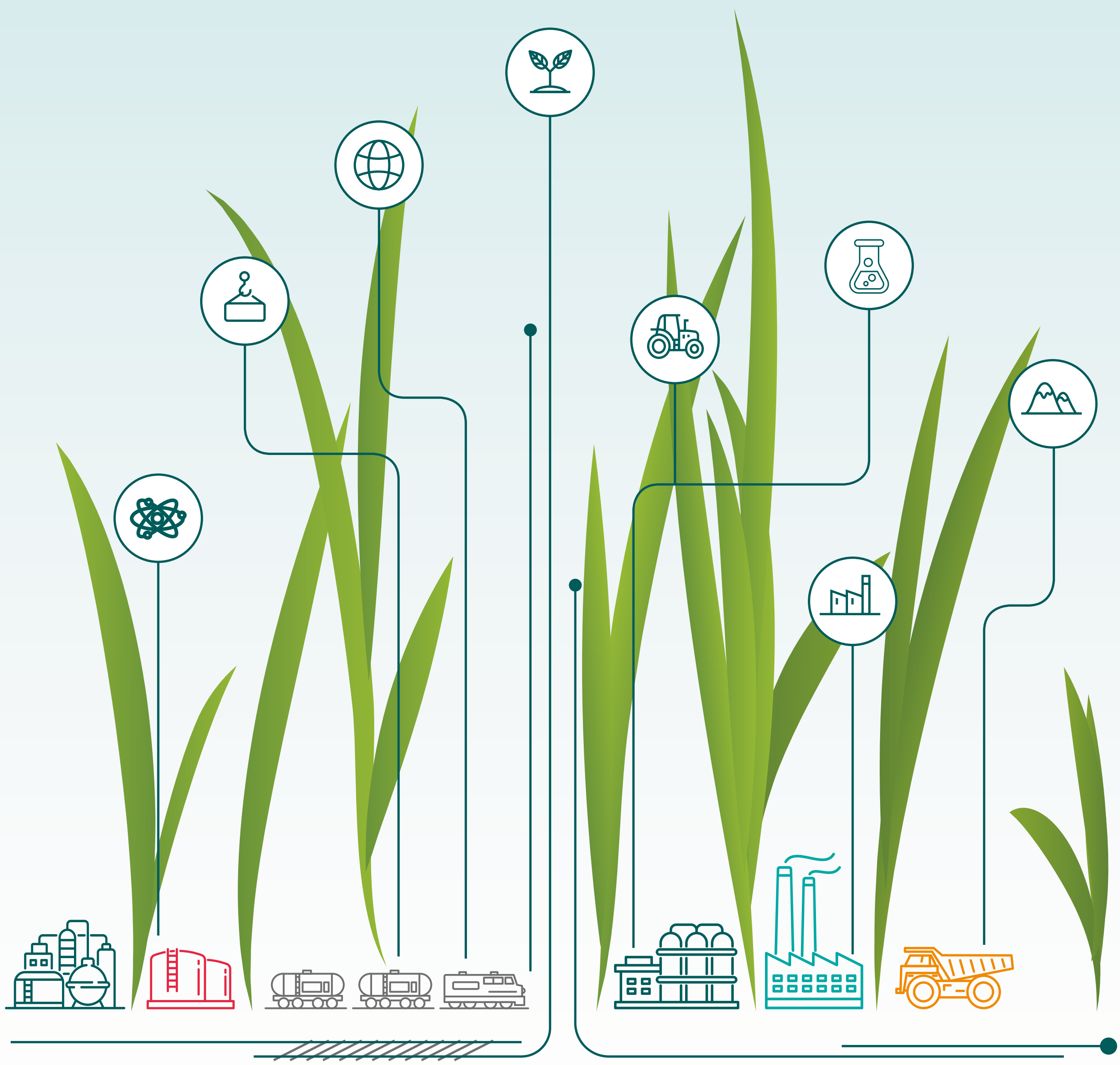
2019 Annual Report

Acron Group

SPRING IS ALWAYS AROUND THE CORNER



About the Report

Acron Group is a leading vertically integrated mineral fertiliser producer in Russia and globally. Its wide range of products includes complex and nitrogen fertilisers and industrial products. In 2019, the Group sold 7.6 million tonnes of its key products.

"I would like to thank the entire 11,000-strong team at Acron Group. Their professionalism and commitment help us meet challenges and achieve success. In turn, the Group allocated RUB 1.6 billion to environmental, industrial, and labour safety, support for footprint regions, and social efforts in 2019".

Vladimir Kunitsky

Chief Executive Officer

Information on approval of the Annual Report:
Preliminarily approved by PJSC Acron Board of Directors on 24 April 2020
Approved by Acron General Meeting on 29 May 2020

Chief Executive Officer Vladimir Kunitsky

To read more about Acron Group please visit

www.acron.ru/en/

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Crop Nutrition System

The main purpose of fertiliser application

is to provide the plant with optimal nutrition while it is growing and developing. Only the correct and balanced use of fertilisers can ensure stable, high-quality yields in an environmentally friendly manner. That is the goal of crop nutrition systems.

A crop nutrition system includes optimally selected brands, dosages, ratios and methods for mineral fertiliser application based on the crop's nutrient requirements and the soil's agrochemical parameters.

The correct crop nutrition system

means that fertilisers are used efficiently to improve soil fertility, crop yield, and product quality in an environmentally friendly manner.

Acron developed its crop nutrition system to pursue the following goals:

To improve soil fertility, crop yields, and product quality

To systemise scientific information on crop nutrition management and train growers in the best practices of fertiliser application

To reduce losses and adverse environmental impact through more informed use of fertilisers

To implement the 4R rules developed by the International Plant Nutrition Institute, which state that the plant shall receive the nutrients:

- From the right source
- At the right rate
- At the right time
- In the right place

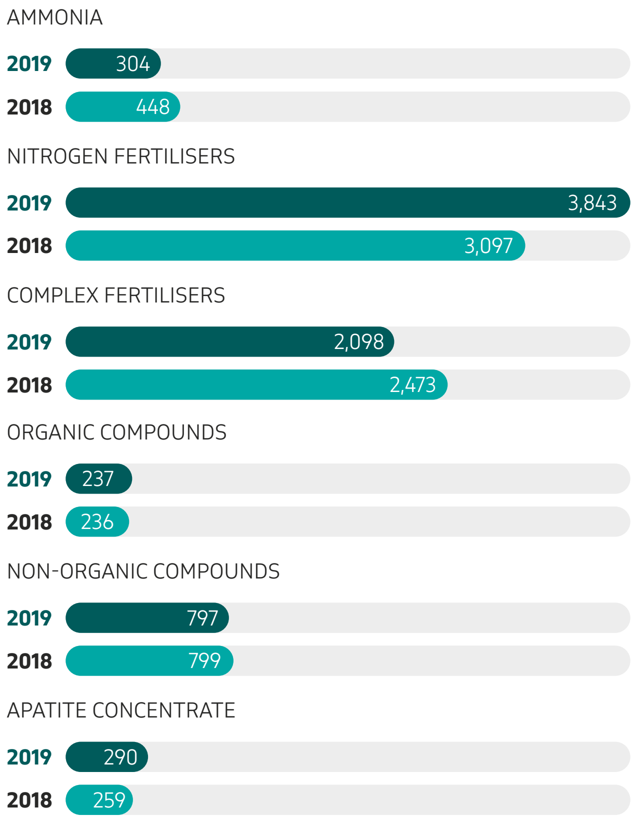
Crop nutrition systems are advisory and must be evaluated and calculated in each case based on local conditions. Nutrition systems must be adjusted to the grower's purposes, available resources, crop rotation, soil and climate conditions, and other factors.

Company Overview

Acron Group is a leading vertically integrated mineral fertiliser producer in Russia and globally. Its wide range of products includes complex and nitrogen fertilisers and industrial products. In 2019, it sold 7.6 million tonnes of its key products.

The Group continues to expand its production capacity, developing distribution opportunities and diversifying its product portfolio.

Sales of Key Products, '000 t



Acron Group Highlights

- Leading producer of complex and nitrogen fertilisers
- Vertical integration in nitrogen and phosphate; implementation of potash project underway
- Extensive logistics and distribution network with sales in 78 countries
- Listed on Moscow Exchange and London Stock Exchange

114.8 RUB bn
Revenue

7.6 mn t
Sales Volume

11,205
employees

ACRON GROUP'S FINANCIAL HIGHLIGHTS

Financial Performance (IFRS)	2019	2018
Revenue, RUB mn	**114,835**	108,062
Operating profit, RUB mn	**23,401**	27,439
Net profit, RUB mn	**24,786**	13,318
Earnings per share, RUB	**619.83**	324.63
EBITDA, RUB mn	**35,749**	37,053
EBITDA margin, %	**31**	34
Assets, RUB mn	**200,355**	186,784
Investments available for sale, RUB mn	**9,784**	11,670
Short-term borrowings, RUB mn	**13,288**	17,539
Long-term borrowings, RUB mn	**73,253**	66,946
Net debt, RUB mn	**75,185**	74,025
Cash flow from operating activities, RUB mn	**28,278**	28,406
Capital expenditures, RUB mn	**19,030**	14,542

2019 Highlights

JANUARY

Veliky Novgorod-based Acron put on stream a **600,000-TPA** blended fertiliser unit.

MARCH

Acron launched a new **135,000-TPA** nitric acid unit in Veliky Novgorod.

MAY

Acron Group started direct fertiliser sales in Argentina via its subsidiary, Acron Argentina S.R.L., which was established in 2018.

JUNE

Acron launched another 135,000-tpa nitric acid unit in Veliky Novgorod, bringing its total nitric acid capacity up to **1.8 MTPA**.

During the St. Petersburg International Economic Forum, a special investment contract was signed between the Ministry of Industry and Trade of the Russian Federation, the Government of Perm Krai, and Verkhnekamsk Potash Company (a member of Acron Group) to establish an industrial-scale production facility at the Talitsky area of the Verkhnekamsk potassium-magnesium salt deposit with an annual capacity of **2 MN T OF KCL**.

OCTOBER

Acron Group shipped its first batch of mineral fertilisers to China through the Northeast Passage. The Group is the first company in the world to deliver fertilisers through the Passage.

DECEMBER

Acron Group finalised upgrades to the ammonia unit at Dorogobuzh, increasing its design capacity by 130,000 t to **730,000 TPA**.

Key Awards and Ratings

In the reporting year, Acron Group earned several prestigious awards.

High-profile environmental award

Acron won the award for Ecology and Environmental Management as part of a contest called Russia's Top 100 Organisations.

Acron was awarded a medal and a diploma for Achievements in Waste Management as part of the XIV All-Russian Conference on Ecology and Production.

This annual event is held by the Russian Ministry of Natural Resources and Environment, Federation Council and the State Duma environmental committees, the Chamber of Commerce and Industry, and the Russian Union of Industrialists and Entrepreneurs.

Exporter of the Year

Acron won the Exporter of the Year national competition established by the Russian Federation Government. The award is given to companies and individual entrepreneurs that are successful exporters outside of the traditional energy sphere.

Acron and NWPC Won the Company of the Year Award

Two Acron Group companies, Acron (Veliky Novgorod) and NWPC (Murmansk region), won the Company of the Year award in Novgorod and Murmansk regions. The award was established by the newspaper Business St. Petersburg and reflects its annual rating of industrial companies.

The award is given to companies that are recognised as fast-growing enterprises in the Northwestern Federal District with the highest revenue and the largest assets. The rating is prepared with the support of the executive office of the Presidential Plenipotentiary Envoy to the Northwestern Federal District.

Moscow Exchange Recognised Acron's Annual Report

At the XXII Annual Report Awards, organised by the Moscow Exchange and RBC Media Group, Acron took third place in the main nomination for companies with market capitalization between RUB 40 and 200 billion.

Acron Won Five Stars: Chemical Industry Leaders

Acron won the award for Environmental Protection and Resource Efficiency in the Large Enterprise category at the Safety Rating stage of the Five Stars: Chemical Industry Leaders national competition. The competition is aimed at making the Russian chemical industry and related sectors competitive and high-tech, as well as motivating industry players to improve employees' professional skills and labour productivity, introduce innovations, and adopt global best practices.

Business Geography

Mining

1. North-Western Phosphorus Company (NWPC)
Kirovsk, Murmansk region, Russia
2. Verkhnekamsk Potash Company (VPC)
Berezniki, Perm Krai, Russia
3. North Atlantic Potash Inc.
Saskatchewan, Canada

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Chemical Production

4. Acron
Veliky Novgorod, Novgorod region, Russia
5. Dorogobuzh
Dorogobuzh, Smolensk region, Russia

Read more on page 42

Logistics

6. AS DBT
Muuga and Sillamäe, Estonia
7. Andrex
Kaliningrad, Russia

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Distribution

8. Agronova
Russia
9. Beijing Yong Sheng Feng AMP Co., Ltd.
China
10. Acron Switzerland AG
Switzerland
11. Acron USA Inc.
United States
12. Acron France SAS
France
13. Acron Brasil Ltda.
Brazil
14. Acron Argentina S. R. L.
Argentina

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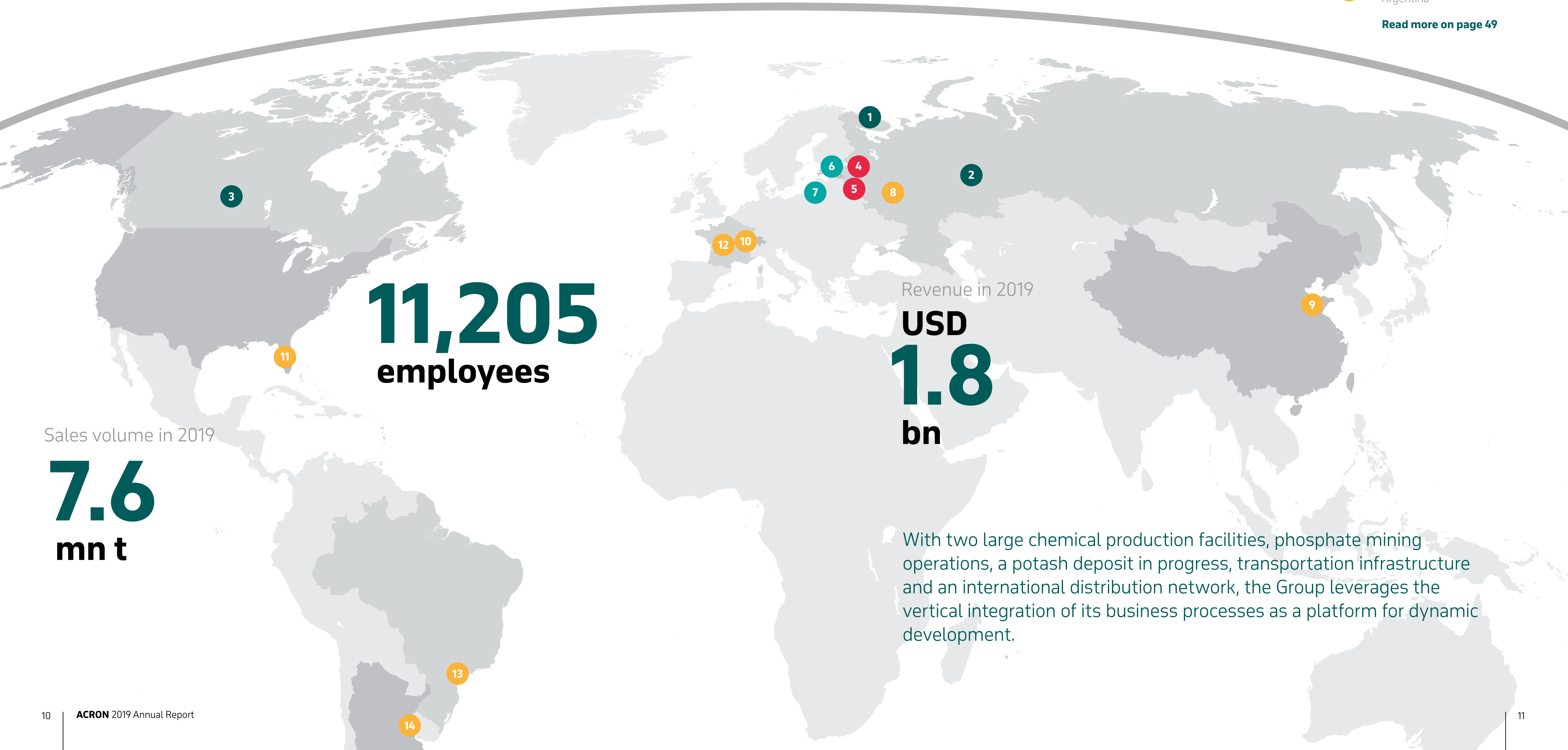


11,205
employees

Sales volume in 2019
7.6
mn t

Revenue in 2019
USD
1.8
bn

With two large chemical production facilities, phosphate mining operations, a potash deposit in progress, transportation infrastructure and an international distribution network, the Group leverages the vertical integration of its business processes as a platform for dynamic development.

Priority Business Areas and Business Model

VERTICAL INTEGRATION

Vertical integration helps us accumulate added value at all stages, from feedstock mining to product delivery to end customers.

WIDE PRODUCT PORTFOLIO

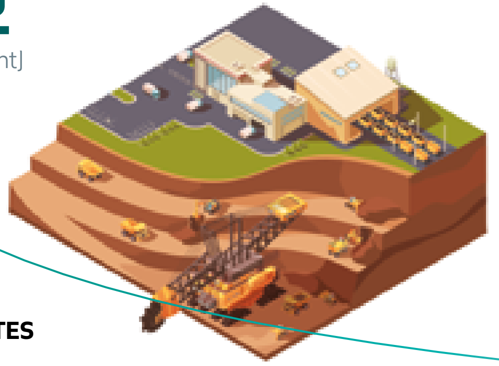
Our highly diversified product portfolio allows us to adapt to the market needs.

DIVERSIFICATION OF SALE MARKETS

We are constantly assessing business opportunities on the most rapidly emerging and largest markets.

Mining

[Key segment]



PHOSPHATES

NWPC,
Oleniy Ruchey mine
Murmansk region, Russia

POTASH

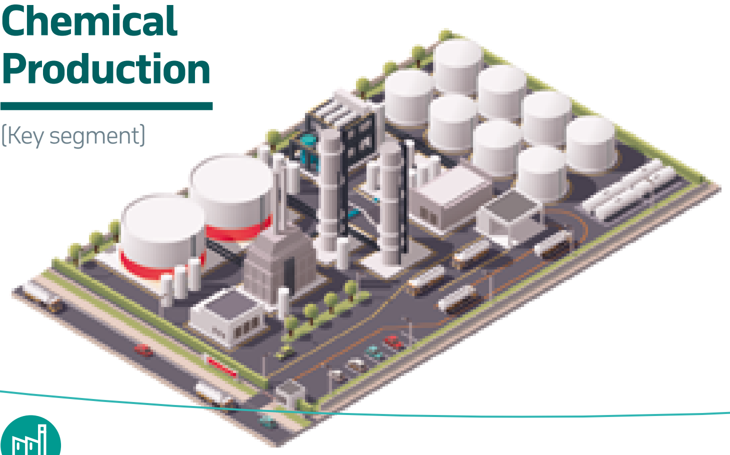
[Ongoing project]

VPC, Talitsky mine
Perm Krai, Russia

North Atlantic Potash Inc. [NAP]
Potash deposits
Saskatchewan, Canada

Chemical Production

[Key segment]



NITROGEN AND COMPLEX MINERAL FERTILISERS, INDUSTRIAL PRODUCTS

Acron
Veliky Novgorod, Russia

Dorogobuzh
Smolensk region, Russia

Logistics

[Auxiliary segment]

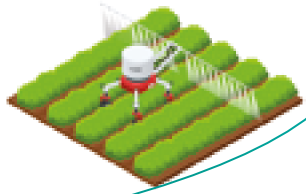
SEA PORT TERMINALS

AS DBT, two port terminals
Estonia

Andrex
Russia

Distribution

[Auxiliary segment]



RUSSIA
Agronova

CHINA
Beijing Yong Sheng Feng AMP Co., Ltd.

UNITED STATES
Acron USA Inc.

EUROPE
Acron Switzerland AG
Acron France SAS

LATIN AMERICA
Acron Brasil Ltda.
Acron Argentina S.R.L.

Objective

Create sustainable value and stable dividend flow

AIM

Provide the Group's chemical production facilities with feedstock and enhance the Group's competitive edge

The Oleniy Ruchey mine provides all the phosphate feedstock for the Group's chemical production facilities. It also ships apatite concentrate to third-party consumers. The Group is among the top three companies in Europe by phosphate capacity. A capacity expansion project is currently underway at the Oleniy Ruchey mine.

Acron Group is also implementing potash projects to secure potash feedstock for the Group's production facilities.

In 2018, the Group resumed active construction of the Talitsky mine.

The Group plans to develop potash deposits in Saskatchewan, Canada, and is currently preparing the preliminary feasibility study.

AIM

Maintain high performance at existing production facilities, develop new capacity and implement new complex fertiliser brands

The Group's two large facilities produce a wide range of complex and nitrogen mineral fertilisers based on in-house ammonia production.

The Group expands its chemical production capacity annually, constructing new units and upgrading existing facilities.

AIM

Facilitate smooth and efficient operation of the Group's facilities

The Group's logistics infrastructure comprises three Baltic Sea port terminals and a railway operator, which ship final product and feedstock supplies for the Group's facilities.

Handling cargo for third-party producers improves the profitability of this segment.

AIM

Strengthen the Group's position in key markets and make advances in promising new markets

Extensive distribution networks in Russia and China and trading companies in Europe and the United States provide the Group with market diversification and 100% product sales.

The Group holds leading market positions in its segments in Russia, Brazil, the United States, China and Thailand.

The Group continues its geographic expansion by creating warehouse capacity and distribution channels in key markets.

Letter from the Chairman of the Board of Directors

Dear Shareholders,

The global mineral fertiliser market was precarious in 2019, with prices for key products sliding as US consumption declined amid adverse weather conditions, Europe expanded production due to lower gas prices, and China stepped up its exports.

Acron Group was well prepared for this scenario. Over the past years, we have considerably built up our production potential and improved our distribution options. In 2019, Acron Group's sales hit a record high of 7.6 million tonnes, and its sales geography expanded to cover 78 countries worldwide.

The Group's revenue was up 3% to 1.8 billion, and EBITDA was down 7% to USD 552 million. Net profit increased 80% to USD 383 million, supported by several factors, including positive exchange differences. The debt burden remained under control, and Net debt/EBITDA was 2.2x.

Over the course of the year, the Group implemented several investment projects. Ammonia unit upgrades at Dorogobuzh and construction of the nitric acid units in Veliky Novgorod were completed successfully. In 2019, the Group made capital investments of USD 294 million, a record for the last five years.

Acron Group's investment programme through 2025 is designed for flexibility. In response to a softer-than-expected market, we decided to slow down further implementation of our investment programme and refrain from taking on any new projects.

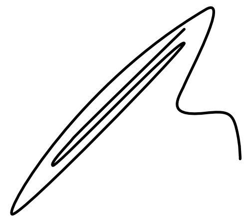
Over the past years, we have considerably built up our production potential and improved our distribution options. In 2019, Acron Group's sales hit a record high of **7.6 million tonnes**, and its sales geography expanded to cover **78** countries worldwide.

Another three projects entered the active implementation stage: construction of the urea granulation unit and upgrades to the Urea-6 unit and the Ammonia-4 unit. We are not putting these on hold and plan completion for 2020-2021. We will suspend other chemical projects, resuming them as soon as the market recovers.

The Group has not changed its strategy with regard to the Talitsky mine in Perm Krai. Closing a project finance deal will be the stepping-stone for advancing the construction and accelerating the project. During the 2019 St. Petersburg Economic Forum, we reached an agreement with the lending banks on the basic credit terms, and we continue to work on the credit documents. Another milestone for the Talitsky project was the special investment contract signed with the Ministry of Industry and Trade and the Government of Perm Krai.

We continued shaft sinking at the future Talitsky potash mine in 2019 and reached a depth of 330 metres for both shafts by year-end. The total design depth is 414 metres for the skip shaft and 364 metres for the cage shaft.

Cutting capex for a limited time will help us prevent the debt burden from increasing while meeting performance targets in terms of both operations and dividends. In 2019, the Group paid dividends three times for a total of USD 221 million.



Alexander Popov

Chairman of Acron's Board of Directors

Net profit

USD **383** mn

Dividends

USD **221** mn

Sales in

78 countries

Letter from the Chief Executive Officer and President

Dear Shareholders, Colleagues and Partners,

In 2019, Acron Group's commercial output was 7,458,000 tonnes, down 0.7% year-on-year. This is the first time in the past five years that we have reported even a minor decline in production. Production will grow again; this is just a short pause necessitated by complicated upgrades to the ammonia unit at the Dorogobuzh site, carried out during a long shutdown maintenance. The upgrades were completed, the unit was launched, and it is now operating steadily at a capacity of 2,100 tonnes per day, compared to 1,700 tonnes per day previously.

Our flagship production asset in Veliky Novgorod ramped up production following the successful commissioning of two new nitric acid units with a capacity of 135,000 tonnes per annum each and an expansion of the existing nitrogen fertiliser capacity. In March 2020, the third nitric acid unit came on stream.

I want to emphasise that the Group recorded the highest output of urea and UAN in its history. Today, Acron Group is the largest UAN producer in Europe, with a capacity of 1.7 million tonnes per annum.

We are implementing a major development programme for urea. In the first half of 2020, a 700-tonne-per-annum urea granulation unit will be brought on stream, and we plan to complete the Urea-6+ project in 2021, after which our output will increase by 520,000 tonnes per annum. As a result, total urea capacity at the Veliky Novgorod site will reach 1.9 million tonnes, making it the largest facility in Russia and Europe.

In the first half of 2019, our chemical operations saw a downturn in NPK production due to a temporary decrease in apatite concentrate output at the Oleniy Ruchey mine, which faced several challenges. Ore extraction at the open pit is gradually declining. The underground mine is not producing at a commercial level yet, but it is gradually building up its capacity. In the reporting year, a crushing and conveyor complex to feed apatite-nepheline ore from the mine to the processing plant was under construction and is scheduled for commissioning in 2020. This will triple underground extraction to 2 million tonnes of ore.

I would like to thank the entire 11,000-strong team at Acron Group. Their professionalism and commitment help us meet challenges and achieve success. In turn, the Group allocated RUB 1.6 billion to environmental, industrial, and labour safety, support for footprint regions, and social efforts in 2019. Our common goal is to make work safer and more rewarding while also protecting the environment. I am happy to say that in 2019, Acron won the high-profile environmental award 100 Best Russian Companies. Ecology and Environmental Management.

Vladimir Kunitsky

Acron's CEO and President

I want to emphasise that the Group recorded the highest output of urea and UAN in its history. Today, Acron Group is the largest UAN producer in Europe, with a capacity of **1.7 million tonnes** per annum.

Acron is No. 1 UAN producer in Europe in terms of capacity

1.7 mtpa

2019 output

7.6 mn t

Mineral Fertiliser Market Overview

Mineral Fertiliser Market

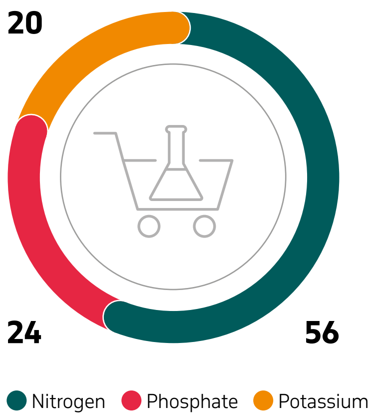
In 2019, adverse weather conditions in key regions put pressure on demand for mineral fertilisers

Global prices declined across all market segments

Russian growers increased mineral fertiliser purchases by

14.5%

Global Mineral Fertiliser Consumption, %



Source: IFA estimates, November 2019

Global Mineral Fertiliser Consumption, mn t

	2018	2019	2019/2018
Nitrogen, N	106.5	107.1	**+0.6%**
Phosphate, P_2O_5	45.3	46.0	**+1.4%**
Potassium, K_2O	37.0	37.4	**+0.9%**
Total	**188.8**	**190.5**	**+0.9%**

Source: IFA estimates, November 2019

In 2019, mineral fertiliser demand was weak due to adverse weather conditions in key regions of the world. According to International Fertilizer Association (IFA) estimates, global consumption rose 0.9% to 190.5 million tonnes in terms of nutrients. Consumption of phosphate fertilisers saw the biggest gains (up 1.4%). Consumption of potassium fertilisers increased 0.9%, while nitrogen fertiliser consumption was up just 0.6%.

Global mineral fertiliser prices declined over the course of the year. Among the factors affecting the urea prices were a drop in US consumption caused by poor weather, and increase in European output supported by lower gas prices and higher exports from China. DAP prices fell as Saudi Arabia boosted its output with new capacity and China and India saw lower production costs as a result of a drop in prices for key inputs. Potash prices were under pressure because of weak demand and increased output from newly commissioned capacity in Russia and Canada.

According to the IFA, total global mineral fertiliser consumption in 2020 will be up 1.3% to 192.9 million tonnes in terms of nutrients. Potassium fertiliser demand will rise 1.9%, with nitrogen and phosphate fertilisers also showing growth (up 0.9% and 1.2% respectively).

190.5 mn t

2019 global mineral fertiliser consumption in terms of nutrients

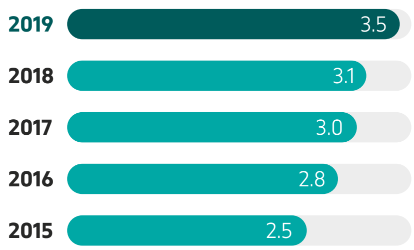
In 2019, mineral fertiliser consumption in Russia continued to rise due to advances in the agricultural sector. Over the year, Russian growers purchased 3.5 million tonnes of mineral fertilisers in terms of nutrients, up 14.5% year-on-year.

Indicative Prices, USD/t

FOB Baltics/Black Sea	Average Price		Change	Year-end Price		Change
	2018	2019		2018	2019	
Urea	251	240	**–4%**	257	208	**–19%**
DAP	408	346	**–15%**	404	265	**–34%**
Potash	257	264	**+3%**	277	234	**–16%**
NPK	300	296	**–1%**	316	260	**–18%**

Sources: IHS Markit, FMB

Mineral Fertilisers Supplied to Russian Growers, mn t of nutrients



Source: Russian Ministry of Agriculture

Global Mineral Fertiliser Consumption, mn t

	2019	2020F	2020/2019
Nitrogen, N	107.1	108.1	**+0.9%**
Phosphate, P_2O_5	46.0	46.5	**+1.2%**
Potassium, K_2O	37.4	38.3	**+2.5%**
Total	**190.5**	**192.9**	**+1.3%**

Source: IFA estimates, November 2019

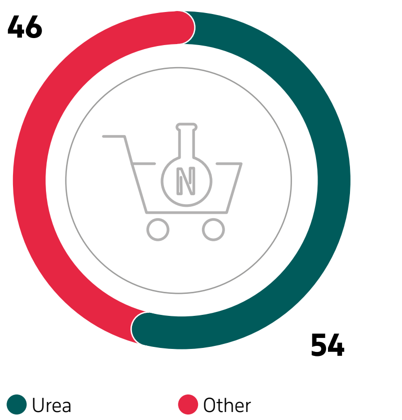
Nitrogen Segment

In 2019, global urea consumption remained unchanged year-on-year

Lower gas prices drove down production costs in Europe

Urea prices declined in the reporting year

Nitrogen Fertiliser Consumption, %



Source: IHS Markit estimates, December 2019

Urea Consumption in Key Countries, mn t

	2018	2019	2019/2018
China	49.8	49.1	**–1%**
India	30.0	32.1	**+7%**
US	15.1	14.0	**–8%**
Indonesia	6.4	6.3	**–1%**
Brazil	6.6	6.2	**–6%**

Source: IHS Markit estimates, December 2019

Urea Production in Key Countries, mn t

	2018	2019	2019/2018
China	52.1	53.6	**+3%**
India	23.9	24.0	**0%**
Russia	9.3	9.3	**0%**
US	10.5	9.2	**-12%**
Indonesia	7.4	7.9	**+6%**

Source: IHS Markit estimates, December 2019

Urea Imports to Key Countries, mn t

	2018	2019	2019/2018
India	5.5	11.2	**+105%**
Brazil	5.6	5.6	**0%**
US	5.5	4.9	**-12%**
Turkey	2.2	2.5	**+13%**
Thailand	2.4	2.4	**-3%**

Source: IHS Markit, Argus Media

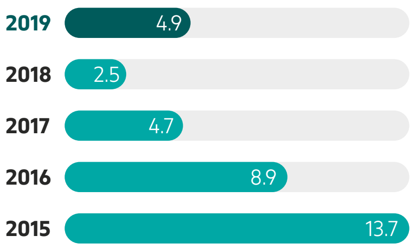
According to IHS Markit estimates, global consumption of urea, the main nitrogen fertiliser, totalled 171 million tonnes in 2019, with no change year-on-year. Adverse weather events affected demand in several countries, while favourable weather in India drove a 7% increase in urea consumption.

