, the Group issued US$-denominated notes for a total amount of US$ 500 million bearing a semi-annual coupon rate of 3.95% p. a. maturing in July 2021.

## 22 Derivative financial assets and liabilities

At 31 December 2017, net derivative financial assets and liabilities were:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | Non-current | Current | Non-current | Current |
| Commodity swaps | - | - | - | 30 |
| RUB/US$ deliverable forward contracts with a nominal amount of RUB 2,470 million | - | 954 | - | - |
| RUB/US$ non-deliverable forward contracts with a nominal amount of RUB 5,500 million | - | 2,530 | - | - |
| EUR/US$ non-deliverable forward contracts with a nominal amount of EUR 67 million | 645 | - | - | - |
| Cross currency interest rate swaps | 6,544 | 15,471 | - | 61,791 |
| **Total** | **7,189** | **18,955** | **-** | **61,821** |

At 31 December 2016, net derivative financial assets and liabilities were:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | Non-current | Current | Non-current | Current |
| Commodity swaps | - | 908 | - | 703 |
| UAH/US$ deliverable forward contracts with a nominal amount of US$ 6 million | - | 237 | - | - |
| RUB/US$ non-deliverable forward contracts with a nominal amount of RUB 9,000 million | - | 12,457 | - | - |
| Cross currency interest rate swaps | - | - | 75,209 | - |
| **Total** | **-** | **13,602** | **75,209** | **703** |

Movements in the carrying amount of derivative financial assets/(liabilities) were:

| | 1 January 2017 | Gain/(loss) from changes of fair value, net | Cash (proceeds)/ payments on derivatives, net | 31 December 2017 |
|---|---|---|---|---|
| **Operating activities** | **12,899** | **15,710** | **(25,155)** | **3,454** |
| Commodity swaps | 205 | (3,106) | 2,871 | (30) |
| Foreign exchange deliverable and non-deliverable forward contracts, net | 12,694 | 18,816 | (28,026) | 3,484 |
| **Financing activities** | **(75,209)** | **60,394** | **(24,316)** | **(39,131)** |
| Foreign exchange deliverable and non-deliverable forward contracts, net | - | 1,424 | (779) | 645 |
| Cross currency interest rate swaps, net | (75,209) | 58,970 | (23,537) | (39,776) |
| **Total derivative financial assets and liabilities, net** | **(62,310)** | **76,104** | **(49,471)** | **(35,677)** |

## 22 Derivative financial assets and liabilities (continued)

Changes in the fair value of derivatives, which are entered into for the purpose of mitigating risks linked to cash flows from operating activities of the Group, are recognised in “Other operating income/(expenses), net” (Note 30), foreign currency derivative contracts are recognised in “Foreign exchange gain/(loss) from operating activities, net” and commodity swaps are recognised in “Other operating income/(expenses), net”.

Changes in the fair value of derivatives, which are entered into for the purpose of hedging the financing and investing cash flows, are recognised in “Other financial gain/(loss), net” (Note 31).

***Cross currency interest rate swaps***

In May 2017, the Group signed RUB/US$ cross currency interest rate swap agreements with total notional amount of RUB 15,000 million, maturing in May 2020.

In July 2017, the Group signed a RUB/US$ cross currency interest rate swap agreement with a notional amount of RUB 20,000 million, maturing in July 2018.

In September 2017, the Group signed a RUB/US$ cross currency interest rate swap agreement with a notional amount of RUB 14,250 million, maturing in September 2018.

***Foreign exchange non-deliverable forward contracts***

Outstanding at the beginning of the year, RUB/US$ non-deliverable forward contracts with total notional amount of RUB 7,000 million and RUB 2,000 million were terminated in March 2017 and matured in March 2017, respectively.

In March 2017, the Group signed a RUB/US$ non-deliverable forward contract with a notional amount of RUB 3,000 million, which was terminated in the same month.

In April 2017, the Group signed RUB/US$ non-deliverable forward contracts with total notional amount of RUB 4,000 million matured in May and June 2017.

In May 2017, the Group signed RUB/US$ non-deliverable forward contracts with total notional amount of RUB 6,000 million, out of which contracts with total notional amount of RUB 4,000 million matured in July, August and November 2017, contracts with total notional amount of RUB 2,000 million were terminated in September 2017.

In July 2017, the Group signed a RUB/US$ non-deliverable forward contract with a notional amount of RUB 1,500 million matured in December 2017.

In September 2017, the Group signed EUR/US$ non-deliverable forward contracts with total notional amount of EUR 67 million, which mature in the period from February 2019 to May 2020.

In September 2017, the Group signed RUB/US$ non-deliverable forward contracts with total notional amount of RUB 3,000 million, which mature in the period from January to February 2018.

In October 2017, the Group signed a RUB/US$ non-deliverable forward contract with a notional amount of RUB 1,500 million, maturing in March 2018.

In November 2017, the Group signed RUB/US$ non-deliverable forward contracts with total notional amount of RUB 3,500 million, out of which contracts with total notional amount of RUB 2,500 million matured in November and December 2017, and the outstanding contract matures in April 2018.

***Foreign exchange deliverable forward contracts***

In September 2017, the Group signed a RUB/US$ deliverable forward contract with a notional amount of RUB 750 million that matures in March 2018.

In August 2017, the Group signed a RUB/US$ deliverable forward contract with a notional amount of US$ 50 million which matured in the same month.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 22 Derivative financial assets and liabilities (continued)

In October 2017, the Group signed a RUB/US$ deliverable forward contract with a notional amount of RUB 277 million, maturing in April 2018.

In November 2017, the Group signed a RUB/US$ deliverable forward contract with a notional amount of RUB 655 million, maturing in May 2018.

In December 2017, the Group signed a RUB/US$ deliverable forward contracts with total notional amount of RUB 788 million, maturing in June 2018.

## 23 Other non-current liabilities and deferred income

| | Note | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| Liability from contingent consideration related to business combination | 34 | 123,001 | 106,655 |
| Deferred payable related to acquisition of additional interest in subsidiary | | 3,000 | - |
| Deferred payable related to mineral rights acquisition | | 11,785 | 13,448 |
| Provisions for age premium, retirement benefits, pensions and similar obligations | | 25,683 | 22,107 |
| Provision for land restoration | 24 | 26,348 | 21,433 |
| Deferred income − Investment grants received | | 2,584 | 2,813 |
| **Total other non-current liabilities and deferred income** | | **192,401** | **166,456** |

## 24 Provision for land restoration

In accordance with federal, state and local environmental regulations the Group's mining, drilling and processing activities result in asset retirement obligations to restore the disturbed land in regions in which the Group operates.

Movements in the amount of provision for land restoration were as follows:

| | Note | 2017 | 2016 |
|---|---|---|---|
| **As at 1 January** | | **21,433** | **12,837** |
| Change in estimates | 8 | 4,350 | 4,501 |
| Unwinding of the present value discount | 31 | 1,857 | 1,312 |
| Disposal of provision due to sale of subsidiary | 17 | (2,486) | - |
| Currency translation difference | | 1,194 | 2,783 |
| **Total provision for land restoration as at 31 December** | | **26,348** | **21,433** |

During the years ended 31 December 2017 and 31 December 2016, the Group reassessed estimates of provision for land restoration due to changes in inflation, discount rates and expected timing for land restoration. Therefore, the amount of provision for land restoration was recalculated and the appropriate changes were disclosed as a change in estimates.