Global urea output also remained unchanged year-on-year (172 million tonnes). The United States decreased its output due to weak regional demand, while strong demand in India encouraged higher output in China, which is the key supplier of urea in that market. Chinese output was further supported by several other factors, including weaker coal prices and a relaxation of official environmental measures compared to the previous year. European producers also increased their capacity utilisation in response to lower gas prices.

In 2019, global trade of urea was up 2% to 50 million tonnes. India posted the largest jump after very favourable weather conditions led to increased consumption. China, India's main supplier of urea, doubled its exports to 4.9 million tonnes.

In 2019, urea prices were pressured by several factors, including weak demand in key regions, increased output in Europe, and higher exports from China. By year-end, Baltic prices hit a two-year low of USD 200.

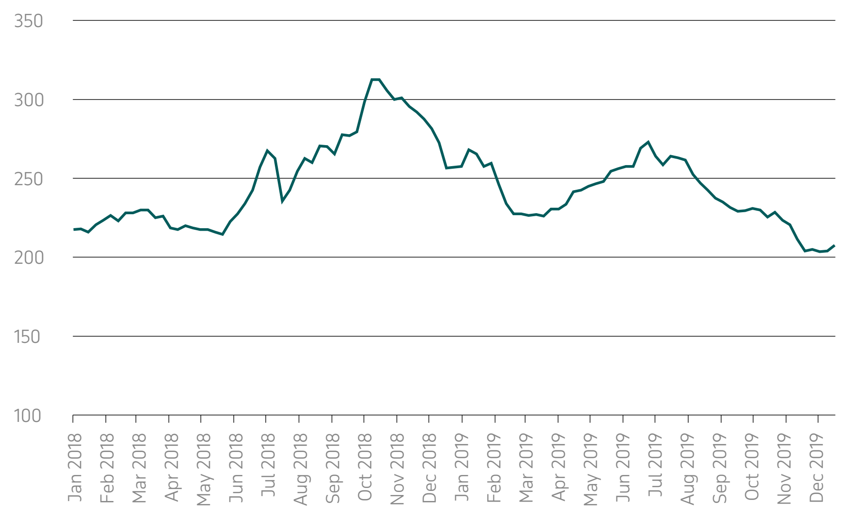
Urea Exports from China, mn t



Source: CFMW

According to IHS Markit forecasts, global urea consumption will increase 2% to 174 million tonnes in 2020, primarily driven by a recovery in US demand and greater consumption of urea by the Chinese industrial sector. Global trade will remain the same, at around 50 million tonnes. That said, India is expected to cut imports because of higher domestic production. Imports to Brazil, the United States, and Thailand are expected to be strong. Driven by increasing consumption, global output will be up 1% to 174 million tonnes. India and Nigeria will demonstrate major growth, as both countries are planning to commission new capacity.

Urea Prices, USD per t FOB Baltics



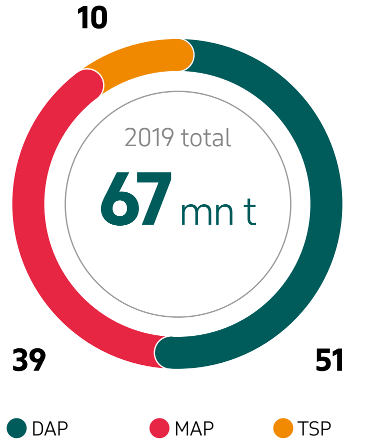
Phosphate Segment

In 2019, phosphate fertiliser consumption increased in India and went down in the United States

Saudi Arabia significantly ramped up production and exports

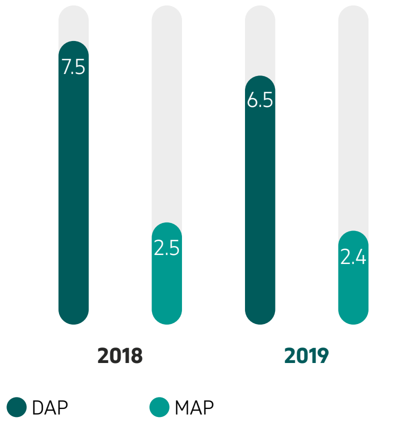
Prices continued to fall in the reporting year

Production of Main Phosphate Fertilisers, %



Source: IHS Markit estimates, January 2020

Chinese DAP and MAP Exports, mn t



Source: CFMW

In 2019, global consumption of the main phosphate fertilisers (DAP, MAP and TSP) increased 1.5% to 67 million tonnes, according to IHS Markit estimates. India demonstrated major growth, while the United States cut consumption due to adverse weather conditions.

Global production also increased 1.5% to 67 million tonnes. Saudi Arabia's exports surged as it launched new capacity, causing other major phosphate fertiliser producers from China, Mosaic, and OCP, to announce that they were curtailing output.

Global trade in DAP, MAP and TSP remained flat year-on-year at 34 million tonnes. Higher-than-usual inventories in the United States, Brazil, and India at the start of 2019 prevented imports from rising. As exports from Saudi Arabia continued to expand, China had no choice but to limit its global supply.

Global phosphate fertiliser benchmarks slid over the course of 2019 due to higher supply from Saudi Arabia, which enjoyed a low cost base. Prices were also pressured by non-integrated producers in India and China, who enjoyed lower costs due to falling prices for basic inputs (sulphur, ammonia, and phosphate rock). By year-end, DAP prices bottomed out at USD 260 FOB Baltics, their lowest level since 2009.

Consumption of DAP, MAP and TSP in Key Countries, mn t

	2018	2019	2019/2018
China	17.3	17.9	+3%
India	10.0	10.6	+5%
Brazil	7.2	7.5	+4%
US	6.9	6.0	–13%

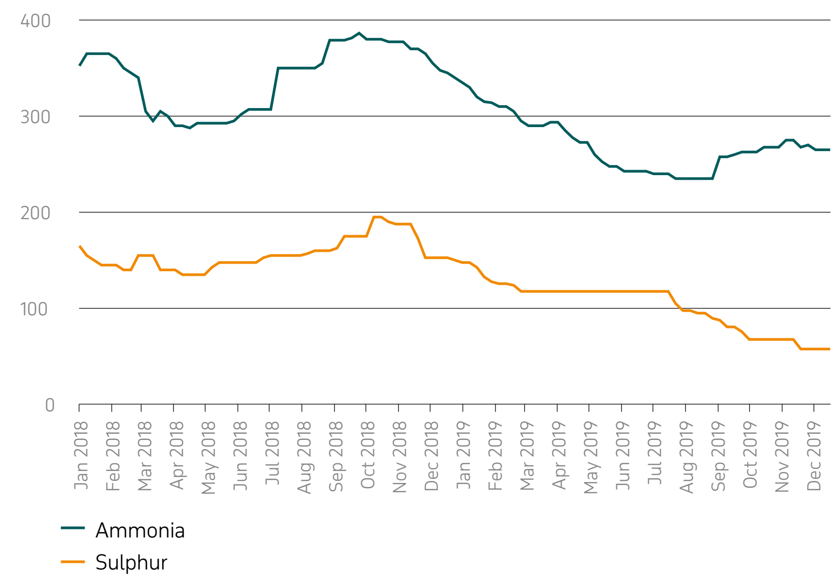
Source: IHS Markit estimates, January 2020

Production of DAP, MAP and TSP in Key Countries, mn t

	2018	2019	2019/2018
China	28.8	28.9	+1%
Morocco	7.2	6.6	–8%
US	6.8	6.3	–7%
Saudi Arabia	4.1	4.9	+20%
Russia	4.4	4.8	+9%

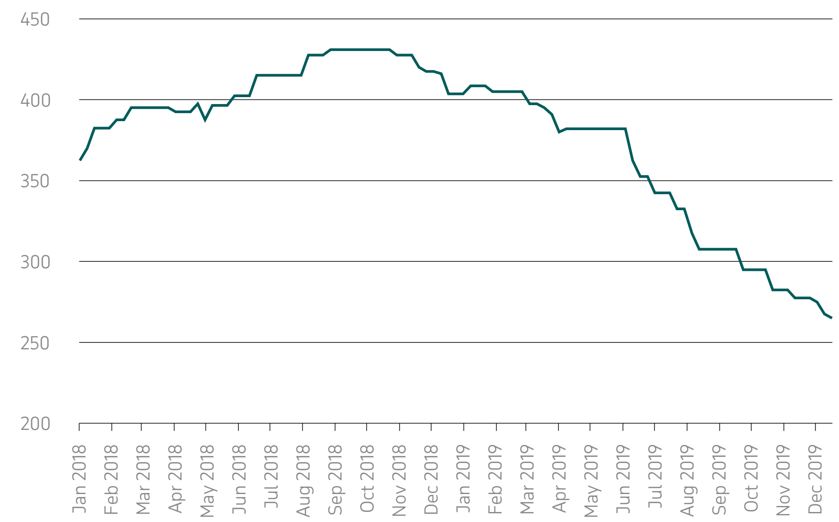
Source: IHS Markit estimates, January 2020

Ammonia and Sulphur Prices, USD per t CFR India



Source: CRU

DAP Prices, USD per t FOB Baltics



Source: FMB

According to IHS Markit forecasts, consumption of the main phosphate fertilisers (DAP, MAP and TSP) will be up 0.9% to 68 million tonnes in 2020, with the United States contributing most of the demand. Global trade is expected to grow 2.6% to 35 million tonnes, and Saudi Arabia will continue to ramp up production and exports, while exports from China will continue to decrease.

Potassium Segment

In 2019, potash demand was weak in key regions

Global prices declined over the year

Several major producers announced production cuts

In 2019, potash demand was weak in key regions. In Southeast Asia, cheaper palm oil prices drove down consumption, and in the United States consumption suffered because of weather. Impacted by weak demand, global potash production fell 5% to 65.5 million tonnes, according to IHS Markit estimates. In the second half of the year, several major producers, including Belaruskali, Uralkali, Nutrien, Mosaic, K+S, and ICL, announced production curtailments totalling 3 million tonnes. This meant that most of the major potash producing countries, such as Canada, Belarus, China, Germany, and Israel, faced production cutbacks. In Russia, however, production ramped up at EuroChem's Usolskiy mine, put on stream a year before.

According to IHS Markit estimates, global potash trade was down 3% to 51.6 million tonnes amid lower consumption. Imports decreased in most major regions except for China, where increased purchases were not related to consumption growth and resulted in higher inventories.

In 2019, potash prices were caught between weak demand and a ramp-up of new capacity in Russia and Canada. At the same time, production curtailments announced by several major producers added a degree of support for prices. Indian contracts with major producers settled at USD 280, just USD 10 below the 2018 price. In 2019, China was trading on a spot basis and intends to sign a contract in 2020 when its inventories draw down.

In 2020, potash consumption is expected to grow in response to recovering demand in the United States and Southeast Asia, as well as stronger demand from Brazil.

According to IHS Markit estimates, global trade will be up 8% to 56 million tonnes. Production will also increase 8% to 70.4 million tonnes, primarily due to a ramp-up of new capacity in Russia and Canada. At the same time, major producers are expected to further curtail production. For example, earlier in 2020, Nutrien and Mosaic announced that mines shut down in the second half of 2019 would stay shut.

Potash, mn t

	2017	2018	2019
Production	66.7	68.7	65.5
Global trade	52.5	53.3	51.6

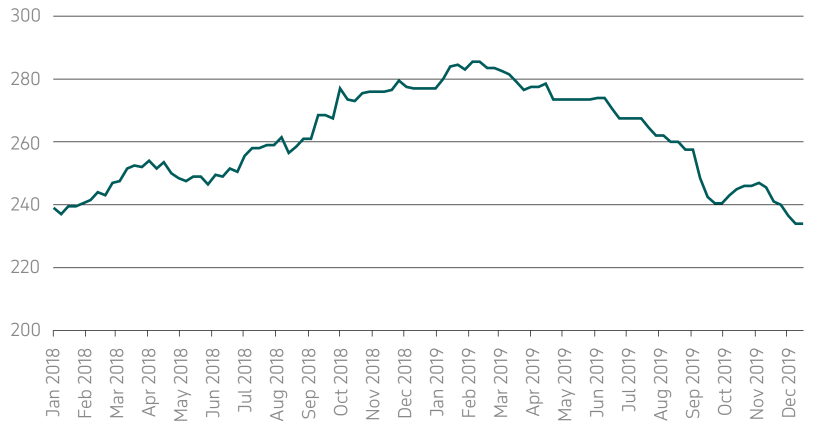
Source: IHS Markit estimates, January 2020

Potash Imports by Key Countries, mn t

	2018	2019	2019/2018
Brazil	10.2	10.1	–1%
China	7.5	8.7	+16%
US	9.4	8.7	–8%
India	4.5	4.5	–1%
Indonesia	3.6	3.0	–16%
Malaysia	2.1	1.6	–26%

Source: IHS Markit estimates, January 2020

Potash Prices, USD per t, spot FOB FSU ports



Source: FMB

Complex Fertilisers

NPK fertilisers are increasingly popular worldwide

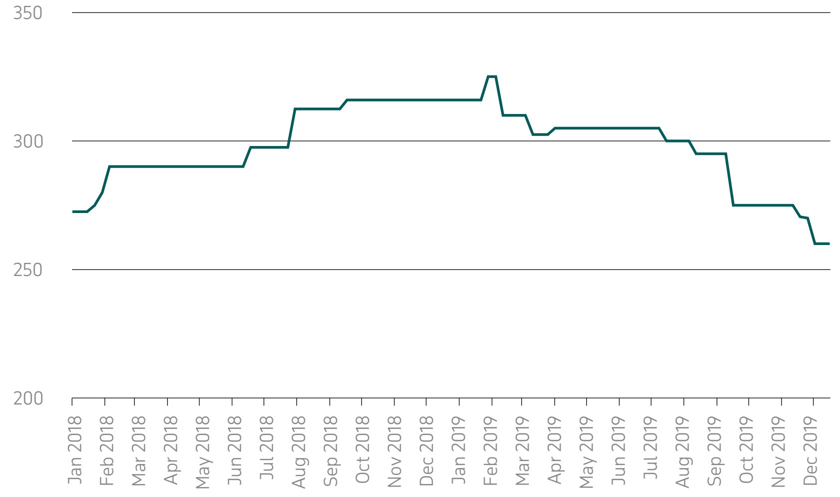
Producers strive to expand their range of NPK brands

In 2019, benchmarks declined following basic basket prices

NPK is gaining popularity worldwide because it is effective and easy to store and apply. China is both the largest producer and consumer of NPK. In addition to its significant domestic production, China imports sizeable volumes of complex fertilisers each year. Other Pacific Rim, Latin American, and African countries are boosting their NPK consumption, as well. Complex fertilisers are invariably popular in the CIS, where consumption of straight phosphate and potassium fertilisers is traditionally low. Russia is a leading NPK producer and the world's largest NPK exporter to Brazil, Thailand, China, and other countries.

Over the past several years, brand diversification has been a major NPK market trend. Consumers are increasingly demanding NPK brands that are tailored to specific soils, climates, and crops. Local distributors in close proximity to customers generally offer maximum diversification and on-site blending of specific NPK formulas, but even producers of standard large-tonnage NPK have been vigorously diversifying their product portfolios. NPK blends containing microelements and water-soluble and controlled-release products are increasingly popular.

NPK 16:16:16 Prices, USD per t FSU ports



Source: FMB

NPK prices traditionally track the prices of the basic products (urea, DAP and potash), and this continued to be true in 2019. However, the softening of NPK prices was more moderate, and the premium over the basic basket rose to 20% from 15% the previous year.

Development Strategy and Prospects

In 2017, Acron Group presented a revised development strategy through 2025 that focuses on maximum utilisation of existing industrial potential. The new development strategy includes several highly efficient projects at Acron and Dorogobuzh with relatively moderate capex and a short payback period. The option of combining some of the projects ensures investment flexibility in future and allows the Group to manage its debt burden. The new strategy is consumer-focused and provides for expanding the product portfolio and developing the distribution network.

In 2018, the Group resolved to reactivate the Talitsky mine development project put on hold in 2014. This project will complete Acron Group's vertical integration for all three key aspects – nitrogen, phosphate and potash – making it one of the most competitive NPK producers in the world.

Strategy Element	Key Performance Indicators	Achievements in 2019	Next Steps	Risks
1 Improving production performance through expanding existing processing capacity and constructing new capacity; diversifying product portfolio	— Implementing new projects, commissioning new production lines — Capex budget — Output volume — Number of products — Additional EBITDA for the Group	— Commercial output was 7.5 mn t (no change year-on-year) due to longer shutdown maintenance and streamlining of the ammonia unit at Dorogobuzh. — Acron constructed a nitric acid unit, and Dorogobuzh expanded its ammonia unit's capacity, all in line with the budget. — In 2019, total capex reached USD 294 mn, as expected. — In 2019, EBITDA was USD 552 mn, down 7% year-on-year. — Changes were made to the investment programme to add new projects currently under review. Investment Programme ->> 30 and Chemical Production ->> 42	— Implement projects under the Development Strategy through 2025 — Introduce new complex fertiliser brands — Increase output of premium products Investment Programme ->> 30 and Chemical Production ->> 42	— Industry risks — Operating risks — Financial risks — Social and environmental risks Risks and Risk Mitigation Strategy ->> 65
2 Covering the increasing feedstock needs of the Group's production facilities through implementation of mining projects, maintaining business vertical integration	— Complying with licence provisions — Self-sufficiency in major raw materials — Completing project milestones — Capex budget — Additional EBITDA for the Group	**PHOSPHATES** **Oleniy Ruchey mine** — In 2019, the mine produced 1.084 mn t of apatite concentrate, providing all the Group's phosphate feedstock for NPK; 290,000 t were supplied to third-party consumers. Mining/Phosphates ->> 38 **POTASH** **Talitsky mine** — In the reporting period, Acron Group continued shaft sinking, and by the end of 2019, shaft depth reached 331 m both for cage shaft 2 and skip shaft 1. Mining/Potash ->> 38	**PHOSPHATES** **Oleniy Ruchey mine** — Continue constructing the underground mine and expand the processing plant's capacity to increase apatite concentrate output Mining/Phosphates ->> 38 **POTASH** **Talitsky mine** — Continue project implementation — Start production in 2023 — Look for co-investors and raise project financing to implement the project Mining/Potash ->> 38	— Industry risks — Operating risks — Financial risks — Social and environmental risks — Legal risks Risks and Risk Mitigation Strategy ->> 65
3 Ensuring sale of increasing output through development of distribution segment	— Selling prices — Sales volumes — Sales markets — Market penetration — Creating stable distribution channels	— In 2019, the Group's sales totalled 7.6 mn t, up 4% year-on-year. — The Group sold its products in 78 countries. — Acron Group's own trading company started sales in Argentina.	— Expand to high demand markets and global premium markets — Create new distribution routes through partnerships and long-term agreements with local distributors — A feasibility study is underway to establish several other branches in Asia, Latin America, and Africa. Distribution->> 49	— Industry risks Risks and Risk Mitigation Strategy ->> 65

Development Strategy and Prospects (continued)

In 2019, as part of its distribution development strategy Acron Group began operating own distribution company, Acron Argentina S.R.L., and shipped 59,000 tonnes of fertilisers to Argentina in the reporting period.

The Group anticipates that the new development strategy will deliver the following results by 2025:

Increased capacity and output, extended product portfolio

Higher efficiency due to processing of surplus ammonia and apatite concentrate

Own potash production, complete vertical integration

Considerably developed distribution and enhanced penetration in key markets

Strategy Element	Key Performance Indicators	Achievements in 2019	Next Steps	Risks
4 Raising capital for the investment programme; securing the Group's solid financial position	— Gross and net debt indices — Net Debt/EBITDA — Average interest rate — Long-term debt ratio — Credit ratings	— The Group's total debt was up to USD 1,398 mn from USD 1,216 mn, and net debt increased to USD 1,215 mn from USD 1,066 mn. — Net Debt/EBITDA was 2.2 against 1.8 at the end of 2018 (expressed in USD). — Long-term debt accounted for 85%, up from 79% year-on-year. — As of 31 December 2019, the average interest rate on loans and borrowings was 4.9%, against 5.9% in 2018. — Moody's and Fitch rating agencies affirmed Ba3 and BB– credit ratings, respectively, and the outlook is Stable. — Expert RA agency affirmed the ruA+ rating with Stable Outlook. Financial Review ->> 57	— Maintain moderate debt burden — Improve credit ratings — Reduce the average interest rate on loans and borrowings — Monetise portfolio investments and/or non-core assets — Secure sufficient liquidity — Diversify risk for potash investment projects by engaging strategic partners and raising project financing Financial Review ->> 57	— Industry risks — Financial risks Risks and Risk Mitigation Strategy ->> 65
5 Enhancing investment appeal through transparency and excellent corporate governance	— Complying with corporate principles, Russian laws, and the most significant recommendations of Russian and international best practices — Ensuring clear distribution of responsibility among the main management and supervision bodies of the Group's companies — Paying dividends and maintaining a moderate debt burden	In 2019, Acron Group paid dividends of RUB 14.3 bn.*	— Pay dividends while maintaining a moderate debt burden — Maintain and improve the corporate governance system, align it with the most recent recommendations of the Corporate Governance Code Corporate Governance ->> 79	— Legal risks Risks and Risk Mitigation Strategy ->> 65
6 Corporate and social responsibility	— Personnel qualifications — Ensuring industrial safety at the Group's production facilities — Contributing to economic and social development in footprint regions — Maintaining a healthy environment in footprint regions	— In 2019, Acron won the award for Ecology and Environmental Management as part of the Russia's Top 100 Organisations contest. — One employee was named Honoured Chemist of the Russian Federation. — All employees at the Group's production facilities complete occupational and industrial safety courses annually. — In 2019, 1,800 employees completed advance training and occupational retraining programmes. — In all its footprint regions, the Group cooperates with local authorities in social and economic matters and supports socially significant projects. Acron Group invested a total of RUB 377 mn in social and economic development in its footprint regions. Sustainability->> 114	— Enhance the level of employee qualifications — Develop and introduce measures to reduce air emissions and pollutant effluents to open water, as well as generation and storage of industrial and consumer waste Sustainability->> 114	— Social and environmental risks Risks and Risk Mitigation Strategy ->> 65

*Less dividends paid on shares held by subsidiaries (quasi-treasury shares)

Investment Programme

In 2017, the Group updated its development strategy and established a long-term investment programme to upgrade existing capacity and create new production facilities and products at Acron and Dorogobuzh through 2025.

This approach will maximise production potential from feedstock processing (ammonia and apatite concentrate) to final products. After the programme is complete, output growth will exceed 2 million tonnes per annum, and the Group will achieve full vertical integration in both the phosphate and potash raw material segments.

The Group reviews and updates the list of projects annually.

In 2019, Acron Group commissioned two 135,000-tonne-per-annum nitric acid units at its production site in Veliky Novgorod and a third one in March 2020. This boosted Acron's nitric acid output to 405,000 tonnes. Nitric acid is mainly used for nitrogen and complex mineral fertiliser production. It is expected that the launch of these three units will immediately increase AN output by 250,000 tonnes per annum. Using 405,000 tonnes of nitric acid, it is possible to produce a total of more than 500,000 tonnes of nitrogen fertilisers. This potential will be used to increase production flexibility and output of other products, as the plant's AN granulation capacity is limited.

The Group continues implementing three major projects at its site in Veliky Novgorod:

Acron Group implemented a technically challenging project at its site in Dorogobuzh to boost the production rate at the ammonia unit and increase the capacity to 2,100 tonnes per day from 1,700 tonnes per day. The Group expects to increase output by 130,000 tonnes per day. This ammonia will be used for further processing, replacing ammonia purchased from third-party companies due to the shortage of in-house product in recent years.

As market conditions deteriorated in 2019, the Group responded by making changes to its investment programme. Projects at the calcium nitrate (CN) and calcium ammonium nitrate (CAN) units were postponed, but design work is underway for the CN project and a project to increase production at the Ammonia-3 unit.

As for feedstock projects, the expansion of the Oleniy Ruchey phosphate underground mine and construction of the Talitsky potash mine are underway.

Read more about feedstock projects

Key Investment Projects

Project	Production Increase per Year	Investments, USD mn	Progress
ACRON (VELIKY NOVGOROD)			
Completed Projects			
Increasing capacity of Urea-5 unit	**50,000 t** of urea	**4**	Commissioned in 2018
Building Urea-6 unit	**210,000 t** of urea	**30**	Commissioned in 2018
Building three nitric acid units, upgrading equipment at AN units	**250,000 t** of AN*	**63**	Two units commissioned in 2019 Third unit commissioned in March 2020
Projects Underway			
Building the urea granulation unit	**700,000 t** of granulated urea	**29**	To be commissioned in Q2 2020
Upgrading Ammonia-4 unit to increase capacity	**70,000 t** of ammonia	**34**	To be commissioned in Q1 2020
Comprehensive upgrades to Urea-6 unit (Urea-6+)	**520,000 t** of urea	**85**	To be commissioned in Q1 2021
Projects in Development			
CN production unit	**100,000 t** of CN	**15**	Design work underway
Upgrading Ammonia-3 unit to increase capacity	**130,000 t** of ammonia	**75**	Design work underway
DOROGOBUZH			
Completed Projects			
Upgrading ammonia unit to increase capacity	**130,000 t** of ammonia	**75**	Completed in 2019
Projects in Development			
Integrated project to build complex fertiliser production facility (JSC Dorogobuzh Phosphorus)	**1 mn t** of various complex fertiliser brands	**320**	Resolved to review feasibility
CAN production unit together with nitric acid unit construction	**600,000 t** of CAN	**70**	Resolved to review feasibility
PHOSPHATE RAW MATERIALS AT THE OLENIY RUCHEY MINE**	Apatite concentrate output growth to **2 mn t** (from **1.2 mn t**)	**100**	Gradual increase of underground mining; design capacity (in terms of ore) to be reached by 2025
POTASH RAW MATERIALS AT THE TALITSKY MINE**	**2 mn t** of potassium chloride capacity with further increase to **2.6 mn t**	**1,400**	In progress; mining to start by 2023, design capacity to be reached in 2026

*Plus additional capacity to increase AN production by 250,000 tonnes or other products (NPK and UAN)

**Projected future investments up to projects completion

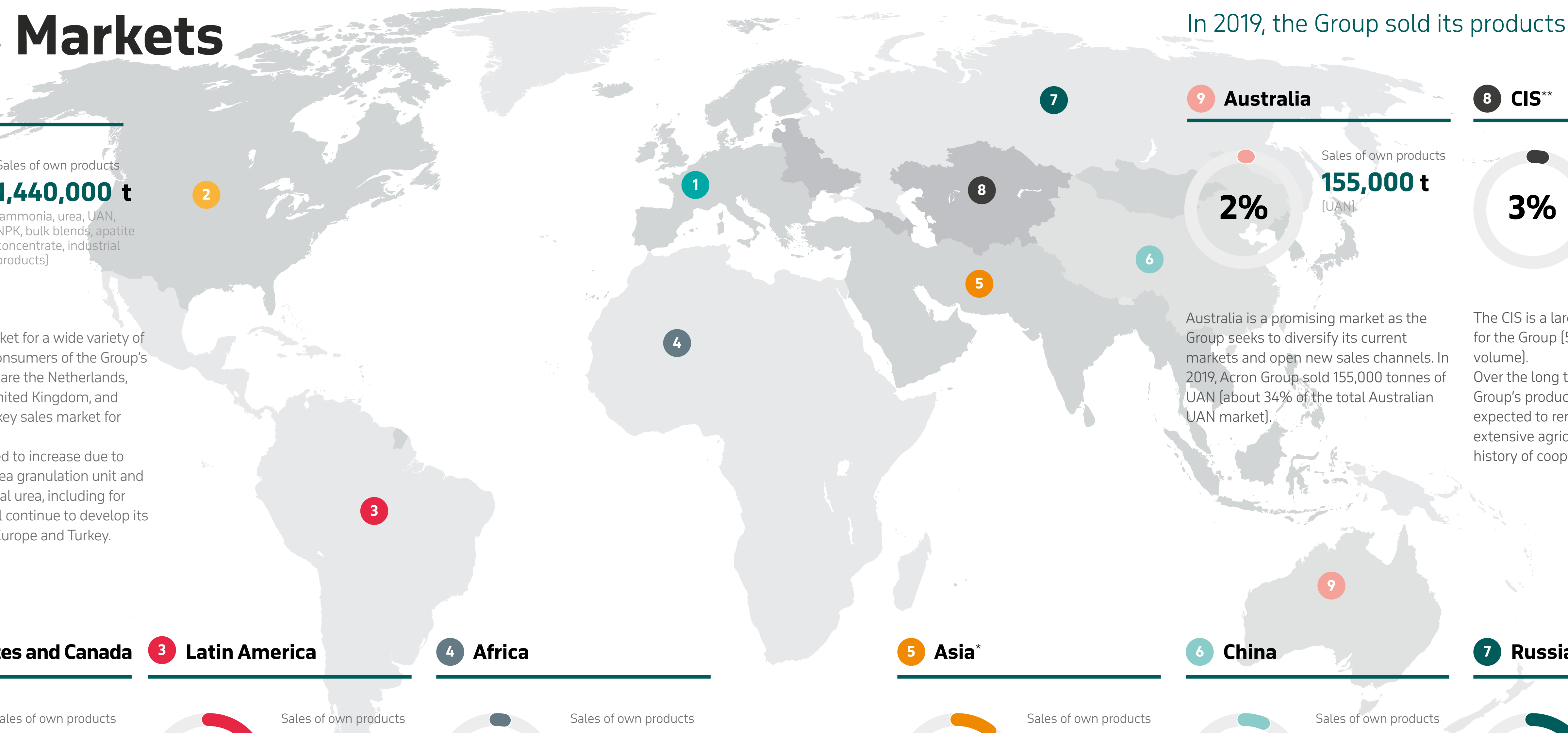
Upgrade of the Ammonia-4 unit

Construction of the urea granulation unit

Comprehensive upgrade of the Urea-6 unit (Urea-6+)

Sales Markets

In 2019, the Group sold its products to 78 countries.



1 Europe

20%

Sales of own products

1,440,000 t

(ammonia, urea, UAN, NPK, bulk blends, apatite concentrate, industrial products)

Europe is a stable market for a wide variety of products. The major consumers of the Group's products in the region are the Netherlands, France, Norway, the United Kingdom, and Lithuania. Europe is a key sales market for urea and bulk blends.
Urea sales are expected to increase due to commissioning of a urea granulation unit and higher sales of technical urea, including for AdBlue. The Group will continue to develop its NPK sales in Eastern Europe and Turkey.

9 Australia

2%

Sales of own products

155,000 t

(UAN)

Australia is a promising market as the Group seeks to diversify its current markets and open new sales channels. In 2019, Acron Group sold 155,000 tonnes of UAN (about 34% of the total Australian UAN market).

8 CIS**

3%

Sales of own products

170,000 t

(NPK, AN, industrial products)

The CIS is a large NPK sales market for the Group (5% of total NPK sales volume).
Over the long term, demand for the Group's products in this region is expected to remain stable because of its extensive agricultural sector and long history of cooperation.

2 United States and Canada

15%

Sales of own products

1,241,000 t

(UAN, AN, NPK, urea)

The United States is the Group's largest UAN market (62% of total UAN sales volume in 2019). The Group also sells third-party products in this market. Despite the commissioning of new UAN facilities in the United States, the Group's position in the US market strengthened (38% of total US UAN imports in 2019) due to convenient distribution channels and strong relations with local distributors.

3 Latin America

25%

Sales of own products

1,873,000 t

(AN, urea, NPK, bulk blends)

Sales in this region increased 28% year-on-year. Brazil is the Group's largest export sales market for agricultural-use AN (47% of total AN sales volume in 2019) and NPK (17% of total urea sales volume in 2019).
Argentina is the Group's largest market in Latin America for liquid fertilisers. In 2019, UAN sales were 58,000 tonnes.
The Group is committed to maintaining its leading position in Brazil (57% of total AN imports in 2019). Acron Group expects to occupy at least 15% of the UAN market in Argentina and sell more than 100,000 tonnes each year.

4 Africa

3%

Sales of own products

263,000 t

(NPK, AN, urea, ammonia)

This region is an evolving sales market for a wide variety of products. Morocco, Kenya, Côte d'Ivoire, and Algeria are the Group's main consumers in the region. In 2019, the Group started NPK sales to Algeria and Benin. Fertiliser demand is on the rise in the region because of the fast pace of agricultural development, and there is enormous potential for an increase in fertiliser consumption. Acron Group plans to increase its NPK sales in the region by introducing new brands that are more suitable for African soils and crops. In 2019, the Group sold 90,400 tonnes of NPK to Africa, up 17% year-on-year.

5 Asia*

11%

Sales of own products

634,000 t

(NPK)

Turkey is the largest sales market for the Group's NPK in this region. India, Vietnam, and Thailand are other large markets in the region for the Group's products.
There are several large and mature markets in this region that recently dialled back their increases in fertiliser consumption, as well as several countries with high potential for growth. The Group plans to maintain its presence in the key countries and ramp up its sales in premium markets.

6 China

6%

Sales of own products

310,000 t

(NPK)

China is a stable sales market for the Group's NPK (16% of total NPK sales). The Group ramped up its presence in this key market and sells NPK produced by its Russian facilities through its own distribution network under the Acron brand, as well as through independent distributors. The Group's Russian facilities provided 24% of total NPK imports to China.
China remains a key NPK market, and the Group is committed to maintaining its position in this market.

7 Russia

15%

Sales of own products

1,482,000 t

(ammonia, AN, NPK, urea, industrial products)

Russia is the Group's second largest AN market (29% of total AN sales), a key market for industrial products, and a large market for the Group's NPK (13% of total NPK sales).
The Group continues to be one of the largest fertiliser suppliers in Russia. Dynamic development in the agricultural sector is triggering a rapid increase in fertiliser consumption in the country.

*Excluding China
**Excluding Russia

Acron Group's Market Position

1.4% of global mineral fertiliser output

One of Europe's
top-3
NPK producers

One of the world's
top-10
NPK producers

The largest UAN producer in Europe

AN importer
No. 1
to Brazil (import share 57%)

UAN importer
No. 1
to the United States (import share 38%)

NPK importer
No. 2
to China (import share 24%)

NPK importer
No. 2
to Brazil (import share 29%)

NPK supplier
No. 2
to Russia (market share 13%)

Acron Group's Unique Competitive Advantages in the Industry

— One of the world's most competitive businesses due to extensive vertical integration, encompassing segments from in-house feedstock production to distribution of products to end consumers

Read more: Priority Business Areas and Business Model, Development Strategy and Prospects, Board of Directors Report on Priority Operating Areas, Financial Review

— Leadership in key sale markets supported by a diversified, high-quality product portfolio and streamlined logistics

Read more: Acron Market Position, Sales Markets, Distribution

— Talented, highly skilled and motivated personnel with a positive history of investment project implementation

Read more: Personnel, Board of Directors Report on Priority Operating Areas

— Room for further increases in output through maximum use of existing production potential

Read more: Development Strategy and Prospects, Investment Programme

Board of Directors Report on Priority Operating Areas

Acron Group's business model is based on an effective chain of interconnected segments, including mining, chemical production, logistics, and distribution. Vertical integration allows the Group to control the value-added chain and ensures business sustainability and competitive strength.

Mining

Share in Group's assets Read more on page 38

36%

Chemical Production

Share in Group's assets Read more on page 42

48%

Logistics

Share in Group's assets Read more on page 48

3%

Distribution

Share in Group's assets Read more on page 49

1%

Plodorodie Agribusiness Holding

Share in Group's assets Read more on page 50

4%

Portfolio Investments

Share in Group's assets Read more on page 56

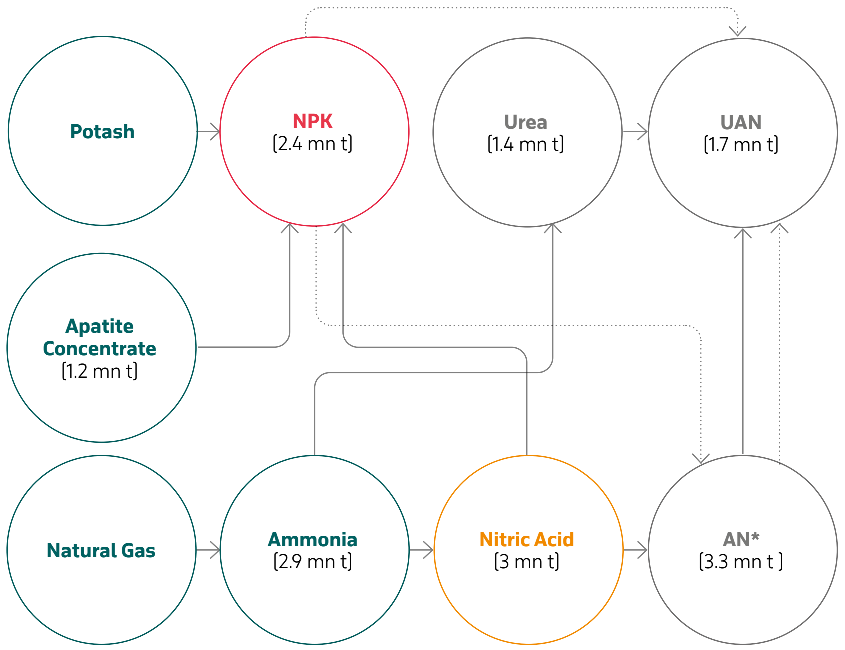
8%

2019 Revenue by Product, %

- 47 Nitrogen fertilisers
- 34 Complex fertilisers
- 5 Non-organic compounds
- 4 Organic compounds
- 4 Ammonia
- 3 Apatite concentrate
- 3 Services and other goods

Simplified Process Flow

Aggregate production capacity of the Group's facilities



Major flows
Auxiliary flows (conversion fluid, AN solution)
Feedstock
Nitrogen mineral fertilisers
Complex mineral fertilisers
Semi-finished products

*Including solution used to produce UAN

2019 Revenue by Region, %

- 25 Latin America
- 20 Europe
- 15 Russia
- 15 US and Canada
- 11 Asia (excl. China)
- 6 China
- 3 CIS (excl. Russia)
- 5 Africa and other

Commercial Output, '000 t*	2019	2018	2017
Ammonia	291	438	551
Nitrogen fertilisers	3,806	3,278	2,690
Complex fertilisers	1,989	2,475	2,819
Organic compounds	238	236	224
Non-organic compounds	841	824	779
Apatite concentrate	292	264	269
Total	**7,458**	**7,514**	**7,332**

*Excluding turnover inside the Group; industrial AN and industrial urea are accounted in non-organic compounds

Sales of Key Products, '000 t*	2019	2018	2017
Ammonia	304	448	556
Nitrogen fertilisers	3,843	3,097	2,719
Complex fertilisers	2,098	2,473	2,761
Organic compounds	237	236	223
Non-organic compounds	797	799	761
Apatite concentrate	290	259	260
Total	**7,569**	**7,312**	**7,279**

*Sales of own products (excluding sales of third-party products)

Mining

Phosphates

Acron Group sources all of its apatite concentrate, the high-quality phosphate feedstock used by the Group's Russian facilities, from NWPC, which operates the Oleniy Ruchey mine in Murmansk region.

Oleniy Ruchey Deposit Reserves

Apatite-nepheline ore balance reserves under Russian standards (as of 31 December 2019):

- Categories B+C1: 246.1 million tonnes (P_2O_5: 40.6 million tonnes)
- Category C2: 130.2 million tonnes (P_2O_5: 19.5 million tonnes)

Balance reserves are sufficient to ensure the operation of NWPC for 58 years.

2019 Operating Results

In 2019, the Oleniy Ruchey mine produced a total of 1,084,000 tonnes of apatite concentrate, down 10.6% year-on-year. The year 2019 was not easy for the Oleniy Ruchey mine as ore development shifted to the underground mine, and the open-pit mine saw reduced efficiency. The decrease in apatite concentrate production in the first and second quarters was temporary, and numbers stabilised in the third and fourth quarters. The Oleniy Ruchey mine met all demand from the Group's Russian production facilities, providing them with 792,000 tonnes of apatite concentrate, and shipped 290,000 tonnes to third-party consumers (against 267,000 tonnes in 2018).

In 2019, total output was 4,701,000 tonnes of apatite-nepheline ore (including 786,000 tonnes from the underground mine), up 4.9% year-on-year. The average P_2O_5 grade fell to 10.3% due to planned extraction of ore with lower P2O5 concentration at this specific stage of mine development. The Oleniy Ruchey mine extracted 13.5 million m^3 of rock.

Work Completed and Development Plans

In 2019, NWPC commissioned a new crushing and screening complex with a capacity of 100 tonnes of crushed rock per hour. The complex will fully meet NWPC's needs for inert materials at a lower cost.

In the reporting year, the Company significantly updated its fleet of mining and auxiliary equipment, which allowed it to increase the shaft sinking and mining rate. A total of 25 units of equipment were delivered to the Oleniy Ruchey mine in 2019.

The Group has also started building a crushing and conveyor complex that will link the underground mine to the processing plant.

Surface facilities are being built at the tunnels' entrances site, including the drive building and conveyor gallery from tunnel entrances to the plant, and external utility facilities. The first stage conveyor complex will be more than 3 km long. Once the facility is commissioned, a new ore transportation system will be organised, with ore delivered from the face to the ore pass by a load haul dumper, and then by underground mining trucks to the crushing chamber. Coarse ore will then be sent to the bin of the processing plant by conveyor.

With open pit and underground mining capacity operating, the mine is expected to gradually bring apatite concentrate output to 1.9 million tonnes per annum by 2025, and further to 2 million tonnes per annum.

Potash

TALITSKY MINE

Acron Group subsidiary VPC continued working on a mining and processing complex at the Talitsky area of the Verkhnekamsk potassium-magnesium salt deposit in Perm Krai, one of the most promising potash deposits globally.

Once this project is on stream, it will complete Acron Group's vertical integration for all key inputs – ammonia, phosphate and potash.

Talitsky Area Reserves

Balance sylvinite reserves according to State Reserves Committee (Rosnedra) (2012):

- Categories A+B+C1: 726.1 million tonnes of salts (K_2O: 163 million tonnes, KCl: 258 million tonnes)

JORC reserves (2016):

- Proved and probable: 190.7 million tonnes of salts (KCL: 59.9 million tonnes)

Project Highlights

- Deposit is favourable for development due to its shallow depth, well-developed infrastructure, and high ore quality.
- Design capacity is 2 million tonnes per annum of potassium chloride, with further increase to 2.6 million tonnes per annum.
- The project aims to meet the Group's demand for 600,000 tonnes per annum and to sell excess potash in the market.
- Capex required to complete the project (reaching 2 million tonnes per annum in capacity) is estimated at USD 1.4 billion. The Group has already spent about USD 220 million in capex, not including the cost of the licence.
- The project timeline has already been set by the approved technical design for deposit development. Ore production is scheduled to start in late 2023, and the mine is expected to reach design capacity in 2026.

Key Results since Start of the Project

Designing

- VPC obtained subsoil licence PEM 02683 TP and designed a project for geological study of subsoil resources at the East Talitsky area of the Verkhnekamsk potassium-magnesium salt deposit.
- VPC drafted design documentation and obtained a positive finding from Glavgosexpertiza (state expert review) for all key facilities of the mine, including the shafts, underground mine, surface facilities (processing unit and auxiliary shops), external utility facilities, and linear infrastructure.
- VPC finalised the working documentation for vertical shaft construction and completed a number of surface facilities at the Talitsky mine, external utility facilities, and infrastructure (gas, water, electric power supply, and railway facilities).
- VPC took administrative and technical measures to elaborate technical solutions for increasing capacity to 2.6 million tonnes of finished product per annum.

Construction

Shafts

- Water-blocking devices were installed in the support lining of skip shaft No. 1 and cage shaft No. 2; natural thawing-out of the ice wall has started. As of the end of 2019, 331 metres of the cage shaft and 331 metres of the skip shaft were sunk. The total design depth of the cage and skip shafts is 364 and 414 metres, respectively, with a diameter of 8 metres.
- Purchase agreements for the main fan unit and shaft hoisting systems were executed.

Industrial Site

- Construction has started on a haul road to the industrial site of the Talitsky mine from the Kungur-Solikamsk highway.
- The future site of the Talitsky mine's permanent facilities is being cleared.

2020 Development Plans

- Complete shaft sinking
- Complete construction of permanent cast-iron and concrete lining, start armour lining
- Continue field geological survey of subsurface at the East Talitsky area
- Complete construction of the haul road to the industrial site of the Talitsky mine from the Kungur-Solikamsk highway
- Start:
  - Grading at the Talitsky mine site
  - Constructing surface facilities
  - Constructing main step-down substation
  - Constructing external utility facilities

Acron Group is continuing negotiations with a pool of banks to raise project financing. In December 2019, the Supervisory Board of VEB.RF, the anchor lender for the future transaction, approved a syndicated financing transaction for Acron Group's project to develop the Talitsky area of the Verkhnekamsk potassium-magnesium salt deposit in Perm Krai. The approval of credit documentation is ongoing.

POTASH ASSETS IN CANADA

North Atlantic Potash Inc. (NAP, an Acron Group subsidiary) and CanPacific Potash Inc. (a joint venture between NAP and Rio Tinto, represented by Rio Tinto Potash Management Inc.) hold ten mining leases and one exploration permit covering approximately 0.5 million acres (2,100 square kilometres) at a potash deposit in Saskatchewan, Canada. Acron Group considers these leases to be a long-term investment in its potash resource base. The area is divided into several clusters, the most promising of which are the Albany project (six leases in the south of Saskatchewan, including five mining leases and one exploration permit), the Foam Lake project (four leases in the northern part of the exploration and mining area in the province), and the Stockholm project (one lease in the southeast of the province).

The available resource base provides a wide range of investment options. Depending on the cluster, both mid-scale and large-scale projects may be implemented, while geological structures allow for a range of potash production technology, from conventional underground mining to solution mining (borehole leaching).

Highlights

— In 2016, all permits were converted into 21-year renewable mining leases.

— **Albany project (a joint venture with Rio Tinto Potash Management Inc.)**

- In 2011, a joint venture agreement was signed with Rio Tinto Potash Management Inc. for nine permits. In June 2014, the joint venture was incorporated and all nine Albany project permits were transferred to it.
- In 2011-2013, an extensive exploration programme costing approximately USD 50 million was completed. Based on the exploration results, 1.4 billion tonnes of salts (inferred resources) with average KCl grade of 31% were recorded. In 2017, resources were converted from "inferred" to "measured and indicated" (1.07 billion tonnes with KCl grade of 30.3%).
- In December 2017, the Prefeasibility Study commenced in 2016 was completed. Following the Prefeasibility Study findings, the Group carried out additional surveys focused on ways to improve economic performance of the project through capex and opex cuts.
- In 2018, the NI 43-101 technical report covering five mining leases recorded 229.5 million tonnes of KCl in recoverable reserves (in terms of finished product), including 23.1 million tonnes in proved reserves and 206.4 million tonnes in probable reserves.
- In December 2018, one potash permit adjoining the proposed Albany project production site was acquired by tender arranged by Saskatchewan government, which will cut development, construction and production costs.
- In January 2019, additional exploration was done. Two exploration wells were successfully drilled: in proximity to the proposed project site and the recently acquired potash permit. In February 2020, based on the additional exploration findings including geological data from the new permit, an independent professional geologist revised the NI 43-101 technical report: the recoverable reserves (in terms of finished product) totalled 803.1 million tonnes of KCl, including 78.5 million tonnes of proven and 724.6 million tonnes of probable reserves, which is sufficient to support more than a 200-year life of mine operation at a steady production rate of 3.25 million tonnes per annum.
- In September 2019, following the examination of and public hearings on the environmental impact study, the Saskatchewan government approved the project.

The project includes six leases covering 334,000 acres. The volume of resources, KCL concentration, formation temperature and location make this project one of the world's best solution mining prospects.

— **Foam Lake project**

- In late 2012, resources were valuated according to NI 43-101 standards based on the exploration programme findings and 942 million tonnes of potash salts (indicated and inferred resources) at a depth of 1,000 to 1,100 metres with average KCl grade of 30% were recorded. Net recoverable KCl tonnage is estimated at 89 million tonnes. The cost of geological research was approximately USD 15 million.

The project covers a cluster of four leases in the north of the province with a total area of 150,000 acres. This cluster is suitable for constructing a conventional potash mining facility.

— **Stockholm project**

- A short exploration programme was completed in 2012. The exploration drill hole showed very high content of KCL: 34-45% at a depth of 1,100 to 1,200 metres. A potential resource assessment for this lease requires additional seismic exploration and drilling.

The project includes one lease with the area of 56,000 acres.

The principal strategy for this asset is considering the prospects for each lease and choosing the most convenient option: working with investors on joint ventures for further development of leases or selling them.

Chemical Production

Nitrogen Fertilisers

Operating Results

- In 2019, Acron Group's ammonia output was 2,583,000 tonnes (down 1% year-on-year) due to scheduled overhauls, upgrades, and pre-commissioning at Dorogobuzh's ammonia unit.
- Nitrogen fertiliser output was 3,806,000 tonnes (up 16% year-on-year), primarily due to higher UAN production at Acron's plant in Veliky Novgorod.

Development Plans

- Upgrade the Ammonia-4 unit at the Veliky Novgorod site to increase capacity by 70,000 tonnes per annum
- Complete development and commission the third nitric acid unit with a capacity of 135,000 tonnes per annum at the Veliky Novgorod site
- Upgrade the Urea-6 unit to boost capacity by over 500,000 tonnes per annum, and upgrade the Urea 1-4 units
- Construct a 700,000-tonne-per-annum urea granulation unit at the Veliky Novgorod site.

2019 Ammonia Production in Russia by Producer, %

21	EuroChem
16	Togliattiazot
15	URALCHEM
14	Acron
10	PhosAgro
6	Minudobrenia (Rossosh)
6	SBU Azot
12	Other

Source: Azotecon-Plus

2019 Nitrogen Fertiliser Production in Russia by Producer*, %

23	EuroChem
17	PhosAgro
16	URALCHEM
16	Acron
7	SBU Azot
5	KuibyshevAzot
4	Ammoni
4	Minudobrenia (Rossosh)
8	Other

*In terms of nutrient

2019 Operating Results, '000 t

	Ammonia	Nitrogen Fertilisers			
		AN	Urea	UAN	Total for the Group
Output					
Acron	**2,118**	936	1,253	1,729	3,918
Dorogobuzh	**465**	1,015	–	–	1,015
Total output	**2,583**	**1,951**	**1,253**	**1,729**	**4,933**
Incl. in-house consumption	**2,291**	408	719	–	1,127
Total commercial output	**291**	**1,543**	**534**	**1,729**	**3,806**
Year-on-year	**-33%**	+7%	+29%	+22%	+16%
Sales*	**304**	**1,568**	**526**	**1,749**	**3,843**

*Sales of own products (excluding sales of third-party products)

ACRON (VELIKY NOVGOROD)

In 2019, Acron commissioned two new nitric acid units with a total capacity of 270,000 tonnes per annum. In March 2020, the Group commissioned the third new nitric acid unit with an annual capacity of 135,000 tonnes.

Ammonia. In the reporting year, Acron posted a record high ammonia output of 2,118,000 tonnes, up 102,000 tonnes year-on-year due to scheduled modernisation of the Ammonia-4 unit and a lack of overhauls at other ammonia units. In the reporting period, Ammonia-4 produced a record high 836,000 tonnes of ammonia, up 47,000 tonnes year-on-year. In 2019, Acron put on stream a water ultrafiltration unit with a capacity of 1,000 tonnes per hour at its Ammonia-4 unit.

Average aggregate natural gas consumption at the ammonia units decreased in 2019 year-on-year to 1,034 m^3 per tonne.

AN. In the reporting period, Acron produced 1,117,000 tonnes of AN (including 936,000 tonnes for agriculture and 181,000 tonnes for industrial purposes), up 40% year-on-year due to the following:

- Launch of new nitric acid units resulted in higher output of main feedstock
- Increased UAN production followed by higher output of AN melt (main feedstock to produce UAN)

AN in-house consumption was 403,000 tonnes (mainly to produce UAN).

In addition to commissioning new nitric acid units, neutralisation heat consumption units were upgraded, which boosted AN solution production capacity by 250,000 tonnes per annum.

Urea. In the reporting year, urea output hit a record high of 1,384,000 tonnes, up 22% year-on-year following the commissioning of the new 210,000-tonne-per-annum Urea-6 unit in 2018. In recent years, the Group has invested significant efforts in boosting current capacity, which also contributed to a high utilisation rate across all units. In 2019, the Group:

- Upgraded the evaporation unit
- Replaced urea melt pumps to reduce the moisture content of finished product

Acron's output of urea for industrial purposes increased. In 2019, 131,000 tonnes of urea were produced for industrial consumers (up 10% year-on-year), including 129,000 tonnes of extra-pure urea required for the production of AdBlue solution.

In 2019, 719,000 tonnes of urea were used internally (52% of the total output), mainly for UAN and UFR production.

UAN. Urea and AN are the key components for producing UAN. The process flow at Veliky Novgorod is able to use conversion fluid from the NPK units as a partial replacement for AN as a source of nitrate nitrogen. This type of operations integration improves the aggregate performance of all the units. In the reporting year, Acron increased its UAN output 22% to a record high 1,729,000 tonnes due to UAN unit upgrades and changes in the market environment that cause a shift in production to UAN.

DOROGOBUZH

Ammonia. In 2019, Dorogobuzh's ammonia output was 465,000 tonnes, down 23%, or 135,000 tonnes, year-on-year because the unit was shut down for modernisation. Equipment upgrades helped increase ammonia production capacity by 130,000 tonnes per annum. All of the facility's ammonia was allocated for further processing, and an additional 101,000 tonnes of ammonia were purchased from other producers, including 7,000 tonnes from Acron. All of the purchased ammonia was processed at the facility.

AN. In 2019, AN output was 1,023,000 tonnes (including 8,000 tonnes of industrial AN), down 12% year-on-year caused by overhauls of the units. In-house consumption of AN for bulk blends production was 5,000 tonnes.

Complex Fertilisers

Operating Results

- In 2019, total complex fertiliser output, including NPK and bulk blends, was 2,026,000 tonnes (down 20% year-on-year)
- NPK output was 1,892,000 tonnes (down 19% year-on-year)
- In the reporting period, the Group added a new brand of complex fertilisers, bringing its total to 15

Development Plans

- Upgrade NPK unit at Veliky Novgorod site to increase output by 35,000 tonnes per annum
- In the long term: use only internally-sourced potash feedstock once the Talitsky mine is commissioned

ACRON (VELIKY NOVGOROD)

In 2019, Acron produced 1,391,000 tonnes of NPK, down 10% year-on-year, primarily due to a temporary reduction in the phosphate feedstock supply (apatite concentrate from the Oleniy Ruchey mine).

In the reporting period, Acron:

- Improved the dispatch system to ship two NPK brands at the same time
- Upgraded the control system at the granulation tower
- Upgraded the unit's central control panel

Acron carried out pilot testing of new NPK brands: 20:10:10 based on potassium sulphate and 10:10:3S. To meet market demand, the facility produced 391,000 tonnes of 14 other brands (including a chlorine-free NPK 15:15:15 and 1,500 tonnes of the new NPK (SOP) 20:10:10), in addition to NPK 16:16:16 and NPK 15:15:15 based on potassium chloride. Process measures have been developed for the further diversification of NPK brands.

In 2019, Acron Group started production of bulk blends at its facility in Veliky Novgorod, with output of 125,000 tonnes (up from 2,000 tonnes year-on-year). However, bulk blends production significantly decreased at Dorogobuzh in a production shift that was caused by market conditions and a drive to increase sales efficiency.

DOROGOBUZH

In the reporting period, Dorogobuzh produced 501,000 tonnes of NPK, down 274,000 tonnes (35%) year-on-year mainly due to a temporary reduction of apatite concentrate supplies and an ammonia unit overhaul. In 2019, 4,000 tonnes of NPK were allocated to produce bulk blends, and bulk blends output decreased to 9,000 tonnes (for reasons described in the Acron (Veliky Novgorod) section above).

In 2019, the Veliky Novgorod and Dorogobuzh facilities received all of their apatite concentrate from the Group's NWPC.

Agricultural AN Sales Geography in 2019, %

53 South America
29 Russia
8 North America
5 Africa
2 Europe
2 CIS (excl. Russia)
1 Asia

Agricultural Urea Sales Geography in 2019, %

38 Europe
23 North America
22 South America
16 Africa
1 Russia

UAN Sales Geography in 2019, %

62 US
13 France
9 Australia
6 Canada
3 Argentina
7 Other

Note: In volume terms. Sales of own products (excluding sales of third-party products)

2019 NPK Sales Geography, %

46 Asia
19 South America
14 Russia
7 Europe
5 CIS (excl. Russia)
5 North America
4 Africa

2019 Complex Fertiliser Prioduction in Russia by Producer*, %

45 PhosAgro
20 Acron
13 URALCHEM
13 Minudobreniya (Rossosh)
8 EuroChem
1 Other

*In terms of nutrients
Source: Azotecon-Plus

Note: By volume. Sales of own products (excluding sales of third-party products)

2019 Operating Results, '000 t

	NPK	Bulk Blends	Complex Fertilisers Total for the Group
Output			
Acron	1,391	125	1,516
Dorogobuzh	501	9	510
Total output	**1,892**	**133**	**2,026**
Incl. in-house consumption	36	–	36
Total commercial output	**1,856**	**133**	**1,989**
Year-on-year	-19%	–30%	–20%
Sales*	**1,974**	**123**	**2,098**

*Sales of own products (excluding sales of third-party products)

Industrial Products

2019 Operating Results, '000 t

	Acron	Dorogobuzh	Total output	Commercial products, total	YOY	Sales
Organic compounds			**485**	**238**	**+1%**	**237**
Methanol	106	–	**106**	**16**	–23%	15
Formalin	173	–	**173**	**18**	–25%	18
UFRs	206	–	**206**	**204**	6%	204
Non-organic compounds			**842**	**841**	**+2%**	**797**
Low-density and technical-grade AN	181	8	**189**	**189**	+11%	164
Industrial urea	131	–	**131**	**131**	+10%	119
Calcium carbonate	412	54	**466**	**466**	–1%	459
Liquid carbon dioxide	24	24	**48**	**48**	–13%	48
Argon	7	–	**7**	**7**	–4%	7

ACRON (VELIKY NOVGOROD)

In 2019, Acron's methanol and formalin output was 106,000 tonnes and 173,000 tonnes respectively, remaining almost flat year-on-year.

In the reporting year, the Company completed the following projects:

— Replacement of catalysts at the synthesis unit

— Upgrades to the distributed control system at the air separation unit

Acron mainly uses methanol and formalin for further processing and UFR production. In the reporting year, 88% of total methanol and formalin output was used in-house.

UFR output in 2019 reached a record high of 206,000 tonnes, up 7% year-on-year. UFRs are used in the wood-processing and furniture industries to produce chipboard and medium- and high-density fibreboards. The resin market is highly competitive, and consumers demand ongoing improvements to product quality and reduced toxic emissions. Acron strives to compete more effectively in this sector and is developing new resin formulas. In 2019, the Veliky Novgorod facility started producing the KF-ES (D)-grade UFR with reduced formaldehyde emission rate, which is used to produce medium-density fibreboard. The obsolete distributed control system at the amino-resins unit was replaced.

Overall output of non-organic compounds (low-density and technical-grade AN, industrial urea, liquid carbon dioxide, argon, and calcium carbonate) was up 4% to 755,000 tonnes due to higher demand for AN and industrial urea.

DOROGOBUZH

In 2019, the overall output of non-organic compounds was 86,000 tonnes, down 13% year-on-year, primarily because a time-consuming overhaul at the ammonia unit caused a decrease in liquid carbon dioxide output (down 7,000 tonnes, or 22%).

RARE EARTH ELEMENT PROJECT

Acron has developed a technology for extracting rare earth element (REE) concentrate from the apatite concentrate process flow to obtain several products, including cerium, neodymium, lanthanum oxides, and medium heavy and light REE concentrates.

Since 2011, the Veliky Novgorod facility has been operating a pilot unit to fine-tune the technology. In 2014, Acron completed construction of a production line.

In the reporting period, Acron took measures to enhance the sustainability of its REE production technology by upgrading the treatment cascades and adjusting the operating modes for the separation cascades. The commercial product portfolio was expanded to include experimental batches of didymium carbonate and polishing powder based on cerium.

In 2019, REE commercial output totalled 70.5 tonnes (in terms of 100% oxides).

2019 REE Commercial Output*, %

*Excluding commercial output of lanthanum carbonate and REE carbonates concentrate (in-house consumption exceeded output)

This project was included in the Rare and Rare Earth Elements sub-programme of a national government programme entitled Industrial Development and Competitive Growth.

Logistics

AS DBT AND ANDREX SEAPORT TERMINALS

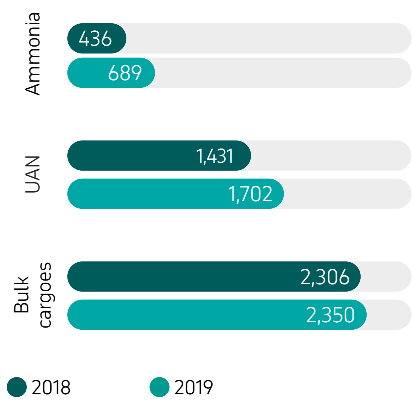
Acron Group owns three port terminals on the Baltic Sea that ship most of the Group's export cargo. AS DBT (Muuga, Estonia) and Andrex (Kaliningrad, Russia) tranship bulk cargoes, while AS DBT (Sillamäe, Estonia) tranships liquid fertilisers and ammonia.

Operating Results

In 2019, the Group's port terminals transshipped a total of 4.7 million tonnes, up 14% year-on-year. The Group's own products made up 91% of this cargo.

Despite a decrease in Acron Group's ammonia exports, the ammonia transshipment volume increased with third-party volumes. In 2019, Acron Group's seaport terminal facilities transshipped 304,000 tonnes of third-party ammonia (44% of the total volume). The increase in UAN and bulk blend transshipment was due to an expansion of Acron Group's UAN and bulk blend exports.

Transshipment at Acron Group's Port Terminal Facilities by Product, '000 t



Rail Fleet

In 2019, Acron Group's Russian companies moved a total of 8 million tonnes of feedstock and finished products by rail. Acron Group operates over 1,700 railcars and tanks owned by the Group, in addition to over 2,000 leased railcars.

Distribution

This segment of Acron Group's operations includes distribution networks in Russia (Agronova), China (Beijing Yong Sheng Feng AMP Co., Ltd. – YSF), the United States (Acron USA Inc.), France (Acron France SAS), Brazil (Acron Brasil Ltda.), Argentina (Acron Argentina S.R.L.), and the wholly owned trading company Acron Switzerland AG.