The principal assumptions used for the calculation of land restoration provision were as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Discount rates | 6.97% - 9.1% | 8.26%-8.57% |
| Expected inflation rates in Russia | 2.6% - 4.0% | 2.9%-5.7% |
| Expected timing for land restoration | 2021 - 2063 | 2021-2073 |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 24 Provision for land restoration (continued)

The present value of expected costs to be incurred for the settlement of land restoration obligations was as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Between 1 and 5 years | 359 | 311 |
| Between 6 and 10 years | 1,369 | 1,445 |
| Between 11 and 20 years | 4,637 | 4,560 |
| More than 20 years | 19,983 | 15,117 |
| **Total provision for land restoration** | **26,348** | **21,433** |

## 25 Trade payables, other accounts payable and accrued expenses

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Trade payables** | | |
| Trade payables denominated in US$ | 170,190 | 95,417 |
| Trade payables denominated in EUR | 167,176 | 71,914 |
| Trade payables denominated in RUB | 127,298 | 109,015 |
| Trade payables denominated in other currencies | 10,257 | 8,203 |
| Trade payables denominated in RUB with irrevocable documentary letter of credit | 38,083 | - |
| **Total trade payables** | **513,004** | **284,549** |
| | | |
| **Other accounts payable and accrued expenses** | | |
| Advances received | 82,414 | 64,883 |
| Payroll and social tax | 13,082 | 10,018 |
| Accrued liabilities and other creditors | 199,618 | 118,887 |
| Interest payable | 29,604 | 18,002 |
| Payables for acquisition of associate | 3,229 | - |
| Short term part of deferred payable related to mineral rights acquisition | 1,875 | 1,262 |
| Short term part of deferred payables related to business combination and acquisition of additional interest in subsidiary | 4,697 | 8,344 |
| **Total other payables** | **334,519** | **221,396** |
| **Total trade payables, other accounts payable and accrued expenses** | **847,523** | **505,945** |

As at 31 December 2017, trade payables included payables to suppliers of property, plant and equipment and construction companies amounting to US$ 174,748 thousand (31 December 2016: US$ 66,099 thousand). This amount includes accounts payable with irrevocable documentary letter of credit opened in the amount of US$ 38,083 thousand with a deferred term of payment under the contract with a construction company.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 26 Sales

The external sales by product group were:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Sales volume (thousand metric tonnes) | Sales (thousand US$) | Sales volume (thousand metric tonnes) | Sales (thousand US$) |
| **Nitrogen products** | **8,073** | **1,704,825** | **8,909** | **1,774,243** |
| Nitrogen fertilizers | 8,055 | 1,702,101 | 8,887 | 1,771,922 |
| Other products | 18 | 2,724 | 22 | 2,321 |
| **Phosphate and complex fertilizers** | **5,307** | **1,897,259** | **4,569** | **1,672,743** |
| Phosphate fertilizers | 2,292 | 846,704 | 2,174 | 812,542 |
| Complex fertilizers | 2,667 | 915,183 | 2,095 | 733,735 |
| Feed phosphates | 348 | 135,372 | 300 | 126,466 |
| **Other fertilizers** | **456** | **149,170** | **259** | **74,585** |
| **Iron ore concentrate** | **5,878** | **405,562** | **5,995** | **272,094** |
| **Apatite and baddeleyite concentrates** | **-** | **32,511** | **-** | **32,518** |
| Apatite concentrate | 39 | 5,514 | 26 | 4,371 |
| Baddeleyite concentrate | 7 | 26,997 | 8 | 28,147 |
| **Industrial products** | **-** | **532,104** | **-** | **424,157** |
| Wood Processing | 528 | 183,643 | 482 | 143,537 |
| Organic base chemicals | 199 | 133,516 | 193 | 112,502 |
| Explosives | 521 | 124,704 | 406 | 86,424 |
| Other products | - | 90,241 | - | 81,694 |
| **Hydrocarbons** | **74** | **24,860** | **92** | **23,090** |
| **Other sales** | **-** | **119,373** | **-** | **101,660** |
| Logistic services | - | 36,998 | - | 34,477 |
| Other products | - | 36,017 | - | 24,227 |
| Other services | - | 46,358 | - | 42,956 |
| **Total sales** | | **4,865,664** | | **4,375,090** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 27 Cost of sales

The components of cost of sales were:

| | 2017 | 2016 |
|---|---|---|
| Raw materials | 1,025,391 | 985,100 |
| Goods for resale | 1,024,779 | 740,304 |
| Other materials | 180,752 | 168,185 |
| Energy | 178,330 | 143,498 |
| Utilities and fuel | 73,478 | 59,907 |
| Labour, including contributions to social funds | 231,737 | 220,527 |
| Depreciation and amortisation | 227,348 | 185,165 |
| Repairs and maintenance | 55,725 | 50,501 |
| Production overheads | 70,150 | 66,253 |
| Property tax, rent payments for land and related taxes | 38,598 | 30,188 |
| Impairment /(reversal of impairment) and write-off of idle property, plant and equipment, net (Note 8) | (480) | 18,347 |
| Provision/(reversal of provision) for obsolete and damaged inventories, net | (290) | (1,060) |
| Changes in work in progress and finished goods | (47,756) | 78,470 |
| Other costs/(compensations), net | 21,267 | 14,037 |
| **Total cost of sales** | **3,079,029** | **2,759,422** |

## 28 Distribution costs

Distribution costs were:

| | 2017 | 2016 |
|---|---|---|
| Transportation | 511,379 | 460,097 |
| Labour, including contributions to social funds | 79,672 | 64,445 |
| Depreciation and amortisation | 37,414 | 25,142 |
| Repairs and maintenance | 7,140 | 7,038 |
| Provision/(reversal of provision) for impairment of receivables, net | 14,531 | (8,179) |
| Other costs | 51,351 | 44,010 |
| **Total distribution costs** | **701,487** | **592,553** |

## 29 General and administrative expenses

General and administrative expenses were:

| | 2017 | 2016 |
|---|---|---|
| Labour, including contributions to social funds | 122,130 | 88,322 |
| Depreciation and amortisation | 12,328 | 8,888 |
| Audit, consulting and legal services | 14,927 | 18,353 |
| Rent | 7,060 | 6,043 |
| Bank charges | 4,261 | 5,063 |
| Social expenditure | 4,272 | 3,870 |
| Repairs and maintenance | 2,359 | 1,654 |
| Provision/(reversal of provision) for impairment of receivables, net | 5,712 | 1,877 |
| Other expenses | 44,726 | 36,170 |
| **Total general and administrative expenses** | **217,775** | **170,240** |

The total depreciation and amortisation expenses included in all captions of the consolidated statement of profit or loss and other comprehensive income amounted to US$ 277,090 thousand (2016: US$ 219,195 thousand).

The total staff costs (including social expenses) included in all captions of the consolidated statement of profit or loss and other comprehensive income amounted to US$ 433,539 thousand (2016: US$ 373,294 thousand).

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 29 General and administrative expenses (continued)

The total statutory pension contributions included in all captions of the consolidated statement of profit or loss and other comprehensive income amounted to US$ 63,880 thousand (2016: US$ 51,796 thousand).

The fees for the audit of the consolidated and statutory financial statements for the year ended 31 December 2017 amounted to US$ 3,798 thousand (2016: US$ 4,179 thousand). The auditors also provided the Group with other non-audit services amounting to US$ 718 thousand (2016: US$ 233 thousand).

## 30 Other operating income and expenses

The components of other operating (income) and expenses were:

| | 2017 | 2016 |
|---|---|---|
| Sponsorship | 21,013 | 17,807 |
| (Gain)/loss on disposal of property, plant and equipment and intangible assets, net | 8,708 | 5,677 |
| Foreign exchange (gain)/loss from operating activities, net | 5,758 | 474 |
| Iimpairment /(reversal of impairment) and write off of idle property plant and equipment, net (Note 8) | 5,451 | 321 |
| (Gain)/loss on sales and purchases of foreign currencies, net | (1,661) | (5,112) |
| Non-recurring (income)/expenses, net | 6,943 | 2,777 |
| Other operating (income)/expenses, net | (11,112) | (20,302) |
| **Total other operating (income)/expenses, net** | **35,100** | **1,642** |

## 31 Other financial gain and loss

The components of other financial (gain) and loss were:

| | Note | 2017 | 2016 |
|---|---|---|---|
| Changes in fair value of cross currency interest rate swaps | 22 | (58,970) | (34,537) |
| Changes in fair value of foreign exchange deliverable and non-deliverable forward contracts | | (1,424) | (13,794) |
| Unwinding of liability from contingent consideration related to business combination | | 18,879 | 5,174 |
| Unwinding of discount on deferred payables | | 796 | 2,615 |
| Unwinding of discount on land restoration obligation | | 1,857 | 1,312 |
| Other financial (gain)/loss, net | | (7,443) | 16,093 |
| **Total other financial (gain)/loss, net** | | **(46,305)** | **(23,137)** |

## 32 Income tax

| | 2017 | 2016 |
|---|---|---|
| Income tax expense – current | 148,216 | 155,689 |
| Deferred income tax – origination and reversal of temporary differences, net | 62,238 | 51,652 |
| Write-off of previously recognised deferred tax assets | - | 35,699 |
| Prior periods adjustments for income tax | (6,339) | 2,165 |
| Reassessment of deferred tax assets/ liabilities due to change in the tax rate | 39,129 | 3,724 |
| **Income tax expense** | **243,244** | **248,929** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 32 Income tax (continued)

A reconciliation between theoretical income tax charge calculated at the applicable tax rates enacted in the countries where Group companies are incorporated, and actual income tax expense calculated as follows:

| | 2017 | 2016 |
|---|---|---|
| **Profit before taxation** | **696,610** | **956,916** |
| Theoretical tax charge at statutory rate of subsidiaries | (177,190) | (188,636) |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Non deductible expenses | (14,564) | (21,936) |
| - Write-off of previously recognised deferred tax assets | - | (35,699) |
| - (Unrecognised tax loss for the year)/recovery of previously unrecognised tax loss carry forward, net | (6,596) | (7,479) |
| - Adjustment on deferred tax assets/liabilities on prior periods | (12,104) | 10,710 |
| - Reassessment of deferred tax assets/ liabilities due to change in the tax rate | (39,129) | (3,724) |
| Prior periods adjustments recognised in the current period for income tax | 6,339 | (2,165) |
| **Income tax expense** | **(243,244)** | **(248,929)** |

The Group companies are subject to tax rates depending on the country of domicile.

Subsidiaries located in Russia applied a tax rate of 20.0% on taxable profits during the year ended 31 December 2017 (2016: 20.0%) except for several subsidiaries which applied reduced income tax rates within a range from 15.5% to 19.3% according to regional tax law and agreements with regional authorities (2016: within a range from 15.5% to 19.3%).

Two manufacturing entities located in the European Union, Lifosa AB in Lithuania and EuroChem Antwerpen NV in Belgium, applied tax rates of 15.0% and 33.99% on taxable profits, respectively (2016: 15.0% and 33.99%).

The rest of the subsidiaries are subject to the income tax rates ranging from 7.8% to 39.5% (2016: 7.8% to 39.5%).

At the end of 2016, the Group signed special investment contracts with Russian authorities in respect of its potash project subsidiaries, EuroChem-VolgaKaliy LLC and EuroChem-Usolsky potash complex LLC enacted from 1 January 2017 and effective till 31 December 2025. Under the contracts' terms income tax rates are reduced to 5% and 0% respectively for the abovementioned subsidiaries. During the year ended 31 December 2017, the effect from reassessment at a regional income tax rate of deferred tax assets and liabilities at EuroChem-VolgaKaliy LLC totaled US$ 33,284 thousand (2016: the effect from reassessment at a federal income tax totaled US$ 5,317 thousand).

In December 2017, changes in tax legislation were enacted in the USA and Belgium, according to which income tax rates were decreased to 26.5% and 29.58%, respectively, with effect from 1 January 2018. Starting 1 January 2020, the tax rate in Belgium will decrease to 25%. As at 31 December 2017, the effect from reassessment at reduced income tax rate of deferred tax assets and liabilities at the subsidiaries located in respective countries totaled US$ 7,108 thousand.

During the year ended 31 December 2016, the Group wrote off deferred tax assets of US$ 35,699 thousand as it was no longer probable that future taxable profit will be available against which the Group can utilise such benefits.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 32 Income tax (continued)

At 31 December 2017, the Group had US$ 184,800 thousand (31 December 2016: US$ 151,230 thousand) of unused accumulated tax losses carried forwards in respect of which deferred tax asset of US$ 36,960 thousand (31 December 2016: US$ 30,246 thousand) had not been recognised as it is not probable that future taxable profit will be available against which the Group can utilise such benefits. These tax losses carried forward expire as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Tax losses carry forwards expiring by: | | |
| - 31 December 2021 | 35,490 | 35,490 |
| - 31 December 2022 | 38,720 | 38,720 |
| - 31 December 2025 | 66,050 | 77,020 |
| - 31 December 2026 | 44,540 | - |
| **Tax loss carry forwards** | **184,800** | **151,230** |

The Group did not recognise a deferred tax asset in respect of temporary differences associated with investments in subsidiaries of US$ 273,520 thousand (31 December 2016: US$ 943,358 thousand). The Group controls the timing of the reversal of these temporary differences and does not expect to reverse them in the foreseeable future.

The movement in deferred tax (assets) and liabilities during 2017 and 2016 was as follows:

| | 1 January 2017 | Differences recognition and reversals | Business combina-tions | Disposal of subsidiary | Reassessment of deferred tax assets/ liabilities due to change in the tax rate | Currency transla-tion difference | 31 December 2017 |
|---|---|---|---|---|---|---|---|
| **Tax effects of (deductible)/taxable temporary differences** | | | | | | | |
| Property, plant and equipment and Intangible assets | 298,373 | 60,081 | (16) | (40,019) | (11,973) | 29,498 | 335,944 |
| Accounts receivable | (5,713) | 2,792 | - | 243 | 73 | (610) | (3,215) |
| Accounts payable | 609 | (78) | - | 153 | 50 | (3,084) | (2,350) |
| Inventories | (28,216) | 5,853 | - | (46) | 98 | (1,127) | (23,438) |
| Other | 997 | 8,535 | - | 98 | (3) | 160 | 9,787 |
| Tax losses carried-forward | (203,470) | (21,541) | - | 9,577 | 50,884 | (21,194) | (185,744) |
| Less: Unrecognised deferred tax assets | 30,246 | 6,596 | - | - | - | 118 | 36,960 |
| **Net deferred tax (asset)/liability** | **92,826** | **62,238** | **(16)** | **(29,994)** | **39,129** | **3,761** | **167,944** |
| Recognised deferred tax assets | (121,464) | 24,016 | (16) | - | 41,722 | (7,573) | (63,315) |
| Recognised deferred tax liabilities | 214,290 | 38,222 | - | (29,994) | (2,593) | 11,334 | 231,259 |
| **Net deferred tax (asset)/liability** | **92,826** | **62,238** | **(16)** | **(29,994)** | **39,129** | **3,761** | **167,944** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 32 Income tax (continued)