The Group's export strategy aims to achieve a diversified sales geography and improve the product range. Priority targets include increasing supplies to emerging markets, expanding the Group's own distribution network, and making direct sales to local distributors.

Distribution Networks

RUSSIA (AGRONOVA)

In 2019, Acron Group sold 1,482,000 tonnes of its products in the Russian market, down 18% year-on-year. This decline in domestic sales was driven by a 14% decrease in AN sales and a 23% decrease in NPK sales. The Group sells mineral fertilisers through its trading subsidiary Agronova, while industrial products are sold ex-works.

Agronova comprises ten specialised trading companies that provide direct access to consumers in the country's key farming regions. Agronova's subdivisions store, sell, and deliver mineral fertilisers, with a total storage capacity of 189,000 tonnes.

In 2019, Acron Group's shipments in Russia totalled 747,000 tonnes of mineral fertilisers. AN and NPK were the key products sold by Agronova in the Russian market. In the reporting year, the Company sold 409,000 tonnes of AN (down 8% year-on-year) and 229,000 tonnes of NPK (down 27% year-on-year).

In the reporting year, Agronova also sold 17,000 tonnes of urea, UAN, ammonia, and bulk blends in the Russian market.

China (Beijing Yong Sheng Feng AMP Co., Ltd.)

Acron Group remains a major NPK supplier to the Chinese market and continues to expand its distribution network. Despite strong competition among fertiliser producers, Acron Group steadily maintains its positions in key NPK brands, introduces new products, and expands its sales geography. In 2019, YSF sold 112,000 tonnes of NPK in the Chinese market, down 4% year-on-year.

In 2019, the Company continued to supply and promote the Group's new NPK brands in the Chinese market by improving its marketing and streamlining its corporate structure and internal procurement.

United States (Acron USA Inc.)

Acron Group's American trading subsidiary operates UAN warehouse facilities with a total capacity of 290,000 tonnes. In 2019, Acron USA Inc. sold 1,170,000 tonnes of UAN.

Based on 2019 results, Acron Group is a leading importer of this product, accounting for more than 37% of UAN imports to the United States. With sustainable distribution channels, the Group controls sales on both the East and West Coasts.

Europe (Acron France SAS)

In the reporting period, the Group supplied 320,000 tonnes of UAN through its subsidiary, Acron France SAS, which was established for direct supplies to France and its neighbouring countries.

The storage capacity operated by Acron France SAS is 55,000 tonnes.

Argentina (Acron Argentina S.R.L.)

In 2019, the first year of operations for Acron Argentina S.R.L., the Company supplied 58,000 tonnes of UAN to Argentina.

Acron Argentina S.R.L. can store up to 50,000 tonnes of fertiliser.

Brazil (Acron Brasil Ltda.)

In the reporting year, Acron Brasil Ltda. obtained all required state permits to sell fertilisers. Acron Group's direct supplies to Brazil through this company are expected to start in 2020.

Read more in Sales Markets, page 32

Plodorodie Agribusiness Holding

Acron Group established Plodorodie Agribusiness Holding in 2008 to implement agricultural projects, test the Group's advanced fertiliser brands, and improve their application techniques.

Plodorodie comprises four agribusiness companies: Kubris (Krasnodar Krai), Zvyaginki (Orel region), Plodorodie-Lukoyanov (Nizhny Novgorod region) and Plodorodie-Saratov (Saratov region), with total land assets of 95,000 hectares. In 2017, the Plodorodie Development Strategy for land use through 2025 was adopted. In 2019, the harvested area totalled 21,000 hectares. Plodorodie cultivates winter and spring wheat, rice, winter and spring barley, soybean, peas, sunflower, and winter and spring rapeseed, depending on the location and climate.

Plodorodie uses cutting-edge technology and equipment and builds modern storage and grain drying facilities. It conducts experiments in its own test fields on techniques for applying new fertiliser brands to high-demand crops. The new NPK 18:6:18:2S+2MG brand with sulphur and magnesium additives is very popular with growers because it delivers all the benefits of a high yield with extended storage time.

Kubris (Krasnodar Krai) is one of the most advanced companies in the Holding. It produces high-value wheat and rice seed and is on the state registry of seed production companies. Over the past nine years, Kubris has regularly posted the highest rice yield in Russia, up to 10,000 kg/ha (Russia's average in 2015-2018: 5,500 kg/ha). Kubris also posts high wheat yields of up to 8,500 kg/ha (Russia's average in 2015-2018: 2,700 kg/ha).

Kubris achieves premier results and showcases the benefits of Acron Group's fertilisers through its cooperation with specialised research centres – Pavel Lukianenko National Cereal Crop Centre and the Russian Rice Research Institute. Together with local scientists, Kubris' agronomy division conducts comparative tests of various types of fertilisers and improves farming methods.

Today, Plodorodie is working to improve automated management systems for agribusiness and implement precision agriculture technologies. Kubris uses a field planning system based on a fixed satellite radio navigation station. This system makes it possible to achieve positioning accuracy when planning rice fields, which ultimately ensures higher yields. The Holding also uses a parallel swathing system in its fields, which increases equipment productivity by reducing unnecessary overlaps and manoeuvring and decreasing fuel and labour costs. This improves work quality and streamlines the process.

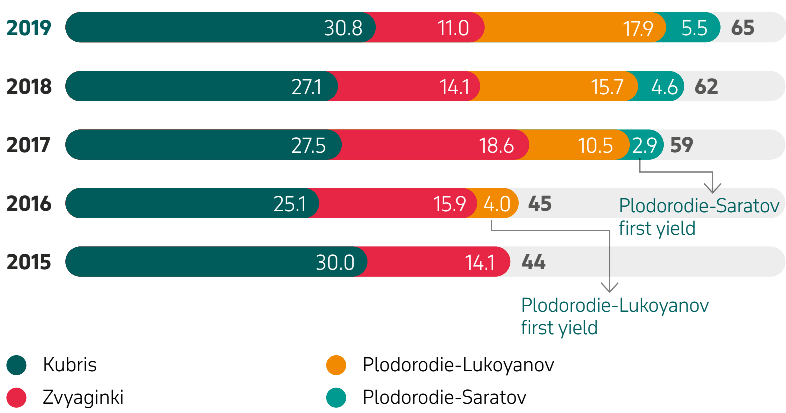
Plodorodie uses quadcopters to remotely inspect its fields, monitor growth of winter wheat and rice, and take timely measures if problems are diagnosed. According to agronomists, not using this technology can lead to a yield decrease of up to 40%.

Plodorodie uses a GIS system to make it easier to classify the Holding's land and adjust crop rotations. The Holding has also invested in a weather station to obtain quality data for accurate agricultural process timing and to prevent blight before it occurs.

Plodorodie's companies also use a system to collect and analyse equipment telemetry. This system improves the accuracy of field processes and monitors equipment speed, type of operation, operated agriculture machinery, and other data to uncover issues and diagnose problems at early stages.

The data obtained using advanced methods introduced by Plodorodie is processed by an automated control system based on 1C software. The 1C: ERP Agro-industrial Complex Introduction Project at Plodorodie Agribusiness Holding won the 1C Project of the Year competition.

Gross Output of Plodorodie Agribusiness Companies, '000 t



Plodorodie Agribusiness Holding Consolidated Results

	Unit	2019	2018
Revenue	RUB mn	706.3	595.8
EBITDA	RUB mn	53.5	7.6
Harvested area	'000 ha	20.9	16.5
Gross output	'000 t	64	58

Plodorodie Agribusiness Companies

Kubris (Krasnodar Krai)

Kubris is one of the most advanced rice producers in Krasnodar Krai and the nation. In 2008-2019, it posted the best rice output results in its footprint region.

HIGHLIGHTS

Best rice yield in Russia in 2014-2019
7,200–8,600 kg/ha
(Russia's average: 5,300–5,800 kg/ha)

2019 harvested area
5,700 hectares

Main crops
rice, wheat, soybeans

Gross output
30,800 tonnes

Own storage capacity
25,000 tonnes

Zvyaginki (Orel region)

Zvyaginki is one of the top three grain producers in Orlov region.

HIGHLIGHTS

Wheat yield: average of
4,900 kg/ha
in 2014–2019
(regional average: 4,000 kg/ha)

Barley yield: average of
4,400 kg/ha
in 2017–2019
(regional average: 3,600 kg/ha)

Main crops
wheat, barley, rapeseed, peas

2019 harvested area
3,100 hectares

Gross output
11,000 tonnes

Own storage capacity
12,000 tonnes

Plodorodie-Lukoyanov (Nizhny Novgorod region)

Plodorodie-Lukoyanov is a new, fast-growing company that posted the best grain yield in Lukoyanov district in 2016, its first crop year.

HIGHLIGHTS

Wheat yield: average of

3,700 kg/ha

in 2017–2019 (regional average: 2,300 kg/ha)

Barley yield: average of

2,400 kg/ha

in 2017–2019 (regional average: 2,500 kg/ha)

Main crops

barley, wheat, rye, peas

2019 harvested area

7,800 hectares

Gross output

17,900 tonnes

Own storage capacity

36,000 tonnes

Total land owned

15,000 hectares

In 2020, Plodorodie-Lukoyanov plans to expand its cultivated area from 7,800 hectares to 9,500 hectares.

Plodorodie-Saratov (Saratov region)

Plodorodie-Saratov is a new, fast-growing company that harvested its first crops in 2017.

HIGHLIGHTS

Wheat yield: average of

3,200 kg/ha

in 2018–2019 (regional average: 1,900 kg/ha)

Barley yield: average of

1,600 kg/ha

in 2019 (regional average: 9,000 kg/ha)

Cultivated area increased from 4,300 hectares to

20,000 hectares

Main crops

rye, wheat, peas, lentils

2019 harvested area

4,300 hectares

Gross output

4,500 tonnes

Own storage capacity

62,000 tonnes

Total land owned

45,000 hectares

Plodorodie-Saratov plans to increase its cultivated area to 26,700 hectares, including fields used for winter crops, in 2020.

Portfolio Investments

Key Objectives

— The Group's portfolio investments are liquid assets and therefore included in Acron's shareholder value. The Group may raise additional funds at any time by selling these assets.

— The return on sales of financial investments may be used for investments, debt service, and dividends.

Stake in Grupa Azoty S.A.

In 2019, the Group did not change its stake in the Polish Grupa Azoty, keeping it at 19.8%. The market value of the Group's stake as of 31 December 2019 was RUB 9.4 billion.

The Group has no other significant portfolio investments.

Financial Overview

This financial performance analysis is based on the audited consolidated financial statements of Acron Group prepared in accordance with international financial reporting standards ("IFRS") and should be reviewed jointly with them. It is based on a comparison of the results of the financial year that ended on 31 December 2019 and the financial year that ended on 31 December 2018. In addition to the IFRS financial results and indices, this section contains management financial and operational information.

Dividends

In the reporting year, the Group made three dividend payments for a total of RUB 366 per share, totalling RUB 14.3 billion (USD 221 million) less dividends paid on quasi-treasury shares.

— Acron's extraordinary general meeting on 11 March 2019 resolved to distribute part of Acron's earnings for previous years in the amount of RUB 130 per share.

— Acron's Annual General Meeting on 30 May 2019 resolved to declare dividends of RUB 135 per share based on 2018 results.

— Acron's extraordinary general meeting on 29 November 2019 resolved to distribute part of Acron's earnings for previous years in the amount of RUB 101 per share.

Debt Structure

Total debt increased 2% to RUB 86,541 million as of the end of 2019, against RUB 84,485 million year-on-year. USD-denominated debt was up 15% to USD 1,398 million. Net debt was up 2% to RUB 75,185 million as of the end of 2019, against RUB 74,025 million in 2018. USD-denominated net debt was up 14% to USD 1,215 million. The net debt/EBITDA ratio increased to 2.1, against 2.0 as of the end of 2018. In dollar terms it was 2.2, against 1.8 as of the end of 2018.

In May 2019, Acron Group received a two-year extension on its five-year syndicated structured pre-export finance facility for up to USD 750 million, which resulted in an increase in the Group's long-term debt to 85% from 79% at the end of 2018.

KEY NUMBERS FOR 2019

Revenue increased 3% to

1,774 USD mn

EBITDA decreased 7% to

552 USD mn

Three dividend payments for a total of

221 USD mn

Net profit was up 80% to

383 USD mn

Net debt/EBITDA ratio was

2.2

at year end

CAPEX increased 27% to

294 USD mn

Net Debt Index, RUB mn

	As of 31 December 2019	As of 31 December 2018	YOY (%)
Long-term loans and borrowings	73,253	66,946	+9
Short-term loans and borrowings	13,288	17,539	-24
Total debt	**86,541**	**84,485**	**+2**
Less:			
Cash and cash equivalents	11,356	10,460	+9
Net debt	**75,185**	**74,025**	**+2**
EBITDA	**35,749**	**37,053**	**-4**
Net debt/EBITDA	**2.1**	**2.0**	**+0.1**

The duration of the Group's debt portfolio increased from 1.9 to 2.4 years.

As of 31 December 2019, USD-denominated loans and borrowings made up 57% of the total debt, against 68% at the end of 2018; RUB-denominated debt made up 33%, against 26% as of 31 December 2018; EUR-denominated loans and borrowings made up 10%, against 6% year-on-year.

The major borrowers among the Group's companies were Acron, North-Western Phosphorous Company, Acron Switzerland AG, AS DBT, and Plodorodie. The Group's principal lenders included such banks as UniCredit Bank, Nordea Bank Abp, ING Bank, HSBC Bank plc, Sberbank, VTB Bank, Raiffeisenbank, and Sviaz-Bank.

As of 31 December 2019, the Group has made a public offering of five issues of its rouble bonds:

— Series 04 with a par value of RUB 3,750 million, to be redeemed in 2021 and with an offer date in 2020. In 2012, Series 04 bonds were redeemed for RUB 1,380 million as part of the Group's reorganisation. In 2015 and 2016, securities worth RUB 10 million and RUB 725 million respectively were repurchased during offers. Later in 2016, the Group placed all securities repurchased during the offers. As a result, securities currently in circulation are worth RUB 2,370 million.

— Series 05 with a par value of RUB 3,750 million, to be redeemed in 2021 and with an offer date in 2020. In 2012, Series 05 bonds were redeemed for RUB 1,997 million as part of the Group's reorganisation. In 2015 and 2016, securities worth RUB 9 million and RUB 610 million respectively were repurchased during offers. Later in 2016, the Group placed all securities repurchased during the offers. As a result, securities currently in circulation are worth RUB 1,753 million.

— Series BO-001P-01 with a par value of RUB 5,000 million, to be redeemed in 2026 and with an offer date in 2020, were issued in 2016. All bonds from this series are currently in circulation.

— Series BO-001P-02 with a par value of RUB 5,000 million, to be redeemed in 2027 and with an offer date in 2021, were issued in 2017. All bonds from this series are currently in circulation.

— Series BO-001P-03 with a par value of RUB 10,000 million, to be redeemed in 2023 were issued in 2019. All bonds from this series are currently in circulation.

The total par value of bonds in circulation as of 31 December 2019 was RUB 24,123 million (RUB 23,772 million not counting bonds held by Acron's subsidiaries).

Group's Credit Ratings

In June 2019, Fitch Ratings confirmed Acron's BB- long-term domestic and foreign currency issuer default ratings. The Outlook is Stable.

In October 2019, Moody's Investors Service confirmed Acron Group's Ba3 long-term corporate family rating with Stable Outlook.

In December 2019, the Expert RA rating agency confirmed Acron's ruA+ non-financial company creditworthiness rating with Stable Outlook.

Financial Performance

Revenue

In physical terms, sales of the Group's main products increased 4% to 7.6 million tonnes year-on-year.

Most of the Group's revenue is generated by sales of nitrogen and complex fertilisers. In 2019, Russia, Brazil, the United States, China, and European countries were the Group's key markets by volume.

In 2019, the Group's revenue was up 6% to RUB 114,835 million. Higher revenue was the result of higher sales, which increased 4%, and of a 3% increase in the average USD/RUB exchange rate. However, lower dollar-denominated global prices for most of the Group's products had a limiting effect on revenue growth.

Sales of Acron Group's Main Products, '000 t

Product	2019	2018	YOY (%)
Ammonia	304	448	-32
Nitrogen fertilisers	3,843	3,097	+24
Complex fertilisers	2,098	2,473	-15
Organic compounds	237	236	0
Non-organic compounds	797	799	0
Apatite concentrate	290	259	+12
Fertiliser and industrial products	**7,569**	**7,312**	**+4**

Average Indicative Global Fertiliser Prices

USD/t FOB Baltic Sea/Black Sea Ports	2019	2018	YOY (%)
Ammonia	235	288	-18
Urea (prilled)	240	251	-4
AN	189	188	0
UAN	149	179	-17
NPK 16:16:16	296	300	-1

Sources: Fertecon, FMB

Official USD/RUB Exchange Rate

	2019	2018	YOY (%)
USD exchange rate as of 31 December	61.9057	69.4706	-11
Average annual USD exchange rate*	64.7361	62.7078	+3

*Calculated average nominal exchange rate for the corresponding period
Source: Central Bank of the Russian Federation

Revenue by Region, RUB mn

Region	2019	2018	YOY (%)
Latin America	28,547	22,291	+28
European Union	22,707	20,890	+9
Russia	17,179	19,937	-14
USA and Canada	17,395	13,598	+28
Asia (excl. PRC)	12,373	12,931	-4
PRC	7,133	7,242	-2
Other regions	6,271	5,197	+21
CIS	3,230	5,976	-46
Total	**114,835**	**108,062**	**+6**

Cost of Sales

In 2019, the Group's cost of sales was RUB 59,784 million, up 10% year-on-year.

Natural Gas

In 2019, natural gas costs reflected in the cost of sales remained unchanged as higher prices were offset by lower consumption and capitalisation of the portion of the costs related to ammonia unit capital repairs. The total output at the ammonia units, which are the main consumers of natural gas, decreased 1%.

Depreciation and Amortisation of Property, Plant and Equipment and Intangible Assets

In the reporting period, depreciation and amortisation increased 26% due to commissioning of a urea unit in late 2018, two nitric acid units in 2019, and equipment upgrades at operating facilities.

Fuel and Energy

In 2019, the Group's fuel and energy costs were up 14%. Electricity accounts for approximately 65% of this item, and thermal power (steam) is the second major component.

In 2019, the cost of electricity rose 13% due to a 9% increase in the average price and higher consumption (up 4%). Thermal power costs were down 1%, as the 2% increase in average prices was offset by a 2% decrease in consumption.

The significant increase in Fuel and Energy Costs was the result of a substantial increase in diesel fuel and fuel oil costs caused by higher average annual prices (up 8% and 22% respectively) and a 27% increase in diesel fuel consumption.

Staff Costs

Staff costs only include the cost of production personnel. The cost of administrative staff is included in Selling, General and Administrative Expenses. In 2019, salary costs reflected in the cost of sales were up 15% to RUB 7,309 million due to a 5% increase in personnel across the Group that was required for the Oleniy Ruchey underground mine development, implementation of investment projects at Acron and Dorogobuzh, and construction of the Talitsky mine. The increase was also affected by salary adjustments.

Potash Feedstock

In the reporting year, potassium chloride costs were up 1% due to a 30% increase in the average annual price of purchased potassium chloride, which, however, was offset by lower consumption (down 23%).

Transportation Expenses

In 2019, transportation expenses were up 17% to RUB 20,744 million, driven by an increase in the cost of ocean freight due to higher sales on terms that include transportation to the United States and Latin America. The price of logistics services outside Russia increased due to a weaker rouble.

Cost of Sales, RUB mn

Type of Expense	2019	2018	YOY (%)
Natural gas	15,550	15,550	0
Depreciation and amortisation of property, plant and equipment and intangible assets	11,344	9,026	+26
Fuel and energy	8,661	7,630	+14
Staff costs	7,309	6,331	+15
Potash used in production	6,925	6,721	+3
Other materials and components	4,018	3,437	+17
Repairs and maintenance	2,993	3,214	-7
Drilling and blasting	857	471	+82
Services	840	901	-7
Production overhead	658	446	+48
Social expenditure	629	717	-12
Total	**59,784**	**54,444**	**+10**

Inputs and Energy Consumption

	2019			2018		
	Price, RUB*	Quantity	Amount, RUB mn	Price, RUB*	Quantity	Amount, RUB mn
Acron and Dorogobuzh						
Natural gas, m^3 mn	4,749	3,349	15,907	4,628	3,360	15,550
Acron	4,738	2,618	12,403	4,601	2,510	11,549
Dorogobuzh	4,791	731	3,504	4,710	849	4,001
Apatite concentrate, '000 t	11,374	784	8,912	8,913	945	8,423
Acron	11,250	568	6,390	8,721	616	5,373
Dorogobuzh	11,699	216	2,522	9,274	329	3,050
Sylvine (potassium chloride), '000 t	14,231	469	6,669	10,913	606	6,619
Acron	14,085	331	4,667	10,868	395	4,298
Dorogobuzh	14,585	137	2,003	10,998	211	2,321
Energy, kWh mn	3,872	1,298	5,024	3,581	1,249	4,474
Acron	3,780	1,048	3,961	3,492	986	3,444
Dorogobuzh	4,258	250	1,063	3,918	263	1,030
Thermal power at Acron, '000 Gcal	1,046	1,373	1,436	1,028	1,406	1,444
NWPC						
Energy, kWh mn	2,725	191	521	2,401	187	449
Diesel, '000 l	40	22,414	887	37	16,853	624
Fuel oil, '000 t	20,809	23	482	17,110	25	428

*Including transportation costs and related expenses; unit prices: natural gas per 1,000 m^3, apatite concentrate and potassium chloride per 1 tonne, energy per 1,000 kWh, thermal power per 1 Gcal, diesel per 1 litre, fuel oil per 1 tonne

Transportation Expenses (RUB mn)

Type of Expense	2019	2018	YOY (%)
Ocean freight	6,955	4,505	+54
Handling of goods	5,068	4,262	+19
Railway tariff	4,205	4,418	–5
Container transportation	1,908	1,795	+6
Railcar lease	1,120	1,115	0
Maintenance of rolling stock	842	1,086	–22
Other	646	534	+21
Total	**20,744**	**17,715**	**+17**

Selling, General and Administrative Expenses

In 2019, selling, general and administrative expenses were up 15% to RUB 9,332 million. This growth was due mainly to greater sales volume and staffing and an expansion of leased capacity as the Group worked to increase its supplies to the international end consumers.

Other Operating Expenses

In the reporting year, Acron Group's other operating expenses increased to RUB 1,574 million, against RUB 349 million in 2018 due to the net foreign currency loss of RUB 799 million. In 2018, the Group posted net foreign exchange gain of RUB 1,350 million.

EBITDA

EBITDA is calculated as operating profit adjusted for depreciation and amortisation of property, plant and equipment and intangible assets, foreign currency profit or loss on operating transactions and other non-cash and extraordinary items. In 2019, EBITDA was down 4% to RUB 35,749 million, against RUB 37,053 million in 2018. Increased sales and a weaker rouble positively affected the dynamic, while the drop in global prices for the Group's products had an adverse impact on its EBITDA. Dollar-denominated EBITDA was down 7% to USD 552 million, against USD 591 million in 2018. The EBITDA margin was 31% (against 34% in 2018).

EBITDA Calculation, RUB mn

	2019	2018
Operating Profit	**23,401**	**27,439**
Depreciation and amortisation of property, plant and equipment and intangible assets	11,344	9,026
Foreign currency loss/(profit) on operations, net	799	(1,350)
Loss on disposal of exploration licences	–	905
Loss on disposal of property, plant and equipment	205	1,033
Total consolidated EBITDA	**35,749**	**37,053**

Finance Income/Expenses

In 2019, finance income was RUB 7,236 million, against finance expenses of RUB 8,422 million in 2018. This change was due to the fact that 2019 foreign currency net gains were RUB 7,812 million, while in 2018 there was a foreign currency net loss of RUB 8,393 million.

Interest Expense

In 2019, interest expense was down 31% to RUB 1,115 million because of a decrease in interest. This item is reported less capitalised interest expense.

Profit

Profit for the year was up 86% to RUB 24,786 million, against RUB 13,318 million in 2018. Dollar-denominated net profit increased 80% year-on-year to USD 383 million, against USD 212 million in 2018.

Changes in Key Balance Sheet Indicators

Property, Plant and Equipment

As of 31 December 2019, the value of the Group's Property, Plant and Equipment was up 9% to RUB 102,157 million, against RUB 93,532 million in 2018, due to significant capital expansion and commissioning of production units. Fixed assets were 51% of the total book value of the Group's assets as of the end of 2019.

Subsoil Licences and Related Costs

In the reporting period, this item increased 8% to RUB 39,502 million mainly due to capitalisation of loan costs related to implementation of the Talitsky potash project.

Investment in Equity Investments

This item primarily consists of a 19.8% interest in Grupa Azoty S.A. In the reporting period, this item decreased 16% to RUB 9,784 million due to a decline in the market value of Grupa Azoty S.A. caused by the company's weak financial performance.

Inventories

In the reporting period, the Group's inventories were down 2% to RUB 16,378 million due to a 14% decrease in finished product inventories.

Non-Controlling Interests

Minority shareholder equity in the Group's subsidiaries is recorded in Non-Controlling Interests under Equity. This item mainly consists of the stakes of VPC's minority shareholders. In the reporting period, this item increased 2% to RUB 20,964 million.

Cash Flows

Operating Activities

In 2019, net operating cash flow remained almost flat year-on-year at RUB 28,278 million. Working capital was down RUB 2,084 million in the reporting year, while in 2018 this figure decreased RUB 1,025 million.

Investing Activities

In 2019, net cash flow used in investing activities was RUB 19,054 million, against RUB 14,439 million in 2018. The Group's capital expenses increased 31% to RUB 19,030 million, against RUB 14,542 million in 2018. Dollar-denominated capital expenses were up 27% to USD 294 million as the Group pursued investment projects that further its development strategy.

Financing Activities

Net cash flow allocated to financing activities in 2019 totalled RUB 7,328 million (against RUB 19,643 million in 2018). The decrease in cash outflows was due to a decrease in repayment of borrowings. In 2019, net proceeds from borrowings were RUB 8,840 million, against net repayment of borrowings of RUB 28 million in 2018. Dividends paid to shareholders stood at RUB 14,313 million, against RUB 13,278 million in 2018 (or USD 221 million, against USD 212 million in 2018).

Segment Information

Acron Group defines operating segments as components that engage in business activities that capable of earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker(s) and for which discrete financial information is available.

Segment financial information includes revenue and EBITDA.

Information on Reportable Segments for the Year Ended 31 December 2019, RUB mn

	Segment Sales	Eliminable Intersegment Sales	External Sales	EBITDA	EBITDA Margin
Acron	67,112	(58,109)	9,003	25,944	39%
Dorogobuzh	21,629	(19,669)	1,960	3,922	18%
Logistics	4,772	(3,767)	1,005	2,221	47%
Trading	105,533	(3,418)	102,115	1,190	1%
Mining NWPC	11,003	(10,948)	55	2,543	23%
Mining excluding NWPC	–	–	–	–	–
Other	1,670	(973)	697	(71)	(4%)
Total	**211,719**	**(96,884)**	**114,835**	**35,749**	**31%**

Information on Reportable Segments for the Year Ended 31 December 2018, RUB mn

	Segment Sales	Eliminable Intersegment Sales	External Sales	EBITDA	EBITDA Margin
Acron	67,754	(58,492)	9,262	23,746	35%
Dorogobuzh	27,152	(20,285)	6,867	8,347	31%
Logistics	4,729	(4,543)	186	1,042	22%
Trading	94,708	(4,780)	89,928	719	1%
Mining NWPC	9,543	(8,333)	1,210	3,352	35%
Mining excluding NWPC	–	–	–	(65)	–
Other	1,582	(973)	609	(88)	(6%)
Total	**205,468**	**(97,406)**	**108,062**	**37,053**	**34%**

Acron and Dorogobuzh (jointly "Chemical Production")

In the reporting year, Acron's commercial product output was up 6% to 5,568,000 tonnes due to the launch of new operations. In 2019, the EBITDA margin at the Veliky Novgorod facility was 39%, against 35% in 2018.

In the reporting period, Dorogobuzh's commercial product output was down 21% to 1,605,000 tonnes because the ammonia unit was shut down for upgrades. In 2019, the EBITDA margin at Dorogobuzh was 18%, against 31% in 2018.

Logistics

In the reporting year, turnover at the Group's seaport terminals was up 14% to 4.7 million tonnes. In addition to Acron Group's products, the port terminals also transshipped third-party cargo, which accounted for 9% of the total turnover. The weaker rouble was an additional support to the segment's financial performance, since the transshipment tariffs are set in foreign currency. As a result, the logistics segment's EBITDA margin was 47%, against 22% in 2018.

Trading

In 2019, the Group posted consolidated sales of 7,569,000 tonnes (up 4% year-on-year). This number exceeded its in-house commercial product output because of the sale of a portion of the Group's finished-product inventories.

As a secondary segment, trading generates a small profit. The major objective of this segment is to promote effective sales of the Group's products and enter promising sales markets.

Mining NWPC

In 2019, NWPC produced 1,804,000 tonnes of apatite concentrate, down 11% year-on-year. This decline was due to several temporary factors, such as a large volume of overburden operations and the low phosphorus content of the ore at this stage of the underground mine's development. Additionally, in 2019 the average sale price of NWPC's apatite concentrate declined along with global prices. As a result, the NWPC's EBITDA margin was 23%, against 35% in 2018.

Most of Acron Group's apatite concentrate is consumed internally. A surplus of 290,000 tonnes of apatite concentrate was sold to third parties in 2019.

Risks and Risk Mitigation Strategy

Acron Group's activity is associated with risks that can affect its operating and financial performance, whether positively or negatively. Mitigating the effects of such risks is a key task for the Board of Directors and the Managing Board.

As part of the risk management system, the Board of Directors and the Managing Board:

- Analyse and evaluate existing and potential risks
- Develop and implement measures to mitigate the effects of those risks
- Elaborate and implement plans for crisis management and recovery.

Historically, the major risks with the greatest impact on the Group's activity have been related to purchasing mineral inputs, global fertiliser market conditions, and financing. Acron Group's long-term development strategy is aimed at mitigating the influence of these risks, ensuring stability, and creating the foundation for continuing growth and improvement in the Group's competitive position.

The Group's operating results depend on fertiliser prices and return on sales, which in turn are contingent on demand for fertilisers. Demand is affected by several factors, such as weather conditions, fertiliser price forecasts, public policy, consumers' access to financing, and the availability of inventory in distribution channels.