| | 1 January 2016 | Differences recognition and reversals | Business combina-tions | Write-off of deferred tax assets | Reassesment of deferred tax assets/liabilities due to change in the tax rate | Currency transla-tion difference | 31 December 2016 |
|---|---|---|---|---|---|---|---|
| **Tax effects of (deductible)/taxable temporary differences** | | | | | | | |
| Property, plant and equipment and Intangible assets | 203,483 | 43,446 | 23,148 | - | (1,447) | 29,743 | 298,373 |
| Accounts receivable | 846 | (5,925) | (372) | - | (4) | (258) | (5,713) |
| Accounts payable | (3,482) | 3,830 | 431 | - | 5 | (175) | 609 |
| Inventories | (42,552) | 14,239 | (25) | - | 6 | 116 | (28,216) |
| Other | (22,352) | (4,413) | (15) | 32,220 | 40 | (4,483) | 997 |
| Tax losses carried-forward | (178,715) | (10,728) | (12,504) | 3,479 | 5,124 | (10,126) | (203,470) |
| Less: Unrecognised deferred tax assets | 22,529 | 7,479 | - | - | - | 238 | 30,246 |
| **Net deferred tax (asset)/liability** | **(20,243)** | **47,928** | **10,663** | **35,699** | **3,724** | **15,055** | **92,826** |
| Recognised deferred tax assets | (185,257) | 40,698 | - | 35,699 | 3,693 | (16,297) | (121,464) |
| Recognised deferred tax liabilities | 165,014 | 7,230 | 10,663 | - | 31 | 31,352 | 214,290 |
| **Net deferred tax (asset)/liability** | **(20,243)** | **47,928** | **10,663** | **35,699** | **3,724** | **15,055** | **92,826** |

The total amount of the deferred tax charge for 2017 and 2016 is recognised in profit and loss.

## 33 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. The Company has no dilutive potential ordinary shares and, therefore, the diluted earnings per share equals the basic earnings per share.

| | 2017 | 2016 |
|---|---|---|
| Profit for the period attributable to owners of the parent | 453,466 | 707,496 |
| Weighted average number of ordinary shares outstanding | 1,000 | 1,000 |
| **Earnings per share – basic and diluted** | **453.47** | **707.50** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 34 Balances and transactions with related parties

The Group's related parties are considered to include the ultimate beneficiaries, affiliates and entities under common ownership and control within the Group and/or entities having common principal ultimate beneficiaries. The relationships with those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below:

| Financial statements caption | Nature of relationship | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| **Statement of financial position** | | | |
| **Assets** | | | |
| Non-current originated loans (Note 15) | Associates | 4,024 | |
| Non-current originated loans (Note 15) | Other related parties | 43,501 | 53,178 |
| Other non-current assets including: | | | |
| Interest receivable | Other related parties | 655 | 2,645 |
| Trade receivables | Joint ventures | 1,018 | 6 |
| Prepayments, other receivables and other current assets including: | | | |
| Receivable due to sale of associate (Note 14) | Other related parties | - | 59,760 |
| **Liabilities** | | | |
| Liability from contingent consideration related to business combination (Note 23) | Other related parties | 123,001 | 106,655 |
| Trade payables | Joint ventures | 1,784 | 1,069 |
| Trade payables | Other related parties | 1,277 | 42 |

| Financial statements caption | Nature of relationship | 2017 | 2016 |
|---|---|---|---|
| **Statement of profit or loss and other comprehensive income** | | | |
| Sales | Associates | - | 2,190 |
| Sales | Joint ventures | 3,533 | 171 |
| Sales | Other related parties | 4,593 | 2,751 |
| Cost of sales | Other related parties | (792) | (1,332) |
| Distribution costs | Other related parties | (7,897) | (10,112) |
| Interest income | Parent company | - | 4,481 |
| Interest income | Other related parties | 1,525 | 3,503 |
| Other financial gain | Other related parties | 7,356 | - |
| Gain on sale of associate | Other related parties | - | 23,641 |
| Changes in fair value of foreign exchange non-deliverable forward contracts | Parent company | - | (22,849) |

| Financial statements caption | Nature of relationship | 2017 | 2016 |
|---|---|---|---|
| **Statement of cash flows** | | | |
| Increase in trade receivables | Joint ventures | (1,011) | |
| Increase/(decrease) in trade payables | Other related parties | 1,250 | (237) |
| Capital expenditure on property, plant and equipment and other intangible assets | Associates | - | (1,071) |
| Capital expenditure on property, plant and equipment and other intangible assets | Joint ventures | (10,762) | (3,056) |
| Acquisition of subsidiaries, net of cash | Associates | - | (11,344) |
| Proceeds from sale of interest in associate | Other related parties | 60,749 | 82,852 |
| Originated loans (Note 15) | Parent company | - | (106,350) |
| Originated loans (Note 15) | Associates | (4,024) | - |
| Originated loans (Note 15) | Other related parties | (30,850) | - |
| Repayment of originated loans (Note 15) | Parent company | - | 150,350 |
| Repayment of originated loans (Note 15) | Other related parties | 9,469 | 35,640 |
| Loan repaid (Note 19) | Other related parties | - | (9 000) |
| Interest received | Parent company | - | 4,851 |
| Interest received | Other related parties | 3,455 | 3,849 |
| Interest paid | Other related parties | - | (1,141) |
| Cash payments on derivatives, net | Parent company | - | (22,687) |
| Other investing activities | Other related parties | 9,511 | - |
| Capital contribution (Note 18) | Parent company | - | 250,000 |

## 34 Balances and transactions with related parties (continued)

Other related parties are represented by the companies under common control with the Group and/or by the company ultimately controlled by one of Group's shareholders.

In December 2016, the Group sold its interest in the associate Murmansk Commercial Seaport PJSC to a related party for a total consideration of US$ 142,612 thousand (denominated in RUB), out of which US$ 82,852 thousand were received in 2016, and US$ 60,749 thousand were received in January 2017.

In the second quarter 2017, the Group acquired from the parent company of the Group, AIM Capital S.E., two companies, each owning a bulk carrier sea vessel. The Group treats this transaction as an asset acquisition.

***Management compensation.*** The total key management personnel compensation amounted to US$ 17,933 thousand and US$ 9,977 thousand for the year ended 31 December 2017 and 31 December 2016, respectively. This compensation relates to eight individuals (seven individuals for the periods January 2017, June till October 2017 and the year 2016) who are members of the Management Board, for their services in full time positions. Compensation is made up of an annual fixed remuneration plus a performance bonus accrual.

## 35 Business combinations

***Acquisition of Bulgarian distributor.*** On 28 February 2017, the Group completed the acquisition of 100% interest in Agricola Bulgaria Ead, a Bulgarian fertilizer distribution company, now named EuroChem Agro Bulgaria Ead. The main purpose of this acquisition is to further develop EuroChem's distribution footprint in Bulgaria and the wider region of Eastern Europe.

The total purchase consideration for 100% interest in the company of US$ 320 thousand (denominated in EUR) was paid in cash.

The provisional purchase price allocation for the acquisition was:

| | Attributed fair value, in thousands of BGN* | Attributed fair value, in presentation currency in thousands of US$ |
|---|---|---|
| Cash and cash equivalents | 918 | 496 |
| Accounts receivable and other assets | 5,758 | 3,113 |
| Inventories | 4,796 | 2,593 |
| Property, plant and equipment | 2,445 | 1,322 |
| Trade and other accounts payable | (1,022) | (553) |
| Bank borrowings | (12,130) | (6,559) |
| Other long-term liabilities | (41) | (22) |
| Deferred income tax asset/(liability) – net | 29 | 16 |
| **Fair value of net assets of subsidiary** | **753** | **406** |

* BGN – Bulgarian Lev.

The Group is performing the valuation of the fair value of the identifiable assets and liabilities of the subsidiary and intends to finalise the fair value measurement within 12 months of the acquisition date.

For the period from the date of acquisition to 31 December 2017 EuroChem Agro Bulgaria Ead contributed revenue, EBITDA and profit to the Group of US$ 30,865 thousand, US$ 760 thousand and US$ 572 thousand, respectively.

If the acquisition of the company had occurred on 1 January 2017, the Group's consolidated revenue, EBITDA and profit for the year ended 31 December 2017 would not have changed significantly.

## 35 Contingencies, commitments and operating risks (continued)

***Acquisition of Argentina distributor.*** On 7 July 2017, the Group completed the acquisition of 100% interest in Emerger Fertilizantes S.A. a privately-owned distributor of premium and standard fertilizers in Argentina. The main purpose of this acquisition is to further develop EuroChem's distribution footprint in Latin America.

The total consideration of US$ 6,732 thousand comprised US$ 3,366 thousand paid in cash and a deferred consideration of US$ 3,366 thousand payable in cash in 12 months from the date of acquisition.

The provisional purchase price allocation for the acquisition was:

| | Attributed fair value, in thousands of ARS* | Attributed fair value, in presentation currency in thousands of US$ |
|---|---|---|
| Cash and cash equivalents | 8,070 | 486 |
| Accounts receivable and other assets | 27,194 | 1,638 |
| Inventories | 28,547 | 1,720 |
| Property, plant and equipment | 9,382 | 565 |
| Trade and other accounts payable | (59,031) | (3,556) |
| Advances from Customers | (1,200) | (72) |
| Bank borrowings | (750) | (45) |
| **Fair value of net assets of subsidiary** | **12,212** | **736** |

* ARS – Argentina Peso.

The Group recognised goodwill of US$ 5,996 thousand which is primarily attributable to the market expertise, effectiveness of operating process, an experienced workforce and other factors which are expected to result in higher profitability of the acquired assets.

The Group is performing the valuation of the fair value of the identifiable assets and liabilities of the subsidiary and intends to finalise the fair value measurement within 12 months of the acquisition date.

For the period from the date of acquisition to 31 December 2017 Emerger Fertilizantes S.A. contributed revenue, EBITDA and profit to the Group of US$ 7,300 thousand, US$ 301 thousand and US$ 130 thousand, respectively.

If the acquisition of the company had occurred on 1 January 2017, the Group's consolidated revenue, EBITDA and profit for the year ended 31 December 2017 would not have changed significantly.

## 36 Contingencies, commitments and operating risks

### *i Capital expenditure commitments*

As at 31 December 2017, the Group had contractual commitments for capital expenditures of US$ 846,280 thousand (31 December 2016: US$ 1,043,626 thousand), including amounts denominated in RUB of US$ 364,524 thousand and in EUR of US$ 333,376 thousand, which will represent cash outflows in the next 6 years according to the contractual terms.

US$ 184,809 thousand and US$ 253,578 thousand of the total amount relate to the development of potassium salt deposits and the construction of mining facilities at the Gremyachinskoe and Verkhnekamskoe potash licence areas, respectively (31 December 2016: US$ 175,387 thousand and US$ 330,272 thousand, respectively).

US$ 212,928 thousand of the total amount relates to the construction of the Ammonia Plant at Kingisepp, Russia (31 December 2016: US$ 361,108 thousand).

## 36 Contingencies, commitments and operating risks (continued)

### *ii Tax legislation*

Management of the Group believes that its interpretation of the tax legislation is appropriate and the Group's tax position will be sustained.

Given the scale and international nature of the Group's business, intra-group transfer pricing and issues such as controlled foreign corporations' legislation, beneficial ownership, permanent establishment and tax residence issues, are inherent tax risks just as they are for other international businesses. Changes in tax laws or their application with respect to tax matters in the countries where the Group has subsidiaries could increase the Group's effective tax rate.

The majority of the Group's production subsidiaries are located in Russia and are required to comply with Russian tax, currency and customs legislation. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments than the Management of the Group, and it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review with possible extension of this period under certain circumstances.

Where management believes that it is probable that certain tax positions taken by the Group may not be sustained if challenged by the tax authorities, the Group recognizes provisions for related taxes, interest and penalties. There were no such provisions recorded by the Group at 31 December 2017 and 31 December 2016.

### *iii Insurance policies*

The Group obtains risk insurance cover as mandated by statutory requirements. The Group also holds voluntary insurance policies covering directors' and officers' liability (D&O insurance), general third party and product liability, physical property damage and business interruption insurance at major production plants, as well as insurance policies related to trade operations, including export shipments, and credit insurance of certain trade debtors.

The Group also carries voluntary life and accident insurance for employees.

As part of the Verkhnekamskoe potash project the Group has insured construction risks of all mining and surface facilities related to this project including third party liability during construction works. The insurance covers the risks of destruction and damage related to all facilities including those previously constructed starting from November 2014 to July 2020, including two year guarantee period. As a part of the Ammonia project at Kingisepp, the Group has insured construction risks of all facilities related to this project.

### *iv Environmental matters*

The Group's plants and operations are subject to numerous national, state and local environmental laws and regulations. The Group's management regularly evaluates its obligations under these laws and regulations and believes that the Group's plants and operations are in compliance with environmental laws and regulations. The estimated cost of known environmental obligations has been provided for in these consolidated financial statements in accordance with the Group's accounting policies.

The environmental laws and regulations are essentially complex and tend to change over time. The scope, extent and speed of this change may vary substantially in different jurisdictions. Accordingly, the Group's management system provides for ongoing monitoring of the key trends in applicable environmental laws and regulations. Though it is inherently difficult to estimate precisely all costs associated with current and newly proposed environmental requirements, the Group's management does not expect these costs to have a material effect on the Group's financial position or liquidity.

### *v Legal proceedings*

During the reporting period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the results of operations or the financial position of the Group.

## 36 Contingencies, commitments and operating risks (continued)

### *vi Operating environment of the Group*

The Group operates in the fertilizer industry with production assets in Russia, Lithuania, Belgium, Kazakhstan, China and sales networks in Europe, Russia, the CIS, North and Latin America, Central and South East Asia. The highly competitive nature of the market makes prices of the Group's key products relatively volatile.

Possible deteriorating economic conditions may have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. Debtors of the Group may also become adversely affected by the financial and economic environment, which could in turn impact their ability to repay amounts owed or fulfil obligations undertaken.

Management is unable to predict all developments which could have an impact on the industry and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes all necessary measures are being taken to support the sustainability and growth of the Group's business in the current circumstances.

Effective October 2017, certain companies of the Group in Russia and Ukraine are subject to temporary suspension of foreign economic activities in Ukraine. The Group is taking measures to both cancel the sanctions and implementing compliance controls to best international practices.

## 37 Financial and capital risk management

### 37.1 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group.

### *(a) Market risk*

### *(i) Foreign currency risk*

The Group is exposed to foreign exchange risk to the extent that its future cash inflows and outflows over a certain period of time are denominated in different currencies.

The objective of the Group's foreign exchange risk management is to minimise the volatility of the Group's cash flows arising from fluctuations in exchange rates versus the US$ (which is viewed by the Group as its base currency), while simultaneously achieving at least average annual market exchange rates for the Group's non-US$ purchases. Management focuses on assessing the Group's future cash flows in currencies other than US$ and managing the gaps arising between inflows and outflows.

Foreign exchange differences arising from the revaluation of its monetary assets and liabilities are therefore not viewed as an indicator of the total impact of foreign exchange fluctuations on its future cash flows since such gains or losses do not capture the impact on cash flows of foreign exchange-denominated revenues, costs, future capital expenditure, investment and financing activities.

The Group includes a number of subsidiaries with Russian rouble functional currency which have a significant volume of US$-denominated transactions as well as several subsidiaries with US$ functional currency having RUB-denominated transactions. At 31 December 2017, if the RUB had been down/up against the US$ by 10%, all other things being equal, after tax result for the year and equity would have been US$ 60,086 thousand lower/higher (2016: US$ 38,288 thousand lower/higher), purely as a result of foreign exchange gains/losses on translation of US$-denominated assets and liabilities at subsidiaries with RUB as a functional currency and RUB-denominated assets and liabilities at subsidiaries with US$ as a functional currency and with no regard to the impact of this appreciation/depreciation on sales.