Key Risks and Risk Mitigation Strategy

Major risks	How the development strategy mitigates these risks
Risks related to purchasing key raw materials: apatite concentrate and potash	— Creating own phosphate and potash raw material base to decrease exposure to higher raw material prices and ensure sustainable supply
Risks related to global mineral fertiliser market conditions	— Diversifying sales markets, increasing sales on premium markets with high demand — Diversifying product portfolio
Financial risks related to debt servicing	— Monetising non-core assets — Diversifying sources of financing

Risk	Description	Risk Mitigation	Risk Significance
Industry Risks			
Risks related to changes in the global mineral fertiliser market	A decline in the macroeconomic situation, insufficient increase in demand (which depends, among other things, on government subsidies, exchange rate dynamics, yield and grain prices in key sales markets, current and forecast fertiliser inventory) or excess increase in production capacity may cause significant price fluctuations for fertilisers and inputs and may have a material effect on the Group's performance.	— Pursuing a vertical integration strategy to augment the Group's long-term competitive advantages — Signing long-term contracts with major fertiliser consumers in key markets (Brazil, the United States, China) to allocate 30-50% of certain products in advance — Developing wholly owned distribution; selling through wholly owned trading and distribution companies — Developing long-term cooperation plans with independent distributors	High

Risk	Description	Risk Mitigation	Risk Significance
Risks related to seasonal fluctuations in demand for the Group's key products	Seasonal fluctuations in fertiliser application depend on weather and climate conditions. Abnormal climate phenomena such as droughts and floods may have a significant effect on demand in certain regions.	— Diversifying sales markets in order to promptly redistribute product flows and sales across 78 countries, mitigating the effects of seasonal factors — Diversifying the product portfolio, which includes fertilisers and industrial products, to reduce the Group's dependence on agricultural market dynamics — Advanced warehouse facilities at production sites and in key sales markets (Russia, China) smooth out seasonal fluctuations in sales	Medium
Risks related to new restrictive measures on commercial products	In April 2019, the European Commission resolved to introduce anti-dumping duties of 31.9% on UAN from Russia for six months. This reduces the profitability of Acron's product sales to the EU market.	— Participating in the European Commission's investigation with the assistance of legal advisers in order to minimise the investigation's negative consequences for Acron — Shifting UAN sales to other markets	Medium
Risks related to price variance and changes to the terms for purchasing key inputs and services	Acron Group's Russian production facilities obtain key inputs and services from companies that are monopolies or dominate their markets. This increases the Group's exposure to uncontrolled price hikes and manipulation of raw material prices and supplies. Increased raw material and service prices result in higher production costs and decreased profit.	— Creating own phosphate and potash raw material base; since mid-2013, the Group's Russian production facilities have received all their raw materials from wholly owned phosphate assets — Signing long-term contracts and diversifying suppliers where possible	Low
	Natural Gas With gradual market liberalisation in Russia, industrial consumers can buy gas either from Gazprom or independent suppliers. In addition, Russia started exchange trading of natural gas in October 2014. At the same time, as far as natural gas tariffs for consumers buying gas from Gazprom are concerned, the government's policy is aimed at staged price increases to avoid spikes. There are long-term risks that changes in government priorities could cause sharp increases in gas tariffs.	— The Russian government's decision to implement a long-term freeze on tariffs for goods and services provided by natural monopolies mitigates the risk of immediate gas price increases in the short term. — Continuous modernisation of ammonia units (which consume the majority of the natural gas) in order to reduce the specific feedstock consumption rate. Acron's ammonia units are among Russia's most efficient in terms of gas utilisation rate. — Acron purchases part of its natural gas on the exchange. In 2019, the Group acquired 14% of its total natural gas on the exchange. — Acron purchases the rest of its natural gas under an agreement with Gazprom Mezhregiongaz Veliky Novgorod LLC (a member of Gazprom Group), which is valid through the end of 2020. — Dorogobuzh purchases natural gas under an agreement with the independent supplier NOVATEK, which is valid through the end of 2021.	Medium

Risk	Description	Risk Mitigation	Risk Significance
	Power Acron Group's production assets are major electric power consumers, and they have two options for purchasing power (energy): — On the retail market from a last-resort provider — Independently on the wholesale market Generally speaking, pricing on the wholesale and retail power (energy) market prevents unreasonable, sudden spikes in prices. Additionally, the Russian government is implementing a new programme to revamp power-generating assets in the Russian Federation. According to a presidential decree, this programme will be launched only if the increase in consumer charges does not exceed the inflation rate. In reality, the actual increase in consumer charges may exceed the inflation rate due to a variety of non-market surcharges (support for the development of nuclear power plants, renewable power sources, waste burning plants, Far East regions, etc.). Power transfer services (which make up approximately 50% of the ultimate price per 1 kWh) are a monopoly activity. The Federal Antimonopoly Service of Russia regulates the tariffs, which are updated annually close to the rate of inflation.	— The Group's companies keep their power and power transfer agreements separate in order to mitigate the retail market risks of last-resort providers defaulting on payments for power transfer services. — In 2019, Dorogobuzh started purchasing power from the wholesale platform. — Acron operates a power-generating unit at the Ammonia-4 unit that recycles process steam. Power generation depends on the main process and the volume of surplus steam. In 2019, the generating unit produced about 6% of the total power consumption at the production site. — Dorogobuzh operates three power-generating units with a total capacity of 11 MW. In 2019, they produced 12% of the plant's total consumption. — Power-efficient solutions are being implemented as early as the design stage of projects. For example, the design for the second stage of the Oleniy Ruchey mine includes a solution to use solid-state lighting and soft starter and frequency regulating devices for equipment drives.	Medium
	Potash In 2018, the Usolskiy mine (part of the EuroChem Group) became Russia's second potash producer. However, its entire output is used for the company's in-house consumption. Therefore, URALKALI remains Russia's sole potash supplier. Without competition, the supplier may abuse its monopoly position, leading to higher prices and manipulation of supply volume.	— Acron Group is building its own potash mine as part of its vertical integration strategy. — Contracts with URALKALI for potash supplies to Acron and Dorogobuzh are valid until the end of 2021.	Medium

Risk	Description	Risk Mitigation	Risk Significance
	The cost of transportation services The cost of transportation services is a significant part of the Group's expenses. Increases in the cost of railway transportation, railcar leases or sea freight and cargo transshipment may materially impair the Group's financial position or weaken its competitive strength. In 2019, railway transportation tariffs were indexed 3.5%. However, in addition to indexation of the basic tariff, JSC Russian Railways periodically imposes various surcharges. As a result, the actual tariff increase for Acron Group may turn out to be higher than the base value.	— The government will control further indexation of railway transportation tariffs, so the risk of higher rail charges is limited. The government introduced the "inflation minus" indexation formula. — The Group negotiates with Russian Railways to decrease the railway tariff for cargo transportation within the tariff corridor. — Acron Group operates its own fleet of 1,700 railcars, which covers approximately 1/3 of its freight traffic. — The Group works with a number of railway operators on a competitive basis. — Acron Group's port logistics segment comprises own port terminals with warehouse facilities. — Freight expenses are offset by optimising shipment sizes and using the Group's warehouses, terminals and trading companies.	Medium
Operating Risks			
Failures and unscheduled production shutdowns	Failures and unscheduled production shutdowns may cause higher repair costs and lower operating results.	— Acron Group makes sizeable annual investments in engineering, upgrades and replacement of outdated equipment and construction of safe, modern facilities. — The Division for Labour Protection and Industrial Safety and the Process Support Division maintain process control, ensure compliance with industrial safety requirements in the operation of production facilities, and implement other engineering measures to reduce the risks of accidents and injuries. — The Group holds all mandatory types of insurance, including third-party liability for operators of hazardous production facilities. — The ammonia operations at Acron and Dorogobuzh are fully insured with reliable insurance companies because they are the most hazardous and cost-intensive part of the Group's operations. Recovery costs associated with a failure would be covered by insurance.	Low

Risk	Description	Risk Mitigation	Risk Significance
Technical risks related to the investment programme	Acron Group is implementing several investment projects simultaneously to construct new production assets and develop mineral deposits. Engineering complexities in the course of construction and lack of personnel resources may significantly delay completion of the projects or require additional costs.	— By thoroughly elaborating investment projects and hiring highly skilled personnel, the Group can meet deadlines and successfully commission new production capacity. — The Group purchases modern equipment from leading global manufacturers and selects highly qualified contractors. **Talitsky mine:** — The Talitsky mine's CAR/EAR are insured by a pool of Russian and international insurance companies. — Process and engineering solutions implemented in the Talitsky mine project are optimal and include all recent changes in the regulatory framework for the development and operation of such facilities. The deposit development process has been tested at similar facilities operating at the Verkhnekamsk potassium-magnesium salt deposit.	Low
Social and Environmental Risks			
Personnel risks	Scarcity of highly skilled personnel and conflicts with trade unions could lead to an increase in expenditures on professional training and expose the Group to the risk of strikes.	— The Fair Work Programme regulates the Group's social obligations to employees, including job placement and housing. — The career development programme includes advanced professional training courses and corporate training to ensure that Group's personnel have the necessary qualifications for hi-tech operations. — Recruitment of young specialists at plants (chemists, power, heat and mechanical engineers) with additional employment benefits. — Cooperation with higher education institutions. The second class of students majoring in Pure and Applied Chemistry graduated from Yaroslav-the-Wise Novgorod State University. This programme was established in 2012 on an initiative by Acron. Some of the students' graduation projects were recommended for implementation at Acron. — In 2019, over 400 students from higher and secondary professional education institutions underwent industrial training at the Group's chemical facilities.	Low

Risk	Description	Risk Mitigation	Risk Significance
Environmental risks	There are risks related to potential adverse environmental impact from the Group's operations caused by accidents, as well as the risk of failure to meet performance standards due to changes to environmental legislation, which may entail additional liabilities and expenditures.	— Upgrading equipment and commissioning environmentally safe facilities to avoid accidents and reduce emissions — Ongoing environmental monitoring and disclosure of information about environmental efforts — The Group insures its civil liability as the owner of hazardous production facilities and obtains extended insurance risk coverage, including for environmental risks.	Low
Financial Risks			
Risks related to changes in interest rates	Higher interest rates affect the Group's financial performance and may lead to its deterioration.	— Interest rate risks may be reduced by diversifying loans with floating LIBOR/EURIBOR/CBR rates and fixed rates. The Group maintains open lines of credit that offer a choice of the type of interest rate at the moment of drawdown.	Low
Currency risks	Most of the Group's revenues and committed loans are denominated in foreign currency, while its expenditures are primarily in roubles. As a result, currency exchange market volatility significantly affects the Group's financial performance.	— The Group's policy regarding the hedging of currency risks remains the same: the Group maintains a balanced debt portfolio to reflect its foreign currency and rouble revenues. Most of the Group's debt is denominated in US dollars, as is its revenue.	Medium
Liquidity risks	The Group's development strategy requires ongoing financial outlays, and unstable cash flow could lead it to default on its obligations.	Cash flow control and operational liquidity management include: — Credit limits in banks, as well as registered exchange bonds — Available balance of cash sufficient to cover short-term liabilities — Financial assets for sale	Low

Risk	Description	Risk Mitigation	Risk Significance
Legal Risks			
Risks related to changes in legislation	Changes in Russian and international laws may create additional liabilities and limitations for the Group's operations.	— In order to mitigate potential legal risks, the Group closely monitors all amendments to applicable laws, engages highly experienced legal professionals, and continually improves its corporate procedures.	Low
Risks related to changes in standards for licensing the Group's core business	Acron Group operates under a variety of licences. The corresponding licence agreements mandate the subsoil user's actions and project timelines. Licence requirements mainly concern drafting design documentation, obtaining government approvals, commencing certain operations (exploration, extraction, processing), and ensuring compliance with industrial and environmental safety requirements. Any violation of licence agreements may result in licences being withdrawn.	— The Group monitors performance of its licence requirements on an ongoing basis and makes every effort to prevent violations.	Low

Investor and Shareholder Information

Share Capital

As of 31 December 2019, Acron had authorised capital of RUB 202,670,000 divided into 40,534,000 ordinary shares with a par value of RUB 5 per share.

Acron management is not aware of any other shareholders with more than 5% of authorised capital.

As of 31 December 2019, the Group's immediate parent is Redbrick Investments S.à r.l. (Luxembourg). The Group's ultimate controlling company is Terasta Enterprises Limited (the Republic of Cyprus), and the Group is ultimately controlled by Viatcheslav Kantor.

The Group is not aware of any actual or potential acquisition by any shareholders of control disproportionate to their equity ownership, including acquisition under shareholder agreements or on other grounds.

Share Capital Structure

Acron Shareholder Structure, %

Acron's Shareholders

Full Name	Percentage in Authorised Capital as of 31 December 2019	Percentage in Authorised Capital as of 31 December 2018
Redbrick Investments S.à r.l.	62.71	62.48
Acronagroservice	23.27	23.27
National Settlement Depository (nominee holder)	7.93	8.88
Other*	6.09	5.37
Total	**100**	**100**

*Including 3.78% shares held by entities controlled by the issuer as of 31 December 2019. As of 31 December 2018, they held 3.06% shares.

Information on Shares of Acron and its Subsidiaries Held by Members of Acron's Board of Directors and Managing Board as of 31 December 2019

Members of the Board of Directors and the Managing Board	Date of Change	Number of Acron's Ordinary Shares as of 31 December 2019	Interest in Acron's Authorised Capital, %
Alexander Popov	–	19,929	0.049
Nikolai Arutyunov	–	–	–
Vladimir Gavrikov	–	–	–
Georgy Golukhov	–	–	–
Alexander Dynkin	–	–	–
Yury Malyshev	–	–	–
Vladimir Sister	–	–	–
Vladimir Kunitsky	–	17,517	0.043
Alexei Milenkov	–	790	0.002
Dmitry Balandin	–	–	–
Dmitry Khabrat	–	–	–
Alexander Lebedev	–	–	–
Irina Raber	–	–	–

Trading Floors

As of 31 December 2019, Acron's shares were traded in roubles at the Moscow Exchange (AKRN ticker) on the Level 1 (highest) quotation list.

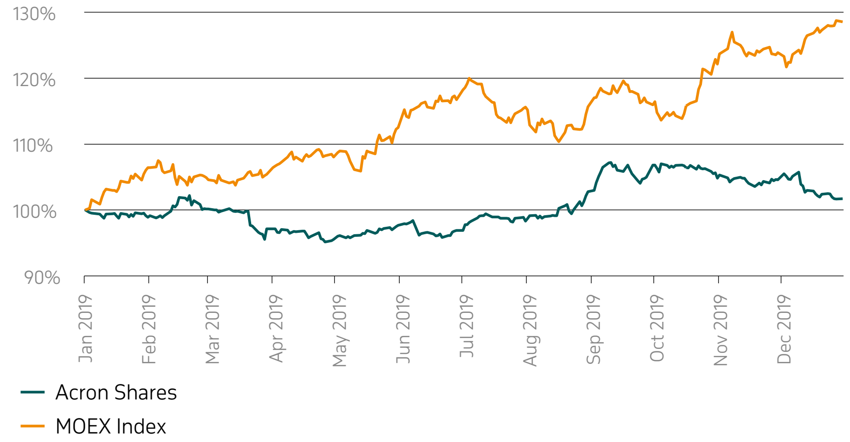
Since 2008, global depositary receipts (GDRs) for Acron's ordinary shares (each ordinary share represents ten GDRs) have been listed at the main London Stock Exchange (LSE, AKRN ticker). As of 31 December 2019, Acron GDRs traded at the London Stock Exchange accounted for 0.28% of Acron's share capital.

Acron's Share Price in 2019

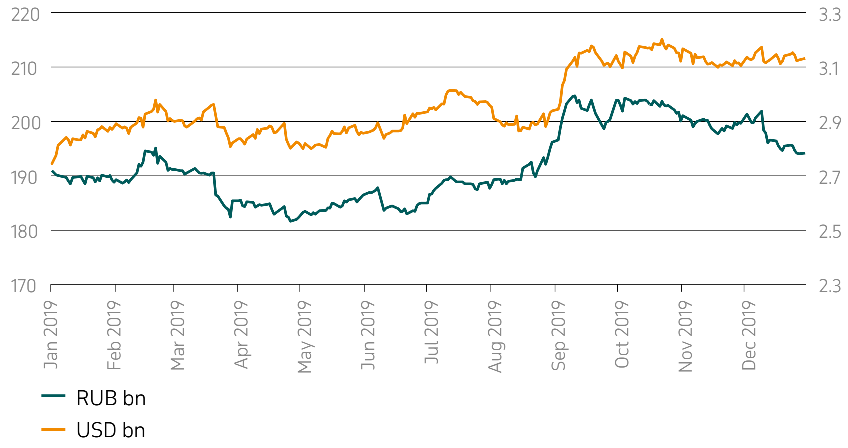
In 2019, Acron's share price went up 2%, trailing the MOEX Index due to the weak mineral fertiliser market. Prices for most of the Group's products declined. Nevertheless, the Group continued implementing its investment programme, updating existing production lines and bringing new ones on stream in order to create the potential for future improvements in operational performance. During 2019, the Group declared dividends three times, with an aggregate dividend of RUB 366 per share. Acron Group's capitalisation was up 14% to USD 3.1 billion.

Read more in Mineral Fertiliser Market Overview, Financial Overview and Acron Board of Directors' Report on Priority Activities

Dynamics of Acron Shares vs MOEX Index



Dynamics of Acron Capitalisation (MOEX)



Trading in Acron's Ordinary Shares (AKRN)

MOEX	2019	2018
Low price, RUB	4,424 (28 Mar 2019)	3,715 (10 Apr 2019)
High price, RUB	5,098 (19 Sep 2019)	4,817 (20 Sep 2019)
Price at year-end, RUB	4,790	4,710
Number of transactions for the year	71,852	111,796
Annual trading volume, RUB mn	3,138.9	4,652.4
Average daily trading volume, RUB mn	12.5	18.3

Trading in Acron's GDRs

LSE	2019	2018
Low price, USD	6.00 (10 Apr 2019)	6.00 (4 Sep 2018)
High price, USD	7.65 (28 Oct 2019)	7.75 (26 Feb 2018)
Price at year-end, USD	7.65	6.80
Annual trading volume, USD mn	0.8	0.3

Dividend Policy

Acron's Dividend Policy, approved by the Board of Directors in December 2012, was developed to provide shareholders with a transparent and clear system for determining the dividend rate and payment procedures and to guide the Board of Directors in making recommendations on the dividend rate and payment terms and procedures. According to the Dividend Policy, Acron will distribute at least 30% of the Group's IFRS net profit as dividends. The Group intends to pay dividends at least twice per fiscal year.

In the calendar year 2019, Acron Group declared (paid) dividends three times.

The extraordinary general meeting held on 11 March 2019 resolved to allocate a part of Acron's profit for previous years at the rate of RUB 130 per ordinary share. Distributed dividends totalled RUB 5.3 billion.

The Annual General Meeting held on 30 May 2019 resolved to allocate a part of Acron's profit for 2018 at the rate of RUB 135 per ordinary share, for a total of RUB 5.5 billion in distributed dividends.

The extraordinary general meeting held on 29 November 2019 resolved to allocate a part of Acron's profit for 9M 2019 at the rate of RUB 101 per ordinary share, with distributed dividends totalling RUB 4.1 billion.

Acron's Dividend Payment History

Date of General Meeting	Period	Dividends per Share, Including Interim, RUB	Total Dividends Accrued, RUB mn	Total Dividends Paid, RUB mn
29 Nov 2019	9M 2019	101	4,094	3,851*
30 May 2019	2018	135	5,472	5,468
11 Mar 2019	Undistributed profit for previous years	130	5,269	5,266
19 Oct 2018	Undistributed profit for previous years	40	1,621	1,620
31 May 2018	2017	185	7,499	7,493
12 Jan 2018	Undistributed profit for previous years	112	4,540	4,536
8 Sep 2017	Undistributed profit for previous years	235	9,525	9,518
22 Jun 2017	2016	250	10,134	10,126**
26 May 2016	2015	180	7,296	7,291
21 May 2015	Undistributed profit for previous years	139	5,634	5,630

*As of the end date of the reporting period, the deadline had not passed for paying 9M 2019 dividends.

**Following the payment of RUB 155 per share for 9M 2016, the Board of Directors recommended paying dividends of RUB 95 per ordinary share.

Declared dividends were paid in the manner and by the deadline specified by law.

In some cases, the Group was unable to pay declared dividends because neither it nor the registrar had the address or bank details for certain shareholders. In other cases, a nominee shareholder returned dividends that had been transferred to it because it was unable to discharge its obligation to deliver them for reasons beyond its control.

Bonds

As of 31 December 2019, the Group had bonds worth a total of RUB 24,123 million (at nominal value) in circulation. Excluding bonds owned by the Group's subsidiaries, the Group's bonds were worth RUB 23,772 million.

On 25 October 2019, the Group placed Series 001R bonds for RUB 10 billion (at nominal value) within its Exchange-Traded Bonds Programme of RUB 50 billion:

- 10,000,000 Series BO-001R-03 bonds

Key Details on Acron's Traded Bonds as of 31 December 2019

Item	Series 04	Series 05	Series 001R Exchange-traded Bonds Programme		
			Series BO-001R-01	Series BO-001R-02	Series BO-001R-03
Total par value of issue, RUB '000	3,750,000	3,750,000	5,000,000	5,000,000	10,000,000
Bonds in circulation, RUB '000	2,369,971	1,752,785	5,000,000	5,000,000	10,000,000
Original placement date	31 May 2011	31 May 2011	6 Oct 2016	6 Jun 2017	25 Oct 2019
Offer date	21 May 2020	21 May 2020	6 Oct 2020	3 Dec 2021	N/a
Maturity date	18 May 2021	18 May 2021	24 Sep 2026	25 May 2027	21 Apr 2023
Number of coupon periods and interest rate	20 periods Rate: Coupons 1-6: 7.95% Coupons 7-8: 10.25% Coupons 9-10: 13.60% Coupons 11-18: 10.20% Coupons 19-20: to be determined by the issuer	20 periods Rate: Coupons 1-6: 7.95% Coupons 7-8: 10.25% Coupons 9-10: 13.60% Coupons 11-18: 10.20% Coupons 19-20: to be determined by the issuer	20 periods Rate: Coupons 1-8: 9.55% Coupons 9-20: to be determined by the issuer	20 periods Rate: Coupons 1-9: 8.60% Coupons 10-20: to be determined by the issuer	7 periods Rate: Coupons 1-7: 7.25%

Credit Rating

On 14 June 2019, Fitch Ratings confirmed Acron Group's Long-Term Foreign-Currency Issuer Default Rating and Long-Term Local-Currency Issuer Default Rating of BB– with Stable Outlook.

On 1 October 2019, Moody's Investor Service confirmed the Group's Long-Term Foreign-Currency Corporate Rating of Ba3 with Stable Outlook.

On 23 December 2019, Expert RA Rating Agency confirmed Acron Group's Non-Financial Company Creditworthiness Rating of ruA+ with Stable Outlook.

Fitch Ratings

Date of Assignment /Updating	Credit Rating/Outlook
25 Oct 2017	Long-Term Foreign-Currency Issuer Default Rating BB–/Stable
25 Oct 2017	Long-Term Local-Currency Issuer Default Rating BB–/Stable
25 Oct 2017	Priority Unsecured Debt Rating BB–
25 Oct 2017	Short-term Foreign-Currency Issuer Default Rating B
14 Jun 2019	Long-Term Foreign-Currency Issuer Default Rating BB–/Stable
14 Jun 2019	Long-Term Local-Currency Issuer Default Rating BB–/Stable

Moody's Investor Service

Date of Assignment /Updating	Credit Rating/Outlook
1 Oct 2018	Long-Term Foreign-Currency Corporate Rating Ba3/Stable
1 Oct 2018	Probability of Default Foreign-Currency Rating Ba3-PD/ Stable
1 Oct 2018	Foreign-Currency Priority Unsecured Debt Rating Ba3/Stable
1 Oct 2018	Local-Currency Unsecured Debt Rating Ba3/Stable
1 Oct 2019	Long-Term Foreign-Currency Corporate Rating Ba3/Stable

Expert RA

Date of Assignment /Updating	Credit Rating/Outlook
28 Dec 2018	Non-Financial Company Creditworthiness Rating ruA+/Stable
23 Dec 2019	Non-Financial Company Creditworthiness Rating ruA+/Stable

Shareholder Relations and Information Disclosure

Acron Group is committed to a stringent transparency policy. Its information policy is founded on prompt and regular disclosure of accurate information about the Group's activity, open access to information, and a reasonable balance between transparency and protection of trade secrets and insider information. The Group complies with all legal requirements for information disclosure governed by the Federal Law On the Securities Market and the Corporate Governance Code recommended by the Bank of Russia. The Group implements the Regulation on Information Policy (https://www.acron.ru/en/investors/corporate-governance/corporate-documents-acron/the-current-edition/), approved by the Board of Directors in 2011, which establishes the basic principles of information disclosure.

Acron Group informs interested parties in a timely manner by releasing its news to news agencies and media in accordance with the requirements of applicable laws and stock exchange listing rules, publishing information on the Group's website in the Information Disclosure section (https://www.acron.ru/en/investors/disclosure/acron-disclosure/) and on the Interfax website (http://www.e-disclosure.ru/portal/company.aspx?id=357), and responding to questions from journalists, professional security market participants and other parties.

In June 2019, Acron's Board of Directors approved the Regulation on Internal Control to Prevent, Identify and Restrain Misuse of Inside Information and/or Market Manipulation, and Acron's CEO approved the List of Acron's Inside Information. The List contains information to be disclosed by the Company in addition to the requirements of applicable laws.

List of PJSC Acron Inside Information

Because its securities are exchange-traded, Acron must comply with additional information disclosure requirements about its operations.

Regulation on Internal Control to Prevent, Identify and Restrain Misuse of Inside Information and/or Market Manipulation

The Group releases notifications on its financial and operating performance on the London Stock Exchange website. Acron is careful to disclose any important information to all shareholders and analysts simultaneously under the UK Financial Conduct Authority (FCA) principles of openness and transparency.

Acron Group's 2018 Annual Report took third place in the main nomination for companies with market capitalisation of RUB 40–200 billion at the XXII Annual Report Awards organised by the Moscow Exchange and RBC Media Group.

Contact Information for Investors

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GDR Programme Depositary Bank

Deutsche Bank Trust Company Americas
Depositary Receipts Department
60 Wall Street, New York, NY 10005, USA

Corporate Actions,
New York: +1 212 250-15-04

GDR Issue Department, London/ Broker Services Group,
London: + 44 (0) 207 547-65-00

DR Department,
Moscow: +7 495 797 52 09

Corporate Governance

Statement by the Board of Directors on Compliance with the Principles of the Corporate Governance Code

The Group's securities are listed on the Moscow Exchange and the London Stock Exchange, and this requires the Group to strictly comply with information disclosure laws and to maintain a corporate governance system that ensures effective interaction between executive bodies, the Board of Directors, shareholders, and other related parties in order to ensure the safety of shareholders' capital and its efficient use and to reduce risks to shareholders, investors, and business partners.

Timely disclosure of complete and reliable information about the Group's activities is necessary to build trust-based relationships between the Group and its shareholders, investors, and partners, making the Group's securities more attractive, lowering the cost of debt capital, and positively affecting share value.

The Group's Board of Directors and management have the principal task of promoting cooperation between corporate governing bodies, shareholders, investors, and other stakeholders concerning corporate governance and oversight of the Group's business.

The Group's transparent and clear corporate governance system and high standards for information disclosure allow all stakeholders to make informed decisions about investing in the Group's securities (shares and bonds) and exercising their rights to manage the Group.

The Corporate Governance Code recommended by the Bank of Russia for use by public joint stock companies is Acron's key instrument for establishing strong corporate governance. Since the Code is voluntary, the degree to which the Group applies it demonstrates its motivation to increase the attractiveness of its securities for existing and potential investors. Acron Group periodically analyses whether it is feasible and viable to put additional recommendations of the Corporate Governance Code into practice. If there is no reason to decline the recommendations, Acron uses them when forming its corporate governance system. The Acron Board of Directors confirms the Group's commitment to phasing in the best practices of corporate governance with guidance from the Corporate Governance Code.

A brief overview of the most important elements of the Group's corporate governance model and practice is available in the section entitled Corporate Governance System. In the reporting period, the Board of Directors conducted an annual assessment of Acron's compliance with the principles and recommendations of the Corporate Governance Code; the key details of this assessment are presented below..

Methodology used to assess Acron Group's compliance with the principles of corporate governance established by the Corporate Governance Code

The Group assessed its compliance with corporate governance principles within the scope recommended by the Bank of Russia in its information letter No. IN 06-52/8 dated 17 February 2016 "On disclosure of the Report on Compliance with Principles and Recommendations of the Corporate Governance Code in the Annual Report of a public joint stock company".

Acron used the following compliance criteria (assessment criteria) recommended by the Bank of Russia to assess its compliance with the Corporate Governance Code. In cases where the Group met all criteria recommended by the Bank of Russia, it was reported that the principle under assessment is in compliance. If the Group did not meet all the criteria recommended for a principle, it was reported that this specific principle is in partial compliance or not in compliance. In such cases, the Group reported on which criteria were not met and provided a detailed description of the key reasons, factors, and circumstances for each failure to meet a criterion. When required, the report provides a description of the corporate governance mechanisms and instruments used by the Group instead of those recommended by the Corporate Governance Code.

Sources of information about the Group's corporate governance system and practices used for rating purposes are: the Group's Charter and other internal regulations governing corporate relations; bylaws governing the legal status and operation of the Group's business units and officers; minutes of meetings of the Group's management bodies; information the Group discloses under corporate and security laws, and any other information disclosed by the Group on its website; and comments (interviews) by members of the Group's management bodies, the officers and the Secretary of the Group's Board of Directors, and the Group's Corporate Secretary.

Detailed information about the Group's compliance with the corporate governance principles are presented in Appendix 4 hereto in the form of a report (recommended by the Bank of Russia) on compliance with the principles of corporate governance established by the Corporate Governance Code.

According to the Board of Directors, these results confirm the Group's commitment to gradually applying the best corporate governance practices recommended by the Code. Most of the Code's principles are already applied in full or in part in the Group's model of corporate governance. In most instances when the Group did not implement some of the recommendations of the Corporate Governance Code, this was due to existing internal traditions of intra-corporate relations and administrative policies. For instance, the Group opted not to apply some of the recommendations of the Corporate Governance Code because it needed to maintain sufficient management flexibility to maximise the Group's profits. The overregulation of corporate

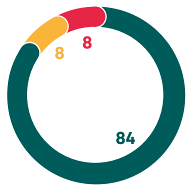
Results of the Assessment of Acron Group's Compliance with the Corporate Governance Principles Established by the Corporate Governance Code

The Code principles related to:

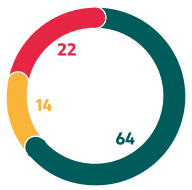
Assessment of compliance, %

The summary of the Group's corporate governance system compliance with recommendations of the Corporate Governance Code

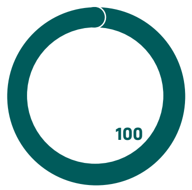
Securing shareholder rights and equal conditions for their exercise



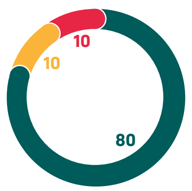
Arranging effective work of the Board of Directors



Arranging effective work of the Corporate Secretary

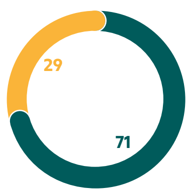


Establishing the remuneration system for members of the governing bodies and key executives

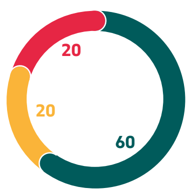


Establishing effective risk management and internal control systems

Disclosing corporate information and information policy



Taking material corporate actions



- Compliance
- Partial compliance
- Non-compliance

73% compliance

13% partial compliance

14% non-compliance

relations and hasty application of all the recommendations without due consideration for the actual needs of the Group and its shareholders could significantly complicate corporate governance and hinder important decision-making in response to new external challenges. The Group will continue to perform an annual assessment of the advisability of opting to comply with certain recommendations of the Code that are not already applied, and to make decisions about their future application after analysis of all positive and negative potential consequences. The Board of Directors believes that full compliance with all principles and recommendations of the Code cannot be the ultimate goal of a commercial corporation because the Group and its shareholders are mainly focused on the development of the Group's business and generation of profit. When the Board of Directors considers improving intra-corporate relations in the area of corporate governance (including taking into account recommendations of the Corporate Governance Code), it will primarily take into account the real current needs of the Group, applicable legal regulations, shareholder expectations, and any feedback from the Group's investors.

The Board of Directors assures stakeholders that the Group will continue to improve its model of corporate governance in order to gain and strengthen the trust of its shareholders and other investors, including by means of the instruments recommended by the Corporate Governance Code.

Acron Group's plan of action and measures to improve its corporate governance model and practices

During the reporting year, the Group consistently improved its corporate governance system. Its main achievements include amending the Charter and the Regulation on the General Meeting to allow shareholders to vote remotely, restructure control bodies, and bring both documents in compliance with current laws.

In 2020, Acron Group plans to continue to amend its corporate governance bylaws to align them with current laws.