The Group is disclosing the impact of such a 10% shift in the manner set out above to ease the calculation for the users of these consolidated financial statements of the impact on the after tax profit and equity resulting from subsequent future exchange rate changes; this information is not used by the management for foreign currency risk management purposes.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 37 Financial and capital risk management (continued)

### 37.1 Financial risk management (continued)

The Group believes that it benefits from the strengthening of US$ exchange rate versus the RUB and the EUR, and the other way around. This is mainly due to the fact that in terms of economic substance, as opposed to purely settlement perspective, the Group's revenues are directly or indirectly US$-denominated, whereas a significant portion of its operating and/or capital costs is denominated in RUB and EUR.

During 2017 and 2016, the Group entered into foreign exchange non-deliverable and deliverable forward contracts in order to achieve lower RUB and EUR exchange rates for its RUB and EUR purchases than the average annual exchange rates. The Group also routinely enters into forward and swap agreements aimed at lowering the cost of its debt portfolio in US$ terms.

The table below summarises the Group's financial assets and liabilities which are subject to foreign currency risk as at 31 December 2017:

| Functional currency | RUB | US$ | Other foreign currencies |
|---|---|---|---|
| **Foreign currency** | **US$** | **RUB** | **Other foreign currencies** |
| **ASSETS** | | | |
| **Non-current financial assets:** | | | |
| Restricted cash | 19,733 | - | 1,024 |
| Originated loans | 43,501 | - | - |
| US$/RUB cross currency swap (gross amount) | - | 294,564 | - |
| EUR/US$ non-deliverable forward contracts | - | - | 645 |
| **Total non-current financial assets** | **63,234** | **294,564** | **1,669** |
| **Current financial assets:** | | | |
| Trade receivables | 757 | - | 49,223 |
| Interest receivable | 655 | - | - |
| US$/RUB cross currency swap (gross amount) | - | 840,232 | - |
| RUB/US$ non-deliverable forward contracts | - | 2,530 | - |
| Cash and cash equivalents | 25,028 | 274 | 55,066 |
| **Total current financial assets** | **26,440** | **843,036** | **104,289** |
| **Total financial assets** | **89,674** | **1,137,600** | **105,958** |
| **LIABILITIES** | | | |
| **Non-current financial liabilities:** | | | |
| Bonds issued | 500,000 | - | - |
| Project finance | 750,000 | - | 342,350 |
| Contingent liability related to business combination | - | - | 123,001 |
| Deferred payable related to acquisition of additional interest in subsidiary | 3,000 | - | - |
| Deferred payable related to mineral rights acquisition | - | - | 10,656 |
| **Total non-current financial liabilities** | **1,253,000** | **-** | **476,007** |
| **Current liabilities:** | | | |
| Bank borrowings and loans received | - | 594,616 | 24,559 |
| Trade payables | 8,011 | - | 204,970 |
| Interest payable | 8,269 | 2,091 | 1,696 |
| Deferred payable related to acquisition of additional interest in subsidiary | 1,500 | - | - |
| Deferred payable related to acquisition of associate | - | - | 3,229 |
| Deferred payable related to mineral rights acquisition | - | - | 1,600 |
| **Total current financial liabilities** | **17,780** | **596,707** | **236,054** |
| **Total financial liabilities** | **1,270,780** | **596,707** | **712,061** |

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 37 Financial and capital risk management (continued)

### 37.1 Financial risk management (continued)

The Group's financial assets and liabilities subject to foreign currency risk as at 31 December 2016 are presented below:

| Functional currency | RUB | US$ | Other foreign currencies |
|---|---|---|---|
| **Foreign currency** | **US$** | **RUB** | **Other foreign currencies** |
| **ASSETS** | | | |
| **Non-current financial assets:** | | | |
| Restricted cash | 15,802 | - | 910 |
| Originated loans | 53,178 | - | - |
| US$/RUB cross currency swap (gross amount) | - | 179,682 | - |
| **Total non-current financial assets** | **68,980** | **179,682** | **910** |
| **Current financial assets:** | | | |
| Trade receivables | 377 | - | 54,778 |
| Interest receivable | 2,645 | - | - |
| US$/RUB cross currency swap (gross amount) | - | 18,990 | - |
| RUB/US$ non-deliverable forward contracts | - | 12,457 | - |
| UAH/US$ deliverable forward contracts | - | - | 5,900 |
| Restricted cash | - | - | 15,636 |
| Cash and cash equivalents | 30,186 | 56 | 64,436 |
| **Total current financial assets** | **33,208** | **31,503** | **140,750** |
| **Total financial assets** | **102,188** | **211,185** | **141,660** |
| **LIABILITIES** | | | |
| **Non-current financial liabilities:** | | | |
| Bonds issued | 500,000 | - | - |
| Project finance | 590,445 | - | 69,172 |
| Contingent liability related to acquisition of Fertilizantes Tocantins Ltda | - | - | 106,655 |
| Deferred payable related to mineral rights acquisition | - | - | 12,092 |
| **Total non-current financial liabilities** | **1,090,445** | **-** | **187,919** |
| **Current liabilities:** | | | |
| Bank borrowings and loans received | - | - | 18,155 |
| Bonds issued | 324,033 | - | - |
| Trade payables | 2,873 | - | 82,406 |
| Interest payable | 5,691 | 5,046 | 648 |
| Deferred payable related to mineral rights acquisition | - | - | 996 |
| **Total current financial liabilities** | **332,597** | **5,046** | **102,205** |
| **Total financial liabilities** | **1,423,042** | **5,046** | **290,124** |

The Group's sales for the years ended 31 December 2017 and 31 December 2016 are presented in the table below:

| | US$ | EUR | RUB | Other currencies | Total |
|---|---|---|---|---|---|
| 2017 | 2,370,967<br>49% | 974,492<br>20% | 985,285<br>20% | 534,920<br>11% | 4,865,664<br>100% |
| 2016 | 2,139,044<br>49% | 1,021,484<br>23% | 806,321<br>18% | 408,241<br>10% | 4,375,090<br>100% |

In practice, as noted above, while assessing and managing its exposure to foreign currency risk, the Group's Treasury views most of the Group's sales as predominantly US$-denominated, regardless of the settlement currency. The Group's Treasury views all currencies other than the US$ as foreign currency risk exposures of the Group, while the US$ is viewed as the Group's base economic currency against which all exposures are measured.

## 37 Financial and capital risk management (continued)

### 37.1 Financial risk management (continued)

#### *(ii) Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's principal interest rate risk arises from long-term and short-term borrowings.

The Group is exposed to the risk from floating interest rates primary from borrowings and loans denominated in foreign currencies.

The Group had US$ 1,944,559 thousand of US$ denominated loans outstanding at 31 December 2017 (31 December 2016: US$ 2,895,445 thousand) bearing floating interest rates varying from 1-month Libor +1.65% to 1-month Libor +2,32%, from 3-month Libor +1.7% to 3-month Libor +4.78%, from 12-month Libor +2.95% to 12-month Libor +3.4% (2016: from 1-month Libor +1.5% to 1-month Libor +2.8%, from 3-month Libor +1.8% to 3-month Libor +3.5%, 6-month Libor +2%, 12-month Libor +2%).

The Group's profit after tax for the year ended 31 December 2017 and equity would have been US$ 2,115 thousand, or 0,5 % lower/higher (2016: US$ 2,348 thousand, or 0.3% lower/higher) if the US$ Libor interest rate was 10 bps higher/lower than its actual level during the year.

During 2017 and 2016, the Group did not hedge this exposure using financial instruments.