Acron's Board of Directors

Key Events of the 2019 Corporate Year

JANUARY

18 JANUARY Acron approves JSC Independent Registrar Company R.O.S.T. as its registrar

FEBRUARY

15 FEBRUARY Board of Directors recommends allocating RUB 5,269 million for dividends (RUB 130 per share)

4 FEBRUARY Acron Group's shareholder register transferred to JSC Independent Registrar Company R.O.S.T.

MARCH

4 MARCH Board of Directors approves the list of BoD nominees for voting at the Annual General Meeting

11 MARCH Acron's shareholders approve dividends as recommended by the Board of Directors

26 MARCH Acron posts consolidated audited 2018 IFRS Financial Statements

28 MARCH Acron releases unconsolidated audited 2018 RAS Statements

APRIL

30 APRIL Acron posts 2018 Annual Report

MAY

7 MAY Board of Directors recommends allocating RUB 5,472 million for dividends (RUB 135 per share)

30 MAY Acron's shareholders approve dividends as recommended by the Board of Directors and pass resolutions on other matters on the Annual General Meeting agenda

NOVEMBER

6 NOVEMBER Board of Directors recommends allocating RUB 4,094 million for dividends (RUB 101 per share) and proposes that the extraordinary General Meeting approve the Acron Charter and Regulation on the Acron General Meeting as amended

29 NOVEMBER Acron's shareholders approve dividends as recommended by the Board of Directors and Acron's Charter and Regulation on the Acron General Meeting as amended

Report on Corporate Governance

Ensuring the high quality of corporate governance at Acron Group remains one of our top priorities. The Group is committed to aligning its management structure and internal procedures with applicable laws and global best practices.

Transparent and fair distribution of the Group's income, specifically through dividends, is one of the direct consequences of strong corporate governance. In 2019, Acron's general meeting approved a Board recommendation **to pay dividends three times: in March from the retained earnings of previous periods, in May for 2018, and in November from the retained earnings of 9M 2019.** Thus, the Group resumed paying dividends at least twice a year as stipulated by the current dividend policy. Payment of interim dividends, including from the retained earnings of previous periods, subject to sufficient profit and absent a budget deficit, aligns with the interests of shareholders and the Group as a whole. Payment of interim dividends and traditional annual dividends allows shareholders to receive dividend income more often. An additional benefit is the reduction in price volatility during the period between dividend declaration and payment. It is also easier for the Group to pay dividends in two or more stages rather than as a lump sum, which can be significant. All of these factors eventually affect the Group's market capitalisation and help investors evaluate the business more fairly. Subject to sufficient cash flow, the Board of Directors intends to continue paying interim dividends of at least 30% of the net profit posted in its consolidated IFRS financial statements, as set forth by the current dividend policy.

Since 2014, the Group's shares have been included on quotation list A (the highest list) of the Moscow Exchange. For Acron Group's Board of Directors, maintaining the Group's shares on the highest quotation list is a strategic objective that promotes the liquidity of the Group's securities and maximum market capitalisation, meeting the interests of all shareholders and of Acron Group.

The Board of Directors expects that Acron Group's efforts to maintain and improve corporate governance practices will become a clear sign for the Group's shareholders and partners and for the investment community at home and abroad that Acron is striving to ensure effective management and reliable monitoring of the Group's business in accordance with the most advanced standards.

Acron's Board of Directors

Corporate Governance System

Acron Group believes that an effective corporate governance system is one of the most important factors in creating a relationship of trust with shareholders and building a productive partnership with the investment community and other stakeholders.

The Group's corporate governance system is subject to legal requirements that regulate corporate relations at public companies, the listing rules of the Moscow Exchange and the London Stock Exchange, the recommendations of the Corporate Governance Code, and international corporate governance standards.

The key elements of the Group's corporate governance model include the general meeting, the Board of Directors with its committees, the Managing Board, the sole executive body, and the Group's business units performing internal control and audit with powers and authorities that are clearly delineated and formalised by the Charter and the Group's bylaws.

The Corporate Secretary, appointed by the Board of Directors, monitors the Group's compliance with the applicable requirements of corporate law and the provisions of the Charter and bylaws, ensuring that the rights of the Group's shareholders are exercised and their legitimate interests are pursued.

The Group provides additional guarantees of the accuracy of its accounting and financial statements prepared under Russian and international standards by engaging an external (independent) auditor that is chosen by the general meeting.

Key Principles of Corporate Governance

Following the guidance of the best practices in corporate governance and the recommendations of the national Corporate Governance Code, Acron Group always complies with the following key principles, which are intended to ensure that the interests of the Group's shareholders are respected and that a reasonable balance is maintained between the powers of managing and oversight bodies:

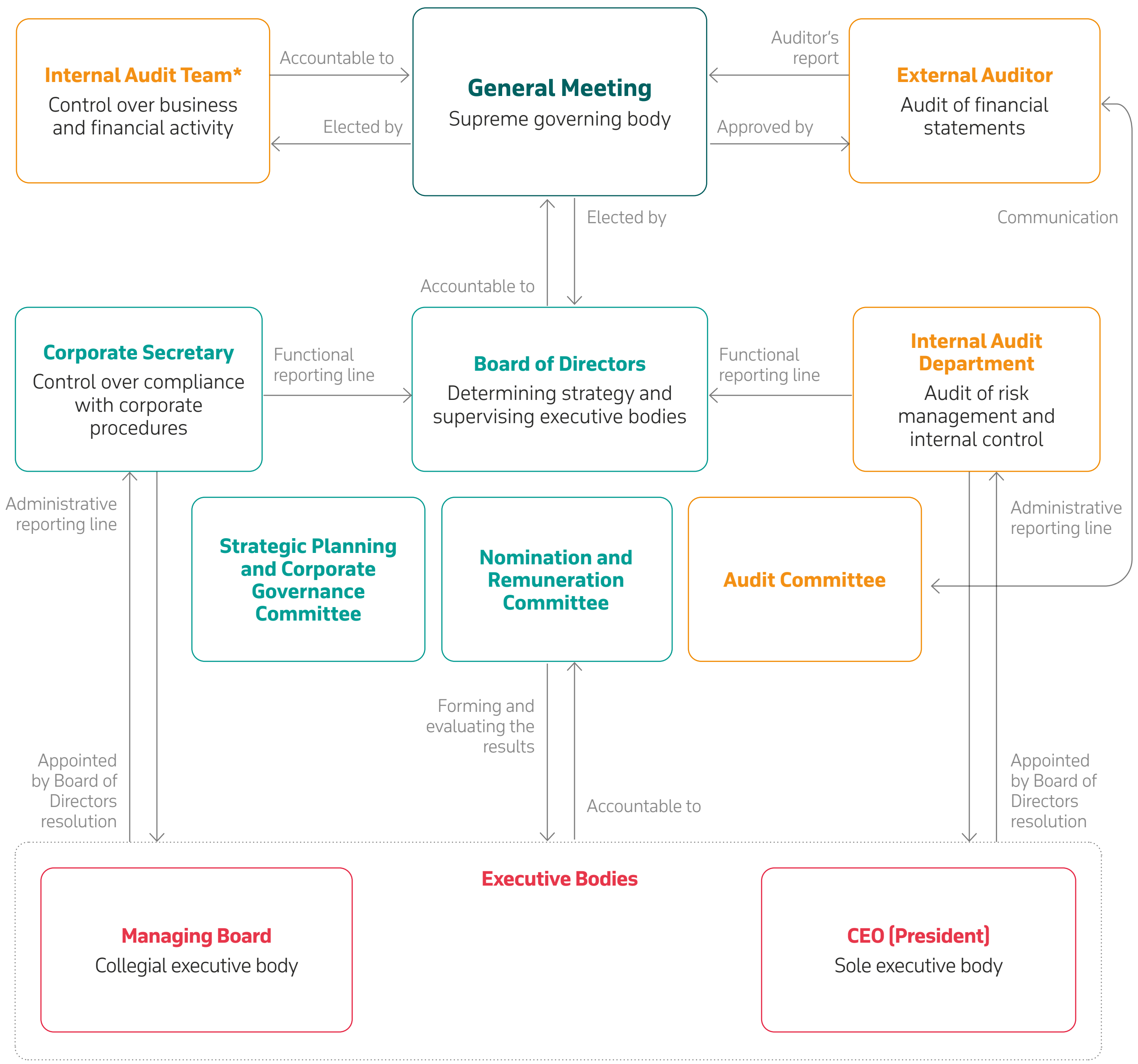
- The Group ensures that shareholders have a real opportunity to exercise their rights related to their interest in the Group.
- The Group ensures the equal treatment of shareholders owning an equal number of shares of the same type (category), including minority and foreign shareholders.
- The Board of Directors performs strategic management and effective control over the Group's executive bodies. Members of the Group's Board of Directors are accountable to its shareholders.
- The Group's executive bodies manage its day-to-day business in order to ensure that the Group develops sustainably over the long term for the benefit of shareholders. The Group's executive bodies are accountable to its Board of Directors and shareholders.
- Timely disclosure of complete and accurate information about the Group required for the Group's shareholders and investors to make informed decisions
- Effective control over the Group's financial and business activity in order to protect shareholders' rights and legitimate interests
- Social responsibility and respect for the rights and legitimate interests of other related parties.

Corporate Governance Developments in the Reporting Period

Acron Group is committed to further improving its corporate governance system. In 2019, the Group continued making efforts to align its corporate governance model and practice with the recommendations of the national Corporate Governance Code approved by the Bank of Russia.

In November 2019, the General Meeting approved the amended Acron Charter, which does not provide for an Internal Audit Team. The Group believes that its risk management and internal control systems, the Board of Directors Audit Committee, and the Internal Audit Department are sufficient, excluding the need for an Internal Audit Team. This move eliminates duplication of functionality in terms of monitoring financial and economic activities and reduces costs associated with the activity of the Internal Audit Team.

Corporate Governance Model



*The current version of the Charter approved by the extraordinary general meeting on 29 November 2019 does not provide for an Internal Audit Team

PJSC Acron Charter

Management Structure

In order to ensure that shareholders have equal access to information, the Group releases information provided to persons entitled to participate in a general meeting in both Russian and English on its corporate website.

Regulation on PJSC Acron General Meeting

General Meeting

The general meeting is the Group's supreme governing body, which acts within the scope of authority established by Russian law and is convened by the Board of Directors at least once a year. Resolutions of the general meeting are binding for the Board of Directors, Managing Board, Chief Executive Officer, and all employees of the Group. Its scope of authority includes, but is not limited to, the following key issues:

- Election of the Board of Directors
- Approval of the auditor, annual, report and annual financial statements (accounts)
- Distribution of the Group's profit (including payment (declaration) of dividends) and loss based on the results of the reporting year.

In accordance with its amended Charter, the Group informs its shareholders about upcoming general meetings by publishing notification on its official website at http://www.acron.ru/en/. Acron Group also discloses on its website other materials (information) provided to shareholders during preparation for a general meeting.

In the reporting period, the Group held three general meetings: one annual and two extraordinary.

Information on Acron General Meetings

Acron Extraordinary General Meeting held on 11 March 2019	The extraordinary general meeting resolved to pay dividends on the Group's placed ordinary shares from the retained earnings of previous periods and established the record date for persons entitled to receive dividends. The Board of Directors proposed all agenda items and draft resolutions.
Acron Annual General Meeting held on 30 May 2019	The Annual General Meeting approved the Group's 2018 Annual Report, financial statements, and profit and loss distribution, announced dividends on the Group's placed ordinary shares for 2018 and set the record date for persons entitled to receive dividends, elected the Board of Directors and the Internal Audit Team, approved auditors to confirm the RAS and IFRS financial statements, and resolved to pay compensation and reimbursement to members of the Board of Directors. The Board of Directors proposed all agenda items and draft resolutions. The Group's shareholders proposed nominees to the Board of Directors and the Internal Audit Team.
Acron Extraordinary General Meeting held on 29 November 2019	The extraordinary general meeting approved Acron's amended Charter and the amended Regulation on the Acron General Meetings, resolved to pay dividends on the Group's placed ordinary shares for 9M 2019, and established the record date for persons entitled to receive dividends. The Board of Directors proposed all agenda items and draft resolutions.

Regulation on PJSC Acron Board of Directors

Board of Directors

Alexander Popov

1969
Chairman of the Board of Directors
Senior Vice President

Member of Acron's Board of Directors since 2008
Member of the Strategic Planning and Corporate Governance Committee of the Board of Directors

Education
Finance Academy under the Government of the Russian Federation

Professional Experience
Alexander Popov was named Chair of the NWPC Board of Directors in 2013 and Chair of the VPC Board of Directors in 2012. Mr Popov has served as Chair of the Board of Directors at Acron since 2008 and at Dorogobuzh since 2010. He was appointed Senior Vice President of both companies in 2007. Mr Popov joined the Group in 1996 and served as Head of the Internal Audit Division under the Board of Directors, Head of the Audit and Legal Department, and Vice President for Corporate Construction and Financial Control.

Interest in the issuer's authorised capital/percentage of the Group's ordinary shares: 0.049%

Vladimir Gavrikov

1960
Deputy Chairman of the Board of Directors
Executive Director

Member of Acron's Board of Directors since 2006
Member of the Strategic Planning and Corporate Governance Committee of the Board of Directors

Education
Novomoskovsk branch of the Mendeleev Institute of Chemical Technology

Professional Experience
Since 2008, Vladimir Gavrikov has served as Chair of the Novgorod Region Union of Industrialists and Entrepreneurs, a regional association of employers. He was appointed Acron's Executive Director and became a member of the Novgorod Regional Duma in 2005. He joined Acron in 1983 and served as Head of the Office for Social and Cultural Programmes, Deputy Head of the Social Development Office, Head of the Social Development Office, social programmes supervisor, and Deputy CEO for HR and Social Programmes.

No interest in the issuer's authorised capital/does not hold ordinary shares

Nikolai Arutyunov

1964
Senior Independent Director

Member of Acron's Board of Directors since 2016
Chair of the Audit Committee and the Nomination and Remuneration Committee of the Board of Directors

Education
Lomonosov Moscow State University

Professional Experience
In 2019, Nikolai Arutyunov headed the Department for Sales Financial Support at Russian Helicopters. He served as advisor to the CEO of Hendel LLC in 2017-2018. In 2016-2017, Mr Arutyunov served as Executive Director and Head of the Institutional Client Service Directorate at URALSIB Management Company, a member of the Board of Directors of Geotech Seismic Services, and a member of the Board of Directors of IG Seismic Services. In 2013-2016, he served as Managing Director and Head of Sales Finance at Sukhoi Civil Aircraft. In 2011-2012, Mr Arutyunov was Executive Director at UBS Investment Bank. In 2011, he served as Managing Director and Head of Research at NCH Advisors Inc. investment fund.

No interest in the issuer's authorised capital/does not hold ordinary shares

Georgy Golukhov

1960
CEO Advisor

Member of Acron's Board of Directors since 2016

Education
Pirogov Second Moscow State Medical Institute

Professional Experience
Since 2016, Georgy Golukhov has served as advisor to the Chair of JSC Megapolis Board of Directors. Since 2014, he has served as CEO of Municipal Clinical Hospital No. 31, Moscow Health Department. In 2012-2014, he was minister and Head of the Moscow Health Department. Mr Golukhov was a member of the Board of Directors of Pharmstandard in 2011-2018. In 2011-2012, he served as chief physician at Municipal Clinical Hospital No. 31, Moscow Health Department.

No interest in the issuer's authorised capital/does not hold ordinary shares

Vladimir Sister

1945
Independent Director

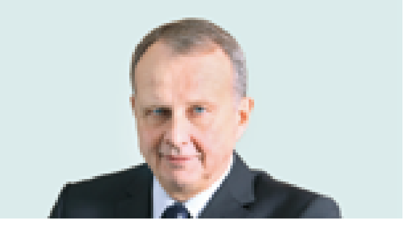
Member of Acron's Board of Directors since 2015
Member of the Audit Committee and the Nomination and Remuneration Committee of the Board of Directors

Education
Dzerzhinsky Institute of Chemical Technology in Dnepropetrovsk; Doctor of Science (Engineering), Professor, corresponding member of the Russian Academy of Sciences (RAS), full member of the Russian Academy of Natural Sciences and the Russian Academy of Engineering (Academician)

Professional Experience
Since 2016, Vladimir Sister has chaired the Chemical Technology Processes and Equipment Department at Moscow Polytechnic University. He has served as CEO of the National Innovation Company since 2015. Since 2003, Mr Sister has been a member of the editorial board of the journal Chemical Technology. In 2015-2016, he chaired the Chemical Technology Processes and Equipment Department at Moscow State University of Mechanical Engineering (MAMI). In 2007-2015, Mr Sister chaired the Department of Engineering Ecology and Alternative Energy Sources at MAMI.

No interest in the issuer's authorised capital/does not hold ordinary shares

Alexander Dynkin



1948
CEO Adviser

Member of Acron's Board of Directors since 2008

Chair of the Strategic Planning and Corporate Governance Committee of the Board of Directors

Education

Moscow Aviation Institute, Doctor of Science (Economics), full member of the Russian Academy of Sciences

Professional Experience

Since 2018, Mr Dynkin has served as the chairman of council on priority areas of scientific and technological development for the Russian Federation as part of the Russian Presidential Scientific and Educational Coordination Council on the priorities of scientific and technological development of the Russian Federation (the Russian Academy of Sciences). In 2014-2016, Alexander Dynkin was an independent member of the Board of Directors of Russian Helicopters. In 2013-2014, he served as an independent member of United Engine Corporation. In 2012-2018, Mr Dynkin was a member of the Russian Presidential Economic Council. Since 2012, he has been a member of the Russian Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security and Chairman of the Russian Pugwash Committee of the Russian Academy of Sciences. In 2012-2016, he sat on the Expert Advisory Council under the Chairman of the Russian Federation Council. He has been involved with the Russian International Affairs Council, a non-profit partnership, serving as a member of the Research Board since 2011, Chairman of the Research Board in 2011-2016, and a member of the Board of Trustees since 2012. Mr Dynkin has served as a member the Presidium of the Russian Academy of Sciences since 2010 and as an adviser to Acron's CEO since 2009. Since 2008, he has been a member of the Presidium of the Russian Presidential Council on Science and Education and a member of academic council at the Security Council of Russia. Since 2007, he has served as a member of academic council at the Russian Foreign Ministry. Between 2006 and 2016, Mr Dynkin served as Director of the Institute of World Economy and International Relations at the Russian Academy of Sciences (IMEMO), and he was named its President in 2016. He chaired the Economy and Finance Department at the International University in Moscow from 2001 to 2017.

No interest in the issuer's authorised capital/does not hold ordinary shares

Yury Malyshev

1939
Independent Director

Member of Acron's Board of Directors since 2015

Member of the Audit Committee and the Nomination and Remuneration Committee of the Board of Directors

Education

Kemerovo Mining Institute, Doctor of Science (Engineering), Professor, full member of the Russian Academy of Sciences

Professional Experience

In 2017-2019, Yury Malyshev served as a member of the JSC ROSGEO Board of Directors. In 2010-2015, he served as Director of Vernadsky State Geological Museum of the Russian Academy of Sciences, and he has been its President since 2015. Mr Malyshev has been an independent member of the Board of Directors of Mechel since 2013. Since 1993, he has served as President of the Mining Science Academy, a transregional non-governmental organisation. Since 1990, Mr Malyshev has been a member of the editorial board of Ugol, the Russian Coal Journal. In 2010-2017, he chaired the Board of Directors of the Integrated Shaft Constructing Company Soyuzspetsstroi. In 1999-2013, he served as President of Russia's Mining Industrialists, a non-profit partnership, and has been its Honorary President and a member of the Supreme Mining Council since 2013.

No interest in the issuer's authorised capital/does not hold ordinary shares

Founding Principles and Structure of the Board of Directors

The Board of Directors is the Group's standing collegial governing body that controls its executive bodies and performs strategic management of its business. The Board of Directors also exercises other functions assigned to it by law and the Group's Charter.

The Board of Directors is elected by and accountable to the Group's general meeting. Information about the structure and operation of the Board of Directors and its committees is provided to the Group's shareholders in annual reports and disclosed on the Group's website.

In accordance with its scope of authority set forth in the Group's Charter, Acron's Board of Directors is responsible for the following matters concerning the Group's management:

- Determining priority segments for the Group's business and development strategy and monitoring their implementation by executive bodies
- Establishing risk management and internal control policies and evaluating their effectiveness
- Establishing the internal audit policy and monitoring compliance with it
- Approving the dividend policy and making recommendations on dividend payment
- Approving the Group's information policy and monitoring compliance with it
- Evaluating the effectiveness of the corporate governance system and adopting resolutions to improve the Group's corporate governance practices
- Approving major transactions and related-party transactions
- Other matters under the Group's Charter and applicable Russian laws.

A critical function of the Board of Directors is to establish effective executive bodies and monitor their operation. In order to perform this function, the Group's Charter provides the Board of Directors with the following powers: establishing the Group's executive bodies and terminating their powers ahead of schedule; approving the terms and conditions of the employment agreement with the person serving as sole executive body and with members of the collegial executive body, including remuneration and other payments, determining requirements for their experience, setting their remuneration; and representing the Group's interests and exercising its rights as employer in relations with the person acting as the sole executing body.

The Regulation on Acron's Board of Directors comprehensively defines the rights and obligations of its members, the powers of the Chair and the Senior Independent Director, and the procedure for convening and holding Board meetings.

The principles for forming the Board of Directors are set forth in the Group's Charter and bylaws and comply with applicable corporate laws, listing rules applicable to the Group, and the recommendations of the Russian Corporate Governance Code. For instance, to ensure that the Board of Directors effectively supervises management and works to prevent conflicts of interests:

- No more than one-quarter of the Board of Directors members may also be members of the Group's executive bodies, and no member of an executive body may be elected Chair of the Board of Directors.
- The Board of Directors includes at least three independent members who are not affiliated with the Group, the government, the Group's competitors, substantial shareholders, or other significant counterparties.

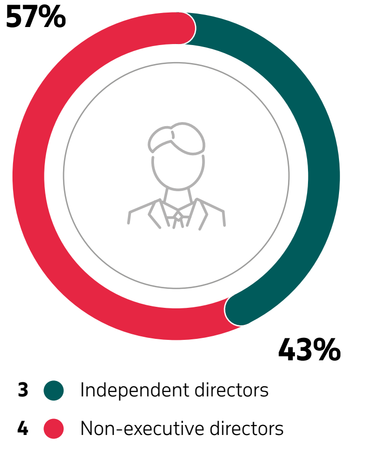
The current Board of Directors was elected at the Annual General Meeting held on 30 May 2019.

The Board of Directors includes the following members: Alexander Popov (Chair), Vladimir Gavrikov (Deputy Chair), Nikolai Arutyunov (Senior Independent Director), Yury Malyshev (Independent Director), Vladimir Sister (Independent Director), Georgy Golukhov, and Alexander Dynkin.

The Board of Directors qualified three of the seven members elected by the Annual General Meeting in May 2019 as Independent Directors. This means that in 2019, the number of Independent Directors on the Board of Directors remained at the record high level achieved from 2015 to 2018. Further information about Independent Directors and their role on the Board of Directors is provided below in the Independent Directors section.

As of 31 December 2019, Acron's Board of Directors included three Independent Directors and four non-executive directors who were not members of the Group's executive bodies.

Board of Directors Sructure, number of people



Board of Directors Performance Report

The Group's Board of Directors has

7 members

In 2019, the Board held

17 meetings

and addressed

44 matters

In 2019, Acron's Board of Directors held 17 meetings (one meeting was held in person and the other 16 were absentee votes), addressed 44 matters, and passed 44 resolutions.

In 2019, Acron's Board of Directors addressed the following matters:

- Approving nominees to the Board of Directors and the Internal Audit Team
- Selecting auditors for the Group
- Electing the Chair and Deputy Chair and appointing a Secretary for the Board of Directors
- Assessing Board members' compliance with independence criteria and electing the Senior Independent Director
- Establishing the sole executive body and collegial executive body, approving the concurrent service of members of executive bodies in management bodies of other organisations
- Forming committees of the Board of Directors
- Determining the Board's position on agenda items for the Group's general meetings
- Convening annual and extraordinary general meetings, considering proposals and approving general meeting agendas and documents, regulating the preparation and holding of general meetings, and appointing the meeting secretary
- Reviewing 2018 annual financial statements (accounts)
- Considering recommendations on profit and loss distribution, including dividend distribution for 2018
- Considering recommendations on payment of dividends from Acron's retained earnings of previous years
- Considering recommendations on payment of dividends based on 9M 2019 results
- Considering recommendations on payment of remuneration and reimbursements to the members of the Board of Directors
- Considering Acron's 2018 Annual Report
- Considering the auditor's report and the Internal Audit Team report
- Approving the report on the Group's compliance with the Corporate Governance Code
- Approving related-party transactions
- Considering the report on Acron's related-party transactions in 2018
- Considering Acron's potential participation or termination of its participation in other organisations
- Considering determination of the Group's auditor fee
- Approving Acron's new registrar and the terms and conditions of the register maintenance agreement
- Approving the terms and conditions of an agreement with the Group's Registrar on performing the functions of a counting commission at the Group's general meetings
- Approving Acron's internal control rules to prevent, detect, and suppress the unlawful use of insider information and/or market manipulation, including the procedure for access to insider information and rules for protecting its confidentiality, and monitoring compliance with the requirements of the law concerning the prevention of illegal use of insider information
- Considering draft Acron Charter as amended
- Considering draft Regulation on Acron General Meeting as amended
- Approving Regulation on Acron Credit and Investment Committee as amended

Information on changes to Board of Directors members' stakes in Acron Group's authorised capital and ownership of the Group's ordinary shares

In the reporting period, members of Acron's Board of Directors did not execute any transactions to acquire or dispose of the Group's shares. There were no changes to their stakes in Acron Group's authorised capital or ownership of the Group's ordinary shares. Information on shares of Acron and its subsidiaries held by members of Acron's Board of Directors is available in the Investor and Shareholder Information section of this Annual Report.

Attendance at Board of Directors Meetings and Meetings of Board Committees

	Independence	Board of Directors	Audit Committee	Strategic Planning and Corporate Governance Committee	Nomination and Remuneration Committee
Alexander Popov		17/17		6/6	
Nikolai Arutyunov	☑	17/17	8/8		3/3
Vladimir Gavrikov		17/17		6/6	
Georgy Golukhov		16/17			
Alexander Dynkin		16/17		6/6	
Yury Malyshev	☑	16/17	8/8		3/3
Vladimir Sister	☑	17/17	8/8		3/3

Independent Directors

Independent directors play a special role in ensuring objective assessment by the Board of Directors of the Group's state of affairs and outlining ways to further its business strategies.

For this reason, Acron Group carefully examines the expertise of nominees proposed by shareholders for the Board of Directors and strictly applies the independence criteria. The Group assesses a nominee's independence using both the Moscow Exchange listing rules and the stricter recommendations of the Corporate Governance Code.

Acron's Board of Directors Nomination and Remuneration Committee conducts a preliminary assessment of nominees' compliance with independence criteria and submits its finding based on the results of the assessment. The final resolution regarding the independence of an elected member of the Board of Directors is adopted at a Board of Directors meeting with due consideration for the Nomination and Remuneration Committee's finding.

Acron Group's Board of Directors currently has three independent directors: Nikolai Arutyunov, Yury Malyshev, and Vladimir Sister, each of whom met all the criteria of the Moscow Exchange listing rules and the Russian Corporate Governance Code.

The independent directors on Acron's Board of Directors represent a well-balanced combination of experience, knowledge, and business proficiency. Yury Malyshev and Vladimir Sister have the significant managerial expertise required for the Group's business; they know the industry well and have specific work experience in the segments where Acron and its subsidiaries operate. Nikolai Arutyunov has experience working with the Russian and international investment community, which is very important for an independent director, and he has knowledge and skills in preparing and analysing financial statements (accounts) and consolidated financial statements.

The experience of serving on the Board helps independent directors gain comprehensive knowledge about significant matters and complex issues (risks) affecting the Group's business. They also have time to access complete information about the corporate governance system, the risk management system, internal control, and the distribution of responsibilities between the Group's executive and other bodies.

Under the Group's bylaws, a member of the Board of Directors qualified as an independent director must refrain from actions that may cause them to lose independence. An independent director also must notify the Nomination and Remuneration Committee immediately about any circumstances that may affect their independence. Acron Group is required to disclose an independent director's loss of independent status when that fact is confirmed by the Nomination and Remuneration Committee.
In the reporting year, none of the independent directors lost their status.

Because Acron Group has a sufficient number of independent directors on the Board, the Nomination and Remuneration Committee and the Audit Committee consist solely of independent directors, which is consistent with the best practices in corporate governance. This means that both committees are able to independently determine their work plans and develop agendas on the most pressing issues without any influence by management.

In the reporting year, the Board's committees held eight meetings (Audit Committee: four meetings, Nomination and Remuneration Committee: four meetings). In 2019, these committees reviewed management reports on the following issues: the Group's compliance with applicable laws and listing rules of Russian and foreign stock exchanges; the Group's practice of incentives and professional development for key executive staff; and the Group's practice of applying the Corporate Governance Code and counteracting corruption. These committees also discussed the following matters: the effectiveness of the Group's risk management and internal control system; IT resource efficiency, IT risk management, and measures to mitigate IT risks; defining criteria to select nominees for management and control bodies and assessing nominees; and other matters.

Acron Group's independent directors are proactive on the Board of Directors and its committees, contributing objective opinions on matters related to corporate governance and helping the Board reach well-balanced decisions that take into account the interests of all shareholders, regardless of the size of their stake.

Recognising the important role independent directors play in improving corporate governance, Acron Group follows the internationally recognised practice of electing a senior independent director.

In reporting period, Nikolai Arutyunov served as the Senior Independent Director by resolution of the Board of Directors.

Acron Group continues to pursue the vector of corporate governance improvements it has outlined for itself. The practice of electing a Senior Independent Director was adopted previously in response to recommendations of the Corporate Governance Code, and it was formalised in the Regulation on Acron's Board of Directors, including a description of the senior independent director's role in coordinating the efforts of the independent directors and cooperating with the Chair of the Board of Directors in order to develop resolutions on how the Board can function most effectively. This Regulation also directly states the powers of the senior independent director, including holding meetings with independent directors regarding matters that require separate opinions (positions) by the independent directors. Additionally, the Regulation gives the independent directors and other directors the right to request and receive additional information they deem necessary about the Group and legal entities controlled by the Group.

Acron Group appreciates the performance of its independent directors in the reporting year and will continue providing independent directors with the resources they need to carry out their mission, including through the assignment of additional powers based on actual needs.

Regulation on PJSC Acron Corporate Secretary

Corporate Secretary

Nikolay Fefelov

In the reporting period, Nikolay Fefelov served as Corporate Secretary.

In February 2018, the Board of Directors appointed Nikolay Fefelov as Acron Group's Corporate Secretary.

From October 2011 to February 2018, Mr Fefelov served as Acron Group's legal advisor, leading legal advisor, and Head of the Corporate Law Department.

In 2015, Mr Fefelov graduated from the National Research University Higher School of Economics with a Bachelor of Economics degree under the Stock Market and Investments programme.

In 2006, he graduated from the Gubkin Russian State University of Oil and Gas with a degree in law.

Mr Fefelov was born in 1984 in Baku.

He has no interest in the authorised capital of Acron Group or in the legal entities under its control.

He is not an affiliate of Acron Group, the entity controlling the Group or any member of the Group's executive bodies.

The Corporate Secretary is the officer who ensures that the Group complies with those provisions of Russian law, the Charter, and bylaws that guarantee that shareholders can exercise their rights and legitimate interests.

The Corporate Secretary's efforts are focused on improving the effectiveness of the Group's corporate governance for the benefit of its shareholders, the Group's investment potential, and its share price.

In order to meet these goals, the Corporate Secretary ensures that the Group cooperates efficiently with shareholders, state agencies regulating corporate relations, trade organisers on Russian and international stock exchanges, the Group's share register holder, and other professional securities market participants.

The Corporate Secretary is also involved in improving the Group's corporate governance system and practices based on the recommendations of the Corporate Governance Code and internationally accepted standards of corporate governance.

The Corporate Secretary is responsible for coordinating the Group's actions to protect the rights and interests of its shareholders, prevent corporate conflicts, and support the efficient functioning of the Board of Directors and the Group's general meetings.

The Corporate Secretary is appointed and relieved from their duties by the Group's Chief Executive Officer by resolution of the Board of Directors.

The Corporate Secretary is directly accountable to the Board of Directors (Chair of the Board of Directors) and reports on their performance to the Board of Directors.

Regulation on the PJSC Acron Board of Directors Audit Committee

Board of Directors Committees

Acron's Board of Directors includes the Audit Committee, the Nomination and Remuneration Committee, and the Strategic Planning and Corporate Governance Committee. These committees play an important role in forming an advanced corporate governance system, ensuring preliminary consideration of the most important matters of the Group's business within the scope of authority of the Board of Directors and preparing recommendations for the Board of Directors regarding key matters.

If a Board resolution contradicts the committees' recommendations, the Board of Directors must explain why it decided to act against the recommendations. This explanation is included in the minutes of the Board of Directors meeting.

In the reporting year, the Group's Board of Directors did not pass any resolutions contradicting the recommendations of its committees, which reflects well on the level at which issues are addressed in committees.

Audit Committee

The main objective of the Audit Committee is to give preliminary consideration to matters related to control over the Group's business and to prepare recommendations for the Group's Board of Directors related to financial statements (accounts) and consolidated financial statements, risk management and internal control, internal and external audit, and counteracting illegal or unfair actions by the Group's officers (employees) and third parties.

The Board of Directors forms the Audit Committee (elects its members and Chair) from among the independent members of the Board of Directors.

8 meetings held

9 matters addressed

Audit Committee Elected on 30 May 2019

The Committee consists of three independent directors:

- Nikolai Arutyunov (Chair)
- Yury Malyshev
- Vladimir Sister

Audit Committee Track Record

In 2019, the Audit Committee held eight meetings (including one vote in person) and addressed nine matters, including the following:

- Considering KPMG's report on the plan and strategy to conduct an audit of Acron's 2018 IFRS financial statements
- Making recommendations to determine auditors' fees
- Considering the results of an audit of Acron's H1 2019 IFRS financial statements
- Considering the results of an audit of Acron's 2018 IFRS financial statements performed by KPMG
- Assessing the nominees for auditor and presenting relevant recommendations
- Considering the Internal Audit Team's finding on the results of the audit of Acron's performance in 2018 and other matters within the scope of authority of Acron's Internal Audit Team
- Assessing the reports on Acron's 2018 Annual Financial Statements (Accounts) and Annual Consolidated Financial Statements issued by external auditors
- Considering the report on the review of Acron's 9M 2019 consolidated condensed interim financial statements
- Considering KPMG's report on the plan and strategy to conduct an audit of the financial statements for the year ended on 31 December 2019.

Strategic Planning and Corporate Governance Committee

Regulation on the PJSC Acron Board of Directors Strategic Planning and Corporate Governance Committee

The main tasks of the Strategic Planning and Corporate Governance Committee are to give preliminary consideration to matters related to strategic development (planning) and the Group's corporate governance and to prepare recommendations for the Board of Directors related to priority business areas, the Group's development strategy, and improving the corporate governance system and practices.

The Board of Directors forms the Strategic Planning and Corporate Governance Committee (elects its members and Chair) from among any members of the Group's Board of Directors who have the expertise and experience required to serve on this committee.

Strategic Planning and Corporate Governance Committee Elected on 30 May 2019

- Alexander Dynkin (Chair)
- Vladimir Gavrikov
- Alexander Popov

Strategic Planning and Corporate Governance Committee Track Record

In 2019, the Strategic Planning and Corporate Governance Committee held six meetings (all of which were absentee votes) to address 14 matters, including the following:

- Recommendations on convening the general meeting and approving the documents required to prepare and hold the general meeting
- Preliminary consideration of the report on the Group's compliance with the Corporate Governance Code in 2018
- Preliminary consideration of the Board of Directors' position regarding the agenda for general meetings and the rationale behind resolutions
- Recommendations on distribution of profit and loss for 2018, previous years, and 9M 2019
- Recommendations on dividend payment for 2018, previous years, and 9M 2019 from Acron's retained earnings for previous years
- Recommendations on approval of Acron Group's 2018 Annual Report

— Preliminary consideration of the Report on Acron's 2018 related-party transactions

— Preliminary consideration of Acron's draft Charter as amended

— Preliminary consideration of the draft Regulation on Acron's General Meeting as amended.

Nomination and Remuneration Committee

Regulation on the PJSC Acron Board of Directors Nomination and Remuneration Committee

The key tasks of the Nomination and Remuneration Committee are to give preliminary consideration to matters and to prepare recommendations for Acron's Board of Directors concerning effective human resources and remuneration policy, short-term and long-term incentive programmes for the members of the Group's executive bodies and other key senior officers, and approval of the terms and conditions of employment agreements with members of the Group's executive bodies and other key senior officers.

NOMINATION AND REMUNERATION COMMITTEE ELECTED ON 30 MAY 2019

The Committee consists of independent directors:

— Nikolai Arutyunov (Chair)

— Yury Malyshev

— Vladimir Sister

NOMINATION AND REMUNERATION COMMITTEE TRACK RECORD

In the reporting year, the Nomination and Remuneration Committee held three meetings (all of which were absentee votes) and addressed three matters, including the following:

— Recommendations on remuneration and reimbursements paid to members of the Board of Directors

— Preliminary assessment of nominees to Acron's Board of Directors and the Internal Audit Team, including assessment of compliance with independence criterion by nominees to the Board of Directors, and presenting relevant findings and recommendations

— Assessment of the effectiveness of Acron's executive bodies in 2018, analysis of the professional expertise of the members of Acron's executive bodies and recommendations on the structure of Acron's executive bodies.

3 meetings held

3 matters addressed

Regulation on PJSC Acron Managing Board

Managing Board

Vladimir Kunitsky

1948

Chairman of the Managing Board, Chief Executive Officer (President)

Since 2011, Vladimir Kunitsky has served as Acron's CEO (President).

He was Acron's vice president between 2006 and 2011.

Mr Kunitsky has been with the Group since 1983. His previous offices include deputy head of AN operations, head of NPK operations, and director general of Dorogobuzh Minudobreniya Production Association.

He began his career in the chemical industry at the Krasnouralsk Copper Smelting Plant, where he worked from 1971 to 1983.

Mr Kunitsky was born in 1948. In 1971, he graduated from the Gorky Urals State University with a degree in chemistry.

Mr Kunitsky was named Honoured Chemist of the Russian Federation and received the Merit in Labour Medal.

Interest in the issuer's authorised capital/percentage of the Group's ordinary shares: 0.043%

Dmitry Balandin

1980

Member of the Managing Board, Vice President for Finance and Economics

In December 2018, Dmitry Balandin was appointed Acron's Vice President for Finance and Economics.

He has been with the Group since 2013, working as corporate finance director.

In 2006-2013, Mr Balandin worked at Gazprom Neftekhim Salavat at a senior management level.

Mr Balandin was born in 1980. He graduated from Kurgan State University in 2002 with a degree in finance and credit and a law degree.

In 2006, he received his Ph.D. in economics from the Graduate School of Management at St. Petersburg State University.

No interest in the issuer's authorised capital/does not hold ordinary shares

Alexander Lebedev

1986

Member of the Managing Board, Vice President for Domestic Business and Agricultural Projects

Since January 2019, Mr Lebedev has served as Acron's Vice President for Domestic Business and Agricultural Projects.

In November-December 2018, he was named Acron's Vice President for Domestic Business.

Mr Lebedev has worked at Acron since 2011, serving as a sales department specialist, head of the organic and non-organic chemical product sales team, deputy head of the sales department, and head of the sales department.

In 2007-2011, he was employed at NPP Macromer.

Alexander Lebedev was born in 1986. In 2008, he graduated from Vladimir State University with a degree in marketing.

Mr Lebedev received a gold medal for his contribution to the development of Russia's agro-industrial complex.

No interest in the issuer's authorised capital/does not hold ordinary shares

Alexei Milenkov

1973
Member of the Managing Board, Finance Director

In 2008, Alexei Milenkov was appointed Acron's Finance Director.

He has been with the Company since 2002, working as head of the information and research division.

Mr Milenkov was born in 1973. In 1995, he graduated from Togliatti State University with a degree in automotive engineering. He is a fellow member of the Association of Chartered Certified Accountants (ACCA).

Interest in the issuer's authorised capital/percentage of the Group's ordinary shares: 0.002%

Irina Raber

1949
Member of the Managing Board, Vice President for Human Resources and Special Projects

In 2011, Irina Raber was appointed Vice President for Human Resources and Special Projects at Acron.

She has been vice president of the Figure Skating Federation of Russia since 2006 and has led the Figure Skating Federation of Moscow since 2005.

In 2000-2010, Ms Raber was Prefect of the North-East Administrative District of Moscow in the rank of a Moscow Government Minister.

In 1991-2000, she headed the economics department of a prefecture in the North-East Administrative District of Moscow and was promoted to deputy prefect and senior deputy prefect of the district.

Ms Raber was born in 1949. In 1972, she graduated from the Moscow Electrical Engineering Institute of Communications with a degree in electrical communications engineering. Ms Raber also graduated from the All-Union Extramural Polytechnic Institute specialising in production management in 1991 and from the MGIMO Institute of State Management with a degree in law in the sphere of state construction and management in 1996.

Ms Raber holds the Order of Friendship and the Order of Honour. The Russian Orthodox Church awarded her the Order of St. Olga and the Order of St. Sergius of Radonezh. She also has a Valorous Labour medal, a medal in commemoration of the 100th anniversary of the birth of Lenin, and a medal in commemoration of Moscow's 850th anniversary.

No interest in the issuer's authorised capital/does not hold ordinary shares

Dmitry Khabrat

1970
Member of the Managing Board, Vice President Overseas

Dmitry Khabrat was appointed Acron's Vice President Overseas in 2012. In 2010, he was appointed head of Acron's Foreign Trade Division and was elected to the Dorogobuzh Board of Directors. He sat on Acron's Board of Directors in 2011.

Mr Khabrat has been with Acron since 1993. He worked as international market exports engineer, assistant deputy chairman of the Board of Directors, and consulting centre expert. In 2006-2010, he was deputy head of Acron's Foreign Trade Division.

Mr Khabrat was born in 1970. He graduated in 1993 from the Novgorod Polytechnic Institute with a degree in mechanical engineering. In 1998, he graduated from the St. Petersburg State Academy of Engineering and Economics with a degree in economics and chemical enterprise management.

Mr Khabrat received a medal for his contribution to social and economic development in Novgorod region.

No interest in the issuer's authorised capital/does not hold ordinary shares

The Managing Board is the Group's standing collegial executive body that directs the Group's day-to-day operations.

The scope of authority of the Managing Board includes the following matters:

- Development and preliminary consideration of the Group's business plan and development strategy
- Development of the Group's production plan and determination of production output
- Consideration of matters related to new production lines, overhauls and technical upgrades
- Management of operations at the Group's business units and their effective cooperation in implementing the Group's business plan and development strategy
- Staff recruitment
- Consideration of matters related to the Group's social development programmes.

The Managing Board is formed by the Board of Directors and consists of six members (Chair and members of the Managing Board). The Board of Directors and its Nomination and Remuneration Committee outline the criteria for selecting and assessing nominees to the Managing Board.

The Managing Board adopts resolutions on matters within its scope of authority at its meetings, which are held as needed. The meetings of the Managing Board are convened by the initiative of the Chair or by request of a Managing Board member.

The Board of Directors controls the Group's executive bodies.

Additional information about corporate governance

6 The Managing Board consists of members

10 The Managing Board held meetings

16 matters addressed

CEO (Chairman of the Managing Board)

Regulation on PJSC Acron Managing Board

The Chairman of the Managing Board is also the Group's CEO (President), who is elected and terminated by the Board of Directors.

The CEO represents the Group's interests, acts on behalf of the Group without power of attorney, and has all powers required for direct management of the Group's business in accordance with applicable laws and the Charter.

The CEO is also a key person who works to ensure compliance with the provisions and policies governing the Group's corporate governance system. In particular, the CEO implements the internal audit policy, risk management and internal control policy, and anti-corruption and information policy. The CEO ensures provision of information in response to requests from members of the Board of Directors, Managing Board, and the Group's shareholders.

Since 2011, **Vladimir Kunitsky** has served as Acron's CEO.

Composition of the Managing Board

All members of the Managing Board have years of successful experience in the mineral fertiliser industry, professional backgrounds in a relevant area, and work for the good of the Group, which has a positive effect on the Group's financial and economic performance.

Members of the Managing Board have the obligation to act reasonably, in good faith, and in the interests of the Group and its shareholders based on sufficient information and with due diligence.

Members of the Managing Board will refrain from any actions that could cause a conflict between their interests and the Group's interests. They have confidentiality obligations regarding information classified as the Group's commercial secrets, and they are subject to restrictions on using the Group's insider information.

On 30 May 2019, Acron's Board of Directors retained the same Managing Board based on the Group's performance. The six members are Vladimir Kunitsky, Dmitry Balandin, Alexander Lebedev, Alexei Milenkov, Irina Raber, and Dmitry Khabrat.

Changes in Managing Board members' stakes in Acron's share capital and the number of the Group's ordinary shares they own

During the reporting year, no Managing Board member made any transactions to purchase or dispose of shares. There were no other changes to Managing Board members' stakes in Acron's share capital or the number of ordinary shares they own. Information about the number of shares of the Group and its subsidiaries held by members of the Managing Board is available in the Information for Shareholders and Investors section of this Annual Report.

Managing Board Performance Results

In 2019, Acron's Managing Board held ten meetings (two in person and eight as absentee votes). These meetings considered 16 matters and passed 20 resolutions.

In particular, in the reporting year the Managing Board:

— Reviewed and approved the changes to Acron Group's CAPEX budget

— Approved Acron's nominees for ministerial awards

— Considered the appointment of the Secretary of the Managing Board

— Approved transactions.

Remuneration and Reimbursement to the Members of the Board of Directors and Managing Board

A total of RUB 1,145.5 million was paid to Acron Group's top management (members of the Board of Directors and the Managing Board as well as other key management) in 2019, up 4% year-on-year.

General Information about the Policy on Remuneration Adopted by the Group

The Policy on Remuneration and Reimbursement of Expenses to Members of the Board of Directors, Executive Bodies and Other Key Managing Officers was drafted in accordance with the current laws of the Russian Federation and the Charter and bylaws of the Public Joint Stock Company Acron, and taking into account the listing rules of the trade organiser that admitted the Group's securities to organised trading, as well as the instructions of the Corporate Governance Code recommended for use at joint stock companies by the Bank of Russia.

The Policy was developed and approved by Acron's Board of Directors (Minutes No. 590 dated 29 December 2017), and it incorporates the recommendations and proposals of the Nomination and Remuneration Committee of the Board of Directors.

This Policy applies to members of the Board of Directors, Managing Board and other key managing officers. Key managing officers (employees) are understood to be the sole executive body (CEO) and all members of the collegial executive body (Managing Board), because they hold significant positions in the structure of the Group's executive management and have direct impact on its financial and economic performance.

Policy on Remuneration and Reimbursement of Expenses to Members of the Board of Directors, Executive Bodies and Other Key Managing Officers of PJSC Acron

Key Principles of the Group's Remuneration Policy

The system of remuneration and reimbursement of expenses to members of the Board of Directors, executive bodies and other key managing officers is based on the following principles:

Transparency of the system of remuneration and reimbursement of expenses to key managers of the Group. The Group determines all key elements of remuneration of key managers, specifies the list of expenses subject to reimbursement, and establishes the level of service that key managers may claim.

Alignment of key managers' financial interests and shareholders' long-term interests. The Group strives to ensure an effective policy on remuneration and reimbursement of expenses to key managing officers by determining remuneration and other forms of motivation that align key managers' interests with the interests of the Group's shareholders, including by making remuneration dependent on the Group's performance as a whole and on the personal contribution of key leaders to achieving those results.

Sufficiency and adequacy of remuneration to reflect the Group's goals, as well as the responsibility and level of risks assumed by the Group's key managers. The Group strives to ensure that the level of remuneration is sufficient to attract, motivate, and retain persons with the necessary competence and qualifications. The Group determines the policy on remuneration and reimbursement of expenses to its key managers, taking into account the current stage of the Group's development, the nature and scope of its activities, and the level of risks. In order to determine remuneration, the Group performs a comparative analysis of the level of remuneration at similar companies and takes a balanced approach to target the level of remuneration, taking into account the Group's development strategy and the responsibility for its implementation assigned to the respective key managers.

Reporting to Group's shareholders. The Group discloses to shareholders information about the system and practice of remuneration and reimbursement of expenses to its key managers.

Remuneration and Reimbursement of Expenses to Members of the Board of Directors

By resolution of the general meeting, members of the Board of Directors may be remunerated during their term of office and/or reimbursed for expenses incurred related to the discharge of their duties as members of Acron's Board of Directors.

The amount of remuneration and reimbursement is established by resolution of the Group's general meeting.

Proposals to approve remuneration and reimbursement amounts are submitted to the general meeting by the Board of Directors based on the recommendation of the Nomination and Remuneration Committee, subject to the provisions of the Policy.

The fixed annual remuneration of a member of the Board of Directors is determined by resolution of the general meeting. This is the only form of monetary remuneration for Board members.

Remuneration is paid on a monthly basis in equal parts starting from the date of the general meeting resolution by means of wire transfer using the bank details provided by the Board member.

Execution of the subsequent monthly payment of fixed annual remuneration is subject to the member's participation in a certain number of meetings of the Board of Directors. The Group may withhold payment of a member's fixed annual remuneration if the member participates in fewer than 2/3 of the total number of Board meetings from the time of the member's election to through the date of the next monthly payment.

If the general meeting resolves that only independent directors will be remunerated for discharge of duties as members of the Board of Directors, such remuneration will be paid to members of the Board of Directors who meet the requirements specified in clause 3.1 of the Regulation on Board of Directors. In such case, if a member of the Board of Directors ceases to meet the requirements specified in clause 3.1 of the Regulation on the Board of Directors, the remuneration established by the resolution of the general meeting will be paid to that member through the end of the month in which the member ceased to meet the specified requirements.

When preparing proposals to approve the amount of fixed annual remuneration, the Board of Directors (Nomination and Remuneration Committee of the Board of Directors) takes into account the expected time input and other necessary efforts by Board members in order to prepare for and participate in meetings of the Board of Directors and their duties and responsibilities.

The Group strives to ensure that the level of remuneration paid to members of the Board of Directors is sufficient to attract, retain, and motivate Board members with the professional expertise and experience necessary to effectively manage the Group. For these purposes, the Group compares the remuneration of peer companies' board members and takes into account the level of remuneration that has been established in the Group and the industry as a whole.

The Group does not pay any additional remuneration to Board members for participation in individual meetings of the Board of Directors or its committees, or for discharging the duties of Chair of the Board of Directors, member or chair of a committee, or Senior Independent Director.

Members of the Board of Directors are not eligible for any other short-term or long-term motivation or additional monetary incentives.

The Group does not provide its shares (stock option plans) to members of the Board of Directors. At the same time, the Group welcomes ownership of its shares by members of the Board of Directors, as this facilitates the alignment of the financial interests of Board members and the long-term interests of the Group's shareholders.

The Group does not pay any additional remuneration or reimbursement to Board members in the event of early termination of their powers in connection with the transfer of control over the Group or other circumstances.

The Group maintains liability insurance for members of the Board of Directors at its own expense.

The following expenses are also subject to reimbursement for Board members:

- The cost of round-trip business-class travel to the venue for an in-person meeting of the Board of Directors, including the use of business and VIP lounges
- Single accommodation at four- or five-star hotels during in-person meetings of the Board of Directors
- The cost of other trips taken in order to discharge their duties (functions)

The Group does not provide additional corporate opportunities (benefits and privileges) for Board members or compensation (reimbursement) of expenses other than as outlined above.

Remuneration of Board of Directors Members, RUB '000

Remuneration	2018	2019
Acron Group*		
Remuneration paid for participation in a managing body	6,600	6,600
Salary	89,242	93,680
Bonuses	195,860	207,368
Fees	0	0
Compensation for expenses related to performing duties as members of managing bodies	0	0
Other types of remuneration	298	326
Acron Group total	**291,999**	**307,974**
Including Acron		
Remuneration paid for participation in a managing body	6,600	6,600
Salary	62,833	64,907
Bonuses	120,670	124,590
Fees	0	0
Compensation for expenses related to performing duties as members of managing bodies	0	0
Other types of remuneration	298	326
Acron total	**190,401**	**196,424**

*Excluding contributions to pension and social funds. Including Acron and Dorogobuzh

Remuneration of Managing Board members and the CEO, RUB '000

Remuneration	2018	2019
Acron Group*		
Remuneration paid for participation in a managing body	0	0
Salary	207,344	197,311
Bonuses	268,374	255,109
Fees	0	0
Compensation for expenses related to performing duties as members of managing bodies	11,195	0
Other types of remuneration	3,853	1,210
Acron Group total	**490,766**	**453,630**
Including Acron		
Remuneration paid for participation in a managing body	0	0
Salary	107,826	98,652
Bonuses	139,526	127,559
Fees	0	0
Compensation for expenses related to performing duties as members of managing bodies	0	0
Other types of remuneration	2,591	1,205
Acron total	**249,943**	**227,416**

*Excluding contributions to pension and social funds. Including Acron and Dorogobuzh

Remuneration of the Group's Other Key Management, RUB '000*

Remuneration	2018	2019
Remuneration paid for participation in a managing body	0	0
Salary	112,616	145,235
Bonuses	183,895	223,952
Fees	0	0
Compensation for expenses related to performing duties as members of managing bodies	4,916	0
Other types of remuneration	13,690	15,756
Acron Group total	**315,118**	**384,973**

*Excluding contributions to pension and social funds. Including Acron, Dorogobuzh and NWPC

Remuneration and reimbursement of expenses to members of executive bodies and other key managing officers

The remuneration system for members of executive bodies and other key managing officers makes their remuneration dependent on the results of the Group's operation and their personal contributions to achieving such results.

The Group strives to ensure that the level of remuneration paid to members of executive bodies and other key managing officers creates a sufficient motivation for their effective performance, allowing the Group to attract and retain competent and qualified specialists. At the same time, the Group avoids establishing excess remuneration or an unreasonably large gap between the remuneration level of such persons and the Group's other employees. For these purposes, the Group performs a comparative analysis of how similar persons are paid at peer companies and takes into account the established level of remuneration of such persons in the Group and the industry as a whole.

When determining the remuneration of members of executive bodies and other key managing officers, the Group strives to ensure a reasonable and justified ratio of fixed and variable remuneration depending on the results of the Group's operation as a whole and the person's individual contribution to achieving the result.

Components of the remuneration system for members of executive bodies and other key managing officers

Fixed Portion (official salary)

The official salary is the basic element of remuneration of members of the executive bodies and other key managing officers. It represents a fixed amount of remuneration paid to the person for discharging duties of a certain complexity during a calendar month, not including bonuses and other incentive payments.

When setting a person's official salary, the Group takes into account the person's level of competence and qualification, individual skills, and experience as a key manager, as well as the scope and volume of responsibility and the level of risks assumed.

The final amount of the official salary is established by an employment agreement executed with an officer of the Group in accordance with bylaws regulating the system of labour remuneration in the Group, as well as with the Regulation on Grading the Positions of the Group's Employees.

Variable Portion (bonuses and other incentive payments)

Bonuses and other incentive payments are the variable portion of the remuneration paid to members of the Group's executive bodies and other key managing officers, which ensures their interest in implementing the Group's development strategies and business plans. The amount of variable remuneration depends on the Group's long-term and short-term performance in general and the amount of each officer's individual contribution to the ultimate result.

The variable portion of the remuneration paid to members of the Group's executive bodies and other key managing officers may include the following components:

- Short-term component (monthly bonus)
- Mid-term component (annual bonus)
- Long-term component (bonus under incentive programmes intended for a certain period of the Company's development or effective during the implementation of a certain investment or other project)

Bonuses and other incentive payments are established and paid in accordance with an employment agreement executed with the officer based on the Group's applicable bylaws outlining the Group's remuneration system and incentive programmes.

In order to ensure a good balance between short-term and long-term incentives, the Group may defer payment of variable remuneration based on the results for the year, paying it out in equal instalments during the next several years.

The Group maintains liability insurance for members of the Group's executive bodies and other key managing officers.

In order to improve the performance of members of the Group's executive bodies and other key managing officers, the Group provides them with additional corporate opportunities (benefits and privileges) depending on the level of office (grade). In particular, in accordance with the Group's applicable bylaws and the Regulation on Grading the Positions of the Group's Employees, these persons are provided with the following additional corporate opportunities (benefits and privileges) at the Group's expense:

- Use of corporate mobile communications and Internet access
- Voluntary health insurance and international health insurance
- Use of corporate car transportation, including personal corporate car with a designated driver
- Use of fitness centres
- Business-class round-trip travel for business purposes, use of business-class and VIP lounges
- Single suite accommodation in four- and five-star hotels during business trips
- Use of corporate bank cards to pay for travel expenses, entertainment expenses, and other expenses directly related to official duties
- Higher per diem established by the Group's bylaws to cover additional expenses related to accommodations away from home during trips in the Russian Federation and abroad

The Group periodically revises the additional corporate opportunities (benefits and privileges) provided to members of the Group's executive bodies and other key managing officers to ensure their accessibility and competitiveness.

The Group reimburses the expenses of members of the Group's executive bodies and other key managing officers related to fulfilment of their official (labour) duties in the amount and in accordance with the procedure stipulated by applicable laws and the Group's bylaws.

In particular, the following expenses of members of the Group's executive bodies and other key managing officers are reimbursed:

- Expenses related to a business trip (round-trip travel, accommodations, additional expenses related to accommodations away from home (per diem) and other expenses incurred with the consent or knowledge of the Group)
- Relocation expenses (cost of relocation for employee and their family, transportation of their property and cost of living arrangements in the new location, including rent)
- Entertainment expenses related to the official reception of and/or services provided to representatives of other organisations participating in negotiations to establish and/or maintain cooperation, and participants arriving at a meeting of the Board of Directors, Managing Board or other governing body, regardless of the venue of such event

- Cost of postal, telephone, telegraph and other similar services, telecom services, including the cost of facsimile and satellite communication, email, Internet access and use of required information systems
- Other expenses related to fulfilment of their official (labour) duties by members of the Group's executive bodies and other key managing officers in the amount and in accordance with the procedure stipulated by applicable laws and the Group's bylaws.

Monitoring the Policy's implementation and evaluating its effectiveness

The Board of Directors and its Nomination and Remuneration Committee monitor (supervise) the introduction and practical implementation of the Group's Remuneration Policy.

The Board of Directors relies on recommendations from the Nomination and Remuneration Committee when it assesses the effectiveness of the Remuneration Policy and the associated remuneration and reimbursement system.

Management and Officers Liability Insurance (D&O)

Under corporate laws and the Group's bylaws, the CEO and members of the Group's collegial bodies must act reasonably and in good faith based on sufficient information and with due diligence in the interests of the Group. Because managing the Group is such a complex process, there is a risk that managers and directors may, while acting reasonably and in good faith, make decisions that result in negative consequences for the Group or its shareholders.

In order to address liabilities arising unintentionally from incorrect management decisions, Acron has carried liability insurance for members of its managing bodies and other officers and employees since 2013. In addition to providing coverage for losses incurred by the Group or third parties, this insurance helps attract the most qualified specialists to the Board of Directors and the Managing Board, providing them with guarantees to protect their property interests in case they unintentionally make wrong decisions.

In the reporting year, the liability of the Group and its controlled entities, all members of executive bodies and members of the Group's Board of Directors (controlled entities), as well as certain other officers was insured under insurance agreements covering the liability of directors, officers, and entities. A major portion of this insurance programme (83%) was reinsured in the Western insurance market with highly reliable insurers (AIG, Allianz, Zurich) and Rosgosstrakh served as a fronting insurer in Russia. Total coverage under the agreement is EUR 75 million.

The Corporate Governance Code recommends that members of the Board of Directors and executive bodies have liability insurance. Such insurance is also general practice at public joint stock companies, which have greater risks of property and other claims due to the scale of their operations.

Control System

Internal Control

The Group's internal control system is a set of procedures for conducting financial and business transactions and for identifying, preventing, and managing risks within the Group's operations. The internal control system is implemented by the Group's bodies and business units in accordance with their authority as outlined by the internal control system.

The Group's internal control system directs the internal control bodies to develop, approve, and implement procedures for internal control and assess the effectiveness of these procedures in achieving the goals of internal control.

This system of internal control over the Group's financial and business activity was developed in accordance with Russian laws. It operates in compliance with the Group's Charter and its bylaws, and with consideration for applicable listing rules and the Corporate Governance Code recommended by the Bank of Russia.

In order to ensure that the internal control system functions effectively, the Group is guided by its Regulation on the Internal Control System for Financial and Business Activity and its Regulation on Internal Audit, which set out the goals, objectives, and principles for internal control bodies. Additional powers of the Group's internal control bodies are set forth in the Group's regulations on the relevant bodies.

PJSC Acron Regulation on Internal Control

Key Participants in the Group's Internal Control System

Board of Directors	Participates in developing the risk management and internal control policy, supervises its implementation, and participates in evaluating business risks and developing risk management recommendations
Internal Audit Department	Assesses the reliability and effectiveness of the Group's risk management and internal control system and conducts scheduled and random audits in order to provide the Group's managing bodies with independent and unbiased assessments of the Group's risk management and internal control system
CEO	Responsible for implementation of the risk management and internal control policy, ensures the creation and maintenance of an efficient risk management and internal control system at the Group, and ensures that the rules (standards) of financial and business operations and internal control procedures are followed

Internal Audit

Acron Group organises internal audits to provide systematic, independent evaluation of the reliability and effectiveness of its risk management and internal control system.

The goals, objectives, and functions of the Group's internal audits were set by the Regulation on Acron's Internal Audit, approved by the Board of Directors.

All of the Group's financial and business operations and projects are subject to internal audit, including the financial and business operations and projects of the Group's controlled legal entities.

Internal audits are handled by the Internal Audit Department, a special department that performs all internal auditing functions.

The goal of the Internal Audit Department is to contribute to improving the Group's operations and to provide the Group's managing bodies with independent and unbiased assessments, guarantees and consultations regarding the appropriate level of efficiency and effectiveness of the Group's operations, the accuracy and timeliness of the Group's accounting (financial) and other statements, and the Group's compliance with applicable laws.

In order to ensure the independence of the Internal Audit Department, its functional and administrative accountability are separated. Functionally, the Internal Audit Department is subordinate and accountable to the Board of Directors. Administratively, it is subordinate and accountable directly to the CEO. The head of the department is appointed and relieved from their duties by the CEO at the resolution of the Board of Directors.

Internal auditing is conducted through scheduled and random audits. Additionally, the Internal Audit Department provides consultations and opinions on matters related to the organisation and efficiency of the risk management and internal control system, the Group's operating activity, and corporate information systems in response to requests from the Group's bodies and officers (employees).

Regulation on PJSC Acron Internal Audit

External Audit

Each year, the Group engages an external auditor that has no property interests in the Group or its shareholders to audit and confirm the accuracy of its RAS and IFRS financial statements (accounts).

A nominated auditor is put up for preliminary discussion at a meeting of the Audit Committee. The Audit Committee prepares recommendations for the Board of Directors regarding the proposed external auditor and the price of its services for the next reporting year. Based on the recommendation by the Audit Committee, the Board of Directors proposes to approve the nominee at the Annual General Meeting and sets the price of its services.

When selecting its nominees, the Audit Committee takes into account the auditor's general and industry experience, the qualifications of its employees, and the quality and cost of its auditing services.

On 30 May 2019, the general meeting approved Crowe Russaudit LLC to audit the Group's RAS financial statements (accounts) and KPMG to audit its IFRS consolidated financial statements.

The external auditors received the following fees for auditing Acron Group's performance in the last ended financial year (2019): Crowe Russaudit – RUB 3.2 million without overhead and VAT, KPMG – RUB 19.7 million without overhead and VAT. The cost of all the Group's contracts with external auditors was RUB 26.4 million without overhead and VAT.

Anti-Corruption Activity

The Group pays close attention to anti-corruption matters and pursues a transparency policy that governs employee and management interactions with third parties.