The Group has a formal policy of determining how much maximum unhedged exposure it should have to interest rate risk on the basis of the assessment of the likely interest rate changes on the Group's cash flows. The Group performs periodic analysis of the current interest rate environment on the basis of which management makes decisions on the appropriate mix of fixed-rate and variable-rate debt for both existing and planned new borrowings.

#### *(iii) Financial investments risk*

The Group can be exposed to equity securities price risk because of investments that can be held by the Group. As at 31 December 2017 and 31 December 2016, the Group was not exposed to equity securities price risk.

The Group does not enter into any transactions with financial instruments whose value is exposed to the value of any commodities traded on a public market.

#### *(b) Credit risk*

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Financial assets, which potentially subject Group entities to credit risk, consist principally of originated loans, trade receivables, advances to suppliers and contractors, as well as cash and bank deposits. The objective of managing credit risk is to prevent losses of liquid funds deposited with or invested in financial institutions or the loss in value of receivables.

The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets, which at 31 December 2017 amounted to US$ 565,181 thousand (31 December 2016: US$ 693,827 thousand). The Group has no significant concentrations of credit risk.

***Cash and cash equivalents, restricted cash and fixed-term deposits.*** Cash and term deposits are mainly placed in major multinational banks and banks with independent credit ratings. No bank balances and term deposits are past due or impaired. See the analysis by credit quality of bank balances, term and fixed-term deposits in Note 16.

***Originated loans.*** Originated loans are issued to companies which are under common control with the Group and to associated company or joint venture of the Group.

***Trade receivables.*** Trade receivables are subject to a policy of active credit risk management which focuses on an assessment of ongoing credit evaluation and account monitoring procedures. The objective of the management of trade receivables is to sustain the growth and profitability of the Group by optimising asset utilisation whilst maintaining risk at an acceptable level.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 37 Financial and capital risk management (continued)

### 37.1 Financial risk management (continued)

Receivables management is geared towards collecting all outstanding accounts punctually and in full to avoid the loss of receivables. Additionally, the Group sells certain trade receivables to a factor on a non-recourse basis.

***Advances to Suppliers and Contractors.*** Advances given to suppliers and contractors are subject to a policy of the supplier credit risk management which focuses on ongoing credit limit evaluation and monitoring goods/services supply contract performance.

The monitoring and controlling of credit risk is performed by the corporate treasury function of the Group. The credit policy requires the performance of credit evaluations and ratings of all counterparties, including customers, suppliers and contractors. The credit quality of each new customer, supplier or contractor is analysed using internal credit rating before the Group provides it with the terms of delivery and payment, or terms of advance payments in the case of suppliers and contractors. The Group gives preference to counterparties with an independent credit rating. New counterparties without an independent credit rating are evaluated with reference to Group's credit policy which is based on minimum of two ratings: internal creditworthiness rating and internal payment discipline rating. The credit quality of other counterparties is assessed taking into account their financial position, past experience and other factors.

Customers, suppliers and contractors that do not meet the credit quality requirements are supplied on a prepayment basis only and receive no advance payments, respectively.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 14).

The major part of trade receivables that is not impaired relates to wholesale distributors and steel producers for which the credit exposures and related ratings are presented below:

| Group of customers | Rating agency | Credit rating/Other | 31 December 2017 | 31 December 2016 |
|---|---|---|---|---|
| Wholesale customers | - | Credit Insurance | 2,829 | 9,533 |
| Wholesale customers | - | Letter of credit | 19,337 | 13,434 |
| Wholesale customers | - | Bank guarantee | 2,362 | 6,078 |
| Wholesale customers and steel producers | Fitch | A+ to BBB- | 18,594 | 13,070 |
| Wholesale customers | Dun & Bradstreet Credibility Corp.* | Minimum risk of failure | 18,425 | 24,831 |
| Wholesale customers | Dun & Bradstreet Credibility Corp.* | Lower than average risk | 6,482 | 34,921 |
| Wholesale customers | Dun & Bradstreet Credibility Corp.* | Average risk of failure | 50,462 | 14,070 |
| Wholesale customers | Cerved | 2017: A 3.1.- B 2.1<br>2016: A 3.1.- B 2.1 | - | 4,724 |
| Wholesale customers | CreditInfo | A-very good | 1,627 | - |
| Wholesale customers | CreditInfo | Lower than average risk | 5,460 | 8,479 |
| Wholesale customers | CreditInfo | Average risk of failure | 1,212 | 2,883 |
| Wholesale customers | Other local credit agencies | - | - | 13,097 |
| Wholesale customers | Counterparties with internal credit rating | Minimum risk of failure | 10,868 | 1,345 |
| Wholesale customers | Counterparties with internal credit rating | Lower than average risk | 43,773 | 16,981 |
| Wholesale customers | Counterparties with internal credit rating | Average risk of failure | 13,733 | 5,533 |
| **Total** | | | **195,164** | **168,979** |

* Independent credit agencies used by the Group for evaluation of customers' credit quality.

The rest of trade receivables is analysed by management who believes that the balance of the receivables is of good quality due to strong business relationships with these customers. The credit risk of every individual customer is monitored.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 37 Financial and capital risk management (continued)

### 37.1 Financial risk management (continued)

### *(c) Liquidity risk*

Liquidity risk results from the Group's potential inability to meet its financial liabilities, such as settlements of financial debt and payments to suppliers. The Group's approach to liquidity risk management is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

While managing its liquidity, the Group aims to ensure that it is sufficient to meet its short-term existing and potential obligations. At the same time, the Group strives to minimize its idle cash balances. These goals are achieved by ensuring, among other things, that there is a sufficient amount of undrawn committed bank facilities at the Group's disposal at all times. This may result, from time to time, in the Group's current liabilities exceeding its current assets.

In order to take advantage of financing opportunities in the international capital markets, the Group maintains credit ratings from Standard & Poor's and Fitch. As at 31 December 2017, Standard & Poor's affirmed the Group's rating at BB – with stable outlook (31 December 2016: BB – with stable outlook) and Fitch affirmed at BB with negative outlook (31 December 2016: BB with negative outlook).

Cash flow forecasting is performed throughout the Group. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 19) at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the time remaining from the reporting date to the contractual maturity date.

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| **As at 31 December 2017** | | | | | |
| Trade payables | 513,004 | - | - | - | **513,004** |
| *Gross-settled swaps:*** | | | | | |
| - inflows | (840,232) | (22,785) | (271,779) | - | **(1,134,796)** |
| - outflows | 849,615 | 9,218 | 264,382 | - | **1,123,215** |
| Commodity swaps | 30 | - | - | - | **30** |
| *Deliverable forward contracts* | | | | | |
| - inflows | (42,882) | - | - | - | **(42,882)** |
| - outflows | 41,176 | - | - | - | **41,176** |
| Bank borrowings* | 855,982 | 130,507 | 1,072,831 | 7,510 | **2,066,830** |
| Project finance* | 51,475 | 216,974 | 778,532 | 228,825 | **1,275,806** |
| Bonds issued* | 184,381 | 336,235 | 1,318,858 | - | **1,839,474** |
| Other current and non-current liabilities | 9,799 | 2,773 | 254,685 | 14,271 | **281,528** |
| **Total** | **1,622,348** | **672,922** | **3,417,509** | **250,606** | **5,963,385** |
| **As at 31 December 2016** | | | | | |
| Trade payables | 284,549 | - | - | - | **284,549** |
| *Gross-settled swap:*** | | | | | |
| - inflows | (18,989) | (179,681) | - | - | **(198,670)** |
| - outflows | 11,860 | 243,903 | - | - | **255,763** |
| Commodity swaps | 703 | - | - | - | **703** |
| Bank borrowings* | 1,155,160 | 418,053 | 1,017,951 | 10,274 | **2,601,438** |
| Project finance* | 36,795 | 33,756 | 521,840 | 216,374 | **808,765** |
| Bonds issued* | 399,205 | 133,173 | 787,418 | - | **1,319,796** |
| Other current and non-current liabilities | 10,047 | 1,272 | 3,816 | 269,269 | **284,404** |
| **Total** | **1,879,330** | **650,476** | **2,331,025** | **495,917** | **5,356,748** |

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as at 31 December 2017 and 31 December 2016, respectively.

** Payments in respect of the gross settled swap will be accompanied by related cash inflows.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 37 Financial and capital risk management (continued)

### 37.1 Financial risk management (continued)

The Group controls the minimum required level of liquidity, consisting of cash balances, as well as committed undrawn bank facilities available for short-term payments in accordance with the financial policy of the Group. Such liquidity are represented by current cash balances on bank accounts, bank deposits, short-term investments, cash and other financial instruments, which may be classified as cash equivalents in accordance with IFRS, as well as undrawn committed bank facilities.

As at 31 December 2017, the Group had US$ 299 million in committed undrawn facilities with major international banks (31 December 2016: US$ 751 million).

The Group assesses liquidity on a weekly basis using a twelve-month rolling cash flow forecast.

### 37.2 Capital risk management

The Group's objective when managing capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, to have available the necessary financial resources for investing activities and to maintain an optimal capital structure in order to reduce the cost of capital. The Group considers total capital under management to be equity excluding cumulative currency translation differences as shown in the IFRS consolidated statement of financial position. This is considered more appropriate than alternatives, such as the value of equity shown in the Company's statutory financial (accounting) reports.

The Group monitors capital on the basis of the gearing ratio. Additionally, the Group monitors the adequacy of its debt levels using the net debt to EBITDA ratio.

***Gearing ratio***

The gearing ratio is determined as net debt to net worth. The net worth is calculated as shareholder's equity excluding the cumulative currency translation differences as this component of equity has no economic or cash flow significance. For the purposes of the Group's covenants in its external borrowing agreements, where appropriate, net debt consists of the sum of short-term borrowings, long-term borrowings and bonds balance outstanding, less cash and cash equivalents, fixed-term deposits and current restricted cash.

The gearing ratio as at 31 December 2017 and 31 December 2016 is shown in the table below:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Total debt | 3,480,114 | 3,529,793 |
| Less: cash and cash equivalents and fixed-terms deposits and current restricted cash | 248,865 | 331,893 |
| **Net debt** | **3,231,249** | **3,197,900** |
| Share capital | 111 | 111 |
| Retained earnings and other reserves | 5,419,931 | 4,966,855 |
| **Net worth** | **5,420,042** | **4,966,966** |
| **Gearing ratio** | **0.60** | **0.64** |

***Net Debt/EBITDA***

The Group's covenant under the terms of loan agreements and issued Eurobonds stipulates that Net Debt / EBITDA should not exceed the level of three and a half times (3.5x). For the purpose of the ratio calculation, net debt is determined in the same way as described in the Gearing ratio section.

*(all amounts are presented in thousands of US dollars, unless otherwise stated)*

## 37 Financial and capital risk management (continued)

### 37.2 Capital risk management (continued)

The ratio of net debt to EBITDA as at 31 December 2017 and 31 December 2016 is shown in the table below:

| | Note | 2017 | 2016 |
|---|---|---|---|
| **EBITDA** | 7 | **1,130,438** | **1,132,915** |
| Elimination of EBITDA of PJSC “Murmansk Commercial Seaport” from 1 January 2016 to the date of sale | | - | (22,735) |
| Elimination of EBITDA of subsidiaries under the Project Finance | 20 | 5,015 | (1,029) |
| Elimination of EBITDA of LLC Severneft-Urengoy from 1 January 2017 to the date of sale | | (15,580) | - |
| EBITDA of Fertilizantes Tocantins Ltda from 1 January 2016 to the date of acquisition | | - | 13,030 |
| EBITDA of acquired assets from 1 January 2017 to the date of acquisition | | 1,734 | - |
| EBITDA of Hispalense de Liquidos SL from 1 January 2017 to the date of acquisition | | 481 | - |
| **Covenant EBITDA** | | **1,122,088** | **1,122,181** |
| Net debt | | **3,231,249** | **3,197,900** |
| **Net debt/Covenant EBITDA** | | **2.88** | **2.85** |

For the purpose of this calculation covenant EBITDA includes EBITDA of acquired subsidiaries for the period from 1 January to the date of acquisition, excluding EBITDA of subsidiaries under the Project Finance for the year and EBITDA of the associate from 1 January to the date of sale.

**EUROCHEM**
**Mineral and Chemical Company EuroChem**
**Joint Stock Company**
53 Dubininskaya Street bldg. 6
Moscow, 115054
Russian Federation

**THE ISSUER**
**EuroChem Finance**
**Designated Activity Company**
2nd Floor, Palmerston House, Fenian Street
Dublin 2
Ireland

**THE PARENT**
**EuroChem Group AG**
37 Baarerstrasse
Zug 6300
Switzerland

**GLOBAL COORDINATORS AND BOOKRUNNERS**

**Citigroup Global Markets Limited**
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

**J.P. Morgan Securities plc**
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

**JOINT BOOKRUNNERS**

**Sberbank CIB (UK) Limited**
65 Fleet Street
London EC4Y 1AE
United Kingdom

**Société Générale**
29, boulevard Haussmann
75009 Paris
France

**UniCredit Bank AG**
Arabellastrasse 12
D-81925, Munich
Germany

**VTB Capital plc**
14 Cornhill
London EC3V 3ND
United Kingdom

**SENIOR CO-MANAGER**
**PJSC Sovcombank**
Tekstilshchikov prospect 46
Kostroma, 156000
Russian Federation

**CO-MANAGER**
**Sova Capital Limited**
88 Wood Street,
London EC2V 7RS, 12th floor
United Kingdom

**TRUSTEE**
**Citibank, N.A., London Branch**
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

**PRINCIPAL PAYING AGENT AND TRANSFER AGENT**
**Citibank, N.A., London Branch**
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

**REGISTRAR**
**Citigroup Global Markets Europe AG**
Reuterweg 16
60323, Frankfurt
Germany

**LEGAL ADVISORS TO THE GLOBAL COORDINATORS AND JOINT BOOKRUNNERS**

*As to English law and U.S. law*
**Linklaters LLP**
One Silk Street
London EC2Y 8HQ
United Kingdom

*As to Russian law*
**Linklaters CIS**
Paveletskaya Square 2, Bld. 2
Moscow, 115054
Russian Federation

**LEGAL ADVISORS TO EUROCHEM**

*As to English law and U.S. law*
**Freshfields Bruckhaus Deringer LLP**
65 Fleet Street
London EC4Y 1HS
United Kingdom

*As to Russian tax law*
**KPMG Limited**
10 Presnenskaya Nab
Moscow, 123317
Russian Federation

*As to Russian law*
**Freshfields Bruckhaus Deringer LLP**
Kadashevskaya nab 14/2
Moscow, 119017
Russian Federation

**LEGAL ADVISOR TO THE TRUSTEE**
*As to English law*
**Linklaters LLP**
One Silk Street
London EC2Y 8HQ
United Kingdom

**LEGAL ADVISOR TO THE ISSUER**
*As to Irish law*
**Arthur Cox**
Ten Earlsfort Terrace
Dublin 2
Ireland

**INDEPENDENT AUDITORS TO THE PARENT**
**PricewaterhouseCoopers AG**
Gotthardstrasse 2, Postfach
Zug CH-6302
Switzerland

**AUDITORS TO THE ISSUER**
**PricewaterhouseCoopers**
One Spencer Dock
North Wall Quay
Dublin 1
Ireland

**LISTING AGENT**
**Arthur Cox Listing Services Limited**
Ten Earlsfort Terrace
Dublin 2
Ireland