In designing its anti-corruption measures, the Group follows the provisions of the Code of Business Conduct, adopted in 2013, which includes fundamental business ethics established in accordance with the Group's ethical values and applicable laws. The Code is recommended for use at all the Group's subsidiaries. The Group's management has made the Code mandatory for all its subsidiaries where financial and business activity is associated with elevated corruption risks. The Group is dedicated to developing corporate relationships and practicing fair business conduct at its subsidiaries and aims for deeper implementation of the Code's regulations in its subsidiaries' operations.

The Group's Regulation on Anti-corruption Policy is an essential part of the Code. It consists of the Group's major principles on anti-corruption measures and is founded on zero tolerance for corruption. Employees and managers are specifically prohibited from participating in any corrupt activity, whether directly or indirectly, in person or through third parties.

The Group's anti-corruption strategy requires that employees and managers comply with all principles of the Group's Code and the Regulation on Anti-corruption Policy. The strategy also calls for regular comprehensive assessments of compliance with the Code's provisions in order to detect and prevent violations and develop relevant recommendations.

In order to mitigate the risks of corruption-related violations, Acron carefully chooses its counterparties, follows the principles of fair competition, and closely monitors all actions by business partners that may lead to negative consequences.

Acron's Ethics and Anti-corruption Commission exercises the following powers:

- Monitoring compliance with the Regulation on Anti-corruption Policy
- Performing preliminary assessment of corruption and corporate integrity risks and designing tools to prevent such risks
- Providing the Group's employees with recommendations on counteracting corruption and on complying with and implementing the Code and the Regulation on Anti-Corruption Policy
- Investigating allegations of corruption, ethical misconduct and proven or alleged violations of the Code and the Regulation on Anti-corruption Policy reported by employees and other interested persons, conducting necessary investigations, and providing recommendations to the Group's relevant executive bodies and officers

In order to promote compliance with the provisions of the Code of Business Conduct and the Regulation on Anti-corruption Policy, the Group maintains a hotline that employees can use to contact the Commission, the Business Security Department, and the Credit and Investment Committee.

PJSC Acron Code of Business Conduct, PJSC Acron Regulation on Anti-Corruption Policy, and PJSC Acron Regulation on Ethics and Anti-Corruption Committee

Procurement

Acron Group's procurement is based on each company's internal needs, with a focus on prompt and cost-effective provision of high-quality goods to the production sites.

Procurement is conducted on a competitive basis in accordance with Russian regulations, corporate standards and requirements for supply contracts, and other bylaws. The key procurement areas are feedstock, auxiliary materials, equipment, and spare parts.

The Group adheres to the following principles in its procurement:

Transparency

— New companies with positive reputations as suppliers to chemical and related companies can bid alongside companies that have previously supplied the Group.

Competitive Bidding

— Companies' quotes are considered on a discrimination-free basis that focuses on prices, quality, and warranty obligations, as well as delivery and payment terms.

Requirements for Service Providers

— Feedstock and materials must comply with regulatory documents (safety and health certificates for feedstock, technical standards).

— Engineering devices, equipment and spare parts for hazardous operations must comply with the requirements of technical regulations.

— Goods and materials supply contracts must include requirements that protect employee health and safety (certificates of conformity, safety certificates, etc.).

Targeted and Cost-effective Use of Funds

— The Group continually monitors how well its procurement efforts meet production needs and financial targets. Commercial advantages of transactions, product quality, product compliance with technical and other requirements, and supplier reliability are also monitored on a continual basis.

Acron Group's management has confidence in its multilevel procurement control system for ensuring effective procurement.

As a rule, procurement at the Group's facilities is governed by procedures described in the bylaws. The procurement process at Acron is supported by and operates under a quality management system that is certified by the international certification body DNV GL for compliance with ISO 9001. In 2018, a procurement management system was introduced at Dorogobuzh in order to further optimise procurement. The new system tracks the progress of material supply bids at all stages.

The Procurement Office optimises the procurement process, maintains a consolidated inventory list for all companies of the Group, and implements centralised development of procurement. The Procurement Office has drafted a procurement strategy for the Group, implemented a project to create a unified goods and materials directory, developed a concept for the procurement system improvement. The Group is introducing a unified electronic trading platform, and has started test trades.

The Group's Business Security Department performs additional spot inspections of certain tender procedures and performance of contractual obligations.

The Group's Credit and Investment Committee meets regularly to consider matters related to specific goods and materials purchase contracts (equipment, raw materials, spare parts and vehicles), as well as contracts for design, construction and installation, repair, and other services for the Company.

The Control and Analysis Department, which performs the functions of the Credit and Investment Committee Directorate, verifies and monitors the pricing of all contracts and agreements worth over RUB 300,000. In 2019, the Credit and Investment Committee reviewed approximately 8,000 matters verified by the Control and Analysis Department. As part of the corporate IT strategy, the procedures of the Credit and Investment Committee Directorate, including minutes of meetings, voting and passing resolutions, were digitalised, and now are reflected both in an applicant's personal account and the production facilities' core digital systems (ERP systems).

Sustainability

Sustainability Approach

The Group's general approach to sustainability is based on the principle of responsible operations in all the regions where we have a presence. We invest in the professional growth of our employees, providing them with competitive salaries and social support. Acron Group contributes to the social and economic development of our footprint regions and cooperates closely with stakeholders, working to balance the Group's interests and the needs of local communities.

The Group continually invests in improving its business efficiency and introducing advanced practices in occupational and industrial safety.

In our operations, we use natural resources as carefully as possible, developing and introducing environmentally friendly and innovative technologies. The Group follows environmental standards that ensure compliance with legal requirements and help reduce the negative environmental impact of our production facilities.

680 RUB mn

RESPONSIBILITY FOR PERSONNEL

370 RUB mn

OCCUPATIONAL AND INDUSTRIAL SAFETY

213 RUB mn

ENVIRONMENTAL MEASURES

377 RUB mn

LOCAL COMMUNITY INVOLVEMENT

Acron Group's Key Sustainable Development Activities

Responsibility for Personnel

- Healthcare, medical services and insurance for personnel
- Personnel training and development
- Implementing goal-oriented social programmes
- Promoting sports and healthy lifestyles
- Engaging and retaining highly professional personnel

Occupational and Industrial Safety

- Improving working conditions
- Ensuring continuous and safe operation of production facilities
- Minimising injury rate and number of accidents
- Liability insurance

Environmental Measures

- Reducing negative environmental impact by designing and implementing efficient and environmentally safe processes and innovative technologies
- Implementing environmental measures in the following areas:
  - Air protection
  - Water protection
  - Waste treatment
  - Energy efficiency

Local Community Involvement

- Contributing to social and economic development in our footprint regions
- Implementing and supporting charitable programmes

Sustainable Development: Our Numbers

Index	Unit	2018	2019
Air pollutant emissions	**'000 t**	**33.4**	**32.8**
NO emissions (in terms of NO_2)	'000 t	5.6	6.5
SO_2 emissions	'000 t	0.0	0.9
CO emissions	'000 t	18.5	15.4
Other emissions	'000 t	9.3	10.0
Greenhouse gas emission	**'000 t**	**4,527**	**4,404**
N_2O emissions (in terms of CO_2 equivalent)	'000 t	1,308	1,241
VOC emission	'000 t	0	0
CO_2 emissions	'000 t	3,219	3,163
Water consumption			
Total water intake, incl.:	mn l	52,558	51,811
municipal water use	mn l	1,511	1,534
groundwater intake	mn l	250	258
surface water intake	mn l	50,797	50,020
Water consumption for in-plant use	mn l	44,966	43,434
For transfer to a third party	mn l	7,591	8,377
Total circulating water	mn l	872,107	927,179
Waste water	mn m^3	24.1	27.4
Pollutant effluents to open water	'000 t	10.1	10.6
Total waste	**'000 t**	**28,359.0**	**36,480.7**
Hazardous waste (hazard class 1-4)	'000 t	32.0	37.5
Other waste (hazard class 5), incl.:	'000 t	28,327.0	36,443.1
waste disposed of (mainly overburden waste)	'000 t	28,315.5	36,402.8

Responsibility for Personnel

Composition and Number of Personnel

We believe that our employees are the backbone of the Group's operations, which is why our human resources policy focuses on improving their effectiveness and increasing their personal interest in the Group's performance.

Over the past several years, the composition of our personnel has remained stable and met the Group's needs. In our human resources policy, we tend to expertly combine the talents of young specialists and the expertise of the Group's respected veterans.

The Group benefits from low staff turnover due to positive working conditions, an attractive social benefits package, and social activities for employees. In 2019, the staff turnover rate was 9.6%.

In the reporting year, the Group's average payroll count was 11,205 people, and the average employee age was 43 years.

43 years

Average employee age

11,205 people

Average payroll count in 2019

Number of Acron Group Employees in 2016–2019 (based on IFRS data)

Employees by Gender, %

71 Male
29 Female

Number of Employees by Company, number of people

4,948 Acron
2,654 Dorogobuzh
1,704 NWPC
1,899 Other

Incentive Programme

In 2019, Dorogobuzh won the regional stage of the federal competition "Socially Responsible Russian Companies" in the nomination for family-friendly production companies.

by **4.5%**
wages at Acron Group companies were adjusted

2,190
employees
of the Group received industy and corporate awards

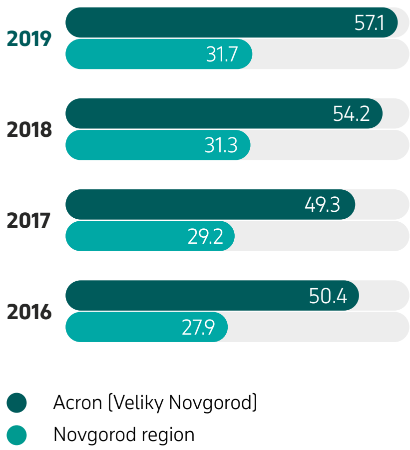
1 Group employee
was awarded the title of Honoured Chemist of the Russian Federation in recognition of their contribution to the development of the chemical industry and outstanding work over many years

The Group's human resources policy is designed to create a favourable work environment and implement an effective incentive programme.

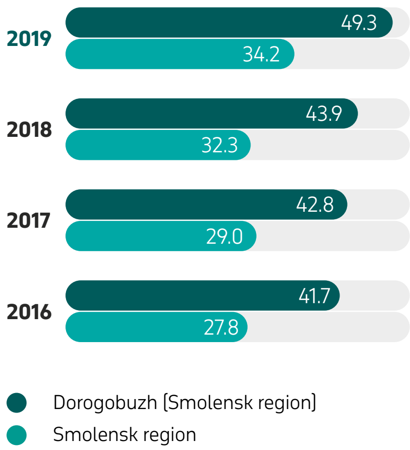
The Group annually adjusts salaries so that they remain competitive in their footprint regions. The average monthly salary at the Group's production facilities is higher than across Russia's chemical industry, at RUB 61,000 in 2019 (industry average: RUB 54,000).

Employees' salaries include compensation, incentive payments, and performance bonuses. In 2019, salaries at the Group were adjusted 4.5%. Acron Group provides meal allowances to employees at its facilities.

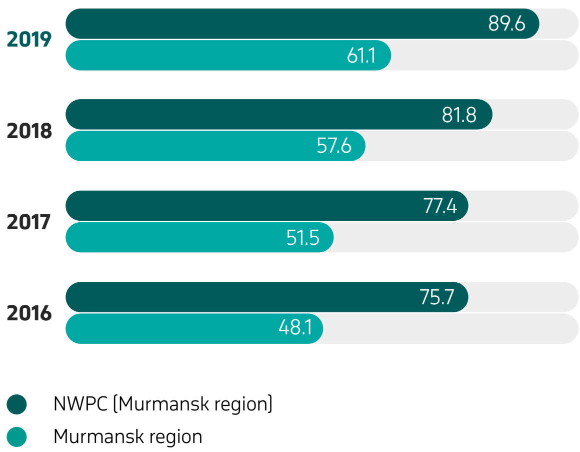
Average Monthly Salary at Acron, RUB '000



Average Monthly Salary at Dorogobuzh, RUB '000



Average Monthly Salary at NWPC, RUB '000



Individual Performance Management System

In 2018, Acron Group introduced the Personal Performance Management System in order to increase employees' productivity and personal efficiency. Since then, more than 200 managers of the Group's four key production facilities have participated in the programme. In 2019, the number of participants increased to 400 executives, including the Corporate Centre and key and medium-size facilities.

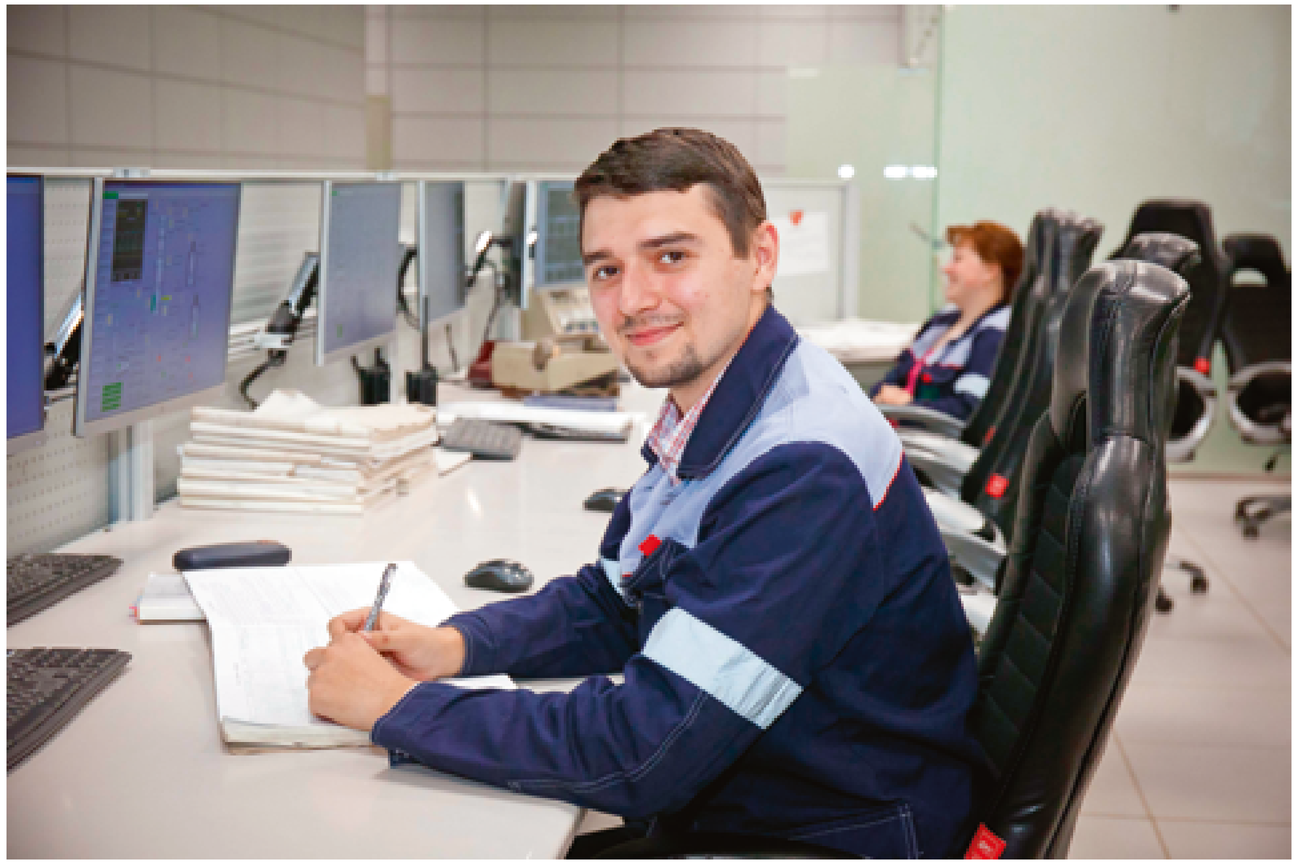
The Company's management strives to implement a personal performance management system that ensures that employees understand the Group's strategy, associate themselves with the Group's future, and see the connection between their own tasks and the Group's goals.

Feedback from managers to employees is a key element of the Personal Performance Management System, which provides increased efficiency. Additionally, each participant of the Personal Performance Management System is being assessed on an annual basis. These assessments provide a personal performance coefficient, which plays a great role in many personnel decisions and the amount of employees' variable remuneration.

Incentive Programme Development

New incentive mechanisms to motivate employees were developed and introduced in response to the increased production rate at the group's units. These mechanisms include quarterly bonuses for the efficient use of production capacity at most of Acron's and Dorogobuzh's production units: ammonia, nitric acid, urea, AN, and NPK. Bonuses are tied to units' performance indicators. Additional attention is paid to personal performance: employees with high coefficients receive an increased bonus.

In order to attract seasonal staff (young people and skilled workers) to facilities in regions where hiring is difficult, a new type of bonus has been introduced for recommending candidates for openings.



Social Benefits and Guarantees

Acron Group provides an extended package of social benefits and guarantees aimed at improving the quality of life for employees and their families:

- Compensation, incentive payments
- Voluntary health insurance
- Health resorts
- Entertainment events for employees and their children
- Housing assistance
- Interest-free loans
- Financial assistance to employees and unemployed retirees

In 2011, the Group implemented the Fair Work Programme to motivate highly qualified employees, protect their rights and interests, and develop an effective system based on environmental and social responsibility. Phased programme implementation is the main component of Acron's and Dorogobuzh's long-term development strategy. The programme is primarily aimed at creating a fundamentally new system of relationships between facilities and employees, protecting their rights and interests. The most important condition for the facilities' performance is a quality personnel policy aimed at attracting qualified employees, constantly expanding their professional skills, and providing staff with decent wages and social guarantees.

Acron Group Implements Several Social Programmes.

Employee Healthcare Programme

Acron Group pays close attention to the health of its employees. Each year, the Group allocates significant funds to cover employee medical care, wellness, and athletics facilities, and events. Employees can receive medical treatment at on-site health centres with modern medical and diagnostic equipment. The social package also includes voluntary health insurance, which covers an extended list of medical services. Insured employees are not restricted to receiving medical care at their place of residence. In 2019, Acron included therapeutic dental care in its voluntary health insurance programme. In the reporting year, the Group invested RUB 67 million in voluntary health insurance.

Acron Group provides employees and their children with access to health resorts and recreation camps on discounted terms and partially pays for the cost of attending recreation camps. The Group allocated RUB 81.4 million for such programmes in 2019.

Promoting healthy lifestyles is an important component of the Group's human resources policy. The Group's facilities have stadiums, swimming pools, fitness rooms, and youth sports clubs. The athletics and cultural centres hold annual athletics tournaments and entertainment events and organise amateur talent groups, workshops, and clubs for employees and their families. Each year, employees compete in a variety of sports competitions, with over 6,000 employees and their children participating in 2019.

Programme to Support Families with Children

Acron Group provides lump-sum payments for the birth of a child and monthly cash assistance for parental leave to care for children under the age of three. The Group supports sports initiatives and organises leisure activities for children, as well as joint events for parents and children. Additionally, the Group subsidised vouchers for employees to attend a summer health camp. The Group spent RUB 47.2 million to send about 1,500 children to summer camps in the Novgorod region, Dorogobuzh district, and the city of Berezniki.

In the reporting year, the Group repaired the buildings of the Lastochka children's summer wellness centre. The costs totalled RUB 2.5 million.

Under the programme, Acron Group additionally supports employees by providing financial assistance, including cash grants for weddings, new babies, or the death of a close relative. The Group has also developed and implemented programmes for young professionals and for enterprise veterans.

Young Specialist Support Programme

Acron Group makes great efforts to attract young specialists in its footprint regions. The Group provides young specialists with paid training leave and wedding bonuses. It also organises a variety of training programmes and sports and recreation events.

In 2010, the Group's Veliky-Novgorod-based facility introduced a mortgage assistance programme in order to reduce the risk of key personnel turnover, especially young professionals. Under this programme, renewed in 2018, the Group partially reimburses young specialists for their mortgage interest. The programme as amended provides financial assistance for down payments or principal repayment for certain categories of employees. Dorogobuzh plans to implement the programme next year.

The Group also runs a housing programme, which includes relocation assistance, financial aid for rent, and corporate housing. The Group's costs for the housing programme totalled RUB 29 million last year.

Retiree Support Programme

Acron (Veliky Novgorod) and Dorogobuzh provide assistance to retired employees, including lump-sum payments upon retirement and regular financial assistance. Retirees retain the right to corporate medical services and discounted vouchers to resorts.

Unemployed retirees continue using outpatient clinics and athletic and cultural centres on the same terms as employees. They are also invited to special events, including receptions, guided tours, dance parties, concerts, and sports events.

Personnel Training and Development

Acron Group pays special attention to the training of technical experts with in-depth knowledge and the ability to solve unique challenges in chemical processes.

The Group develops the training system for its employees in accordance with the needs and specifics of the Group's activity.

In 2019, more than 1,800 Group employees completed advanced training courses or professional retraining. Each year, all employees at the production facilities complete occupational and industrial safety training programmes.

Acron Group invested a total of RUB 24 million in personnel training and development.

Mentoring

Acron Group created its mentoring programme as an efficient way to develop the professional expertise and accelerate the adaptation of its young specialists. Acron employs highly qualified, experienced employees with the necessary skills for staff training and lecturing. In 2019, 13 Group employees completed occupational retraining at Yaroslav-the-Wise Novgorod State University so that they can function as instructors and lecturers.

Talent Pool

Acron Group gives preferences to existing employees when filling key vacancies at its facilities.

Management encourages employees to develop professionally and creates opportunities and favourable conditions for professional and career growth. Specialists with creative and leadership potential are invited to the talent pool, increasing their chances of being promoted to managerial positions. Acron Group's talent pool base is updated quarterly and includes 300 employees today. A manager must provide justification for considering an outside candidate when there is a succession pool member available.

Types of Training Provided by Acron Group, number of persons

1,090 Advanced training
716 Professional retraining

Corporate Education

In 2019, Acron Group organised a lean manufacturing training that was attended by 25 key managers: heads of workshops, departments, and divisions, and chief specialists. Employees learnt more about methodology and approaches and evaluated the facilities' production processes.

Talent Pool School is the traditional way that the Group has formed its engineering and operational pool. The goal of Talent Pool School is to create a well-prepared pool of employees and managers inside the Group's companies to promote the principle of succession in corporate governance.

The talent pool formation process starts with the Group's cooperation with educational institutions and continues after young specialists join the facilities.

883 secondary and post-secondary students

attended guided tours of the Group's chemical production facilities

Acron Group's investments in education, social benefits and guarantees, and social programmes totalled RUB 680 million.

Career Guide for Secondary Students

Developing the talent pool is one of the key components for building a sustainable system of staff training. In cooperation with educational institutions, the Group attracts young people to its production facilities by offering a career guidance programme that includes in-depth studies of vocation-related subjects in specialised classrooms, as well as guided tours of the production facilities, city job fairs, school competitions, open-house days, and workshops.

In 2019, Acron Group held the following events as part of its career guidance programme:

— University Hour for secondary students, which was attended by 109 students

— Annual official ceremony recognising the winners of Our Hopes school Olympiads in chemistry, physics, mathematics, and computer science

— Cooperation with the Institute of Agriculture and Natural Resources of the Novgorod State University and Novgorod Chemical Industrial College to participate in Education. Employment. Career. events in the Batetsky, Krestetsky, and Malovishersky districts of Novgorod region

— Career guidance events for pupils of Veliky Novgorod and Novgorod region as part of the third and fourth Young Professionals regional competitions

— Open-house days and commencement ceremony for graduates at Novgorod State University's Institute of Agriculture and Natural Resources

— Career fair at Novgorod Chemical Industrial College

— Employment and Profession business programme as part of the Young Professionals (WorldSkills Russia) youth forum

— Science 0+ national festival

— Annual teaching conference (Education National Project: Veliky Novgorod – Steps for Implementation)

— First regional conference for teachers and professors

— Together with Acron to Success in Learning and Career project to provide grants to chemistry and physics teachers at Veliky Novgorod secondary schools. In 2019, the six best chemistry and physics teachers received grants totalling RUB 720,000.

— Participation in the nationwide campaign A Week Without Turnstiles aimed at informing young people about the Company's activity and promoting the professions in demand at production facilities. The event was attended by seven groups of public school and college students from the Dorogobuzh and Safonovo districts.

— Fundamental Sciences for Regional Development, an interregional Olympiad in physics and chemistry organised by Dorogobuzh and professors from Ivanovo State University of Chemistry and Technology (the Olympiad gives high school graduates the chance to learn more about the Dorogobuzh facility and the University. Olympiad winners and runners-up earn additional admission points with the University. A total of 37 high school graduates took part in the 2019 Olympiad.)

— Cooperation with Kvantorium-51 children's science park (NWPC was a key partner of the KvantoArktika scientific and

engineering competition for children, organised to promote design activity and improve the science park students' modelling skills. NWFK Specialists created a case study for the children to develop a conveyor complex for ore transportation.)

- Support to the Young Professionals competition at WorldSkills Russia, where college students competed in 27 fields.

Programmes for Students and Graduates

As part of a programme to attract and hire students from specialised industrial schools, the Group's companies cooperate with the leading Russian technology universities and colleges in their footprint regions. This programme is intended to help students at post-secondary and vocational schools whose professions are in demand at the Group's facilities. Students and graduates may sign up for apprenticeships to learn about working conditions, labour discipline, and corporate culture. Students who complete apprenticeships adapt faster once they are hired full time and pass the certification exam for independent work at higher rates.

The Group's longstanding partners in the professional training programme are:

- Yaroslav-the-Wise Novgorod State University

- Novgorod Chemical Industrial College
- Ivanovo State University of Chemistry and Technology
- Verkhnedneprovsky Technology College
- Safonovo Branch of Smolensk Academy of Professional Education
- Apatity Engineering College
- Murmansk Arctic State University (MASU)

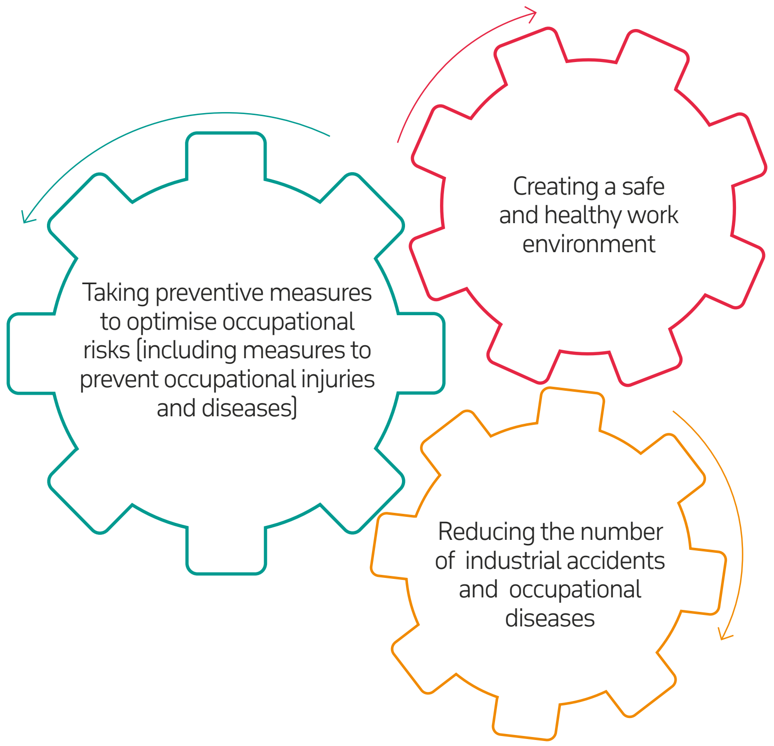
In the reporting year, 409 students at post-secondary and vocational schools participated in apprenticeship programmes at the Group's facilities; of those, 42 students signed contracts.

NWPC remains a member of MASU's strategic partnership board and its board of trustees for the second year. In 2019, the Company supported the Big Northern Hackathon Nordhack, which took place at MASU with 24 teams of students and senior high school students from Apatity, Olenogorsk, and Murmashi competing in four fields: Smart City, Information Security, Data Visualisation, and Videogame Development. NWPC specialists prepared a task to develop a visual programme to track employees' location on the Company's premises. The winners were awarded prizes.

Occupational and Industrial Safety

Acron Group's management realises its great responsibility for the continuous and safe operation of its facilities, the occupational safety of its employees, and the health and safety of people living in the Group's footprint regions. To meet these goals, the Group's facilities have a comprehensive occupational and industrial safety policy.

Fundamental Elements of Acron Group's Policy for Occupational and Industrial Safety



The Group uses high-tech equipment to construct new and upgrade existing production lines, runs equipment diagnostics to ensure occupational safety in the operation of equipment and process flow, and tests the safety of feedstock and materials used in operations. The Group's production facilities take measures to improve labour conditions and protect personnel.

Accident prevention is a key priority in the Group's occupational and industrial safety policy. In the event of an accident, Acron Group conducts an investigation, develops standards based on an analysis of the causes, and takes measures to mitigate the risk of reoccurrence. At all of its facilities, Acron Group provides occupational and industrial safety instructions, trains and tests employees, managers and specialists. The Group also monitors the development of emergency containment and recovery measures. Personnel in the occupational, industrial, fire and environmental safety departments conduct comprehensive targeted and unscheduled inspections on a regular basis.

Under Russian laws, the Group conducts special assessments at its production facilities in order to improve labour conditions and protect personnel from occupational hazards. All employees at the Group's production facilities must undergo preliminary and regular medical examinations and receive personal protective equipment. Equipment diagnostics are run regularly to ensure the safety of personnel during equipment operation and production processes. The Group executes agreements with professional rescue teams for mine-rescue and emergency-rescue services and fire protection of the Group's hazardous production facilities.

Employees at the Group's facilities who work in a hazardous environment are provided with healthy meals, at a cost of RUB 42.1 million in 2019.

In 2019, the number of accidents at Group's facilities decreased from 17 to 12.

In 2019, Acron implemented a scheduled programme to form volunteer rescue teams at the ammonia and urea production units. Seventy candidates passed the special training and 63 of them enrolled.

Facility	Accident Frequency Index per 1,000 Employees	Number of Occupational Disease	Number of Accidents in 2019	Accident Increase/ Decrease YOY
Acron	**0.20** (–8% YOY)	None	**1**	Unchanged
Dorogobuzh	**2.26** (–29% YOY)	None	**6**	**– 2 cases**
NWPC	**2.93** (–43% YOY)	**5 cases recorded**	**5**	**– 3 cases**

Most of the training was provided by coachers from the Training and Consulting Centre for Rescue Units (Novomoskovsk) under a programme entitled Gas Rescue Operations in the Event of Chemical Accident.

In order to increase the staff's mindfulness and psychological awareness of compliance with labour protection and industrial safety regulations, a business coach from Novmarket (Veliky Novgorod) provided a training series on how to reduce the injury rate by improving the social and psychological climate at the workplace.

In the reporting year, 10,876 Group employees completed occupational and industrial safety training, including 1,855 managers and specialists and 9,021 workers.

In 2019, the Group's investments in occupational and industrial safety totalled RUB 370 million.

Liability Insurance

Acron Group provides its Russian operations with liability insurance for hazardous production facilities. The fifteen hazardous production units at Acron, twelve at Dorogobuzh, nine at NWPC are listed on the State Register of Hazardous Production Facilities. All of them have liability insurance, and all of the Group's employees are insured against accidents and occupational diseases.

Environmental Efforts

In 2019, Acron Group won a high-profile award for Ecology and Environmental Management as part of a contest called Russia's Top 100 Organisations.

RUB **213** mn

invested by Acron Group in reducing its environmental impact

Acron Group's environmental strategy is aimed at reducing its environmental impact, natural resource management, and introducing new equipment and cutting-edge technology.

Russian laws and technical standards regulate the Group's environmental efforts. Acron Group conducts continuous industrial environmental monitoring and environmental assessment of its facilities.

Acron Group's environmental policy includes air and water protection, environmental impact reduction, and energy efficiency improvements.

In 2019, the Group's Russian facilities paid RUB 22 million in environmental impact fees and invested an additional RUB 213 million in reducing their environmental impact.

Air Protection

Reducing air pollutant emissions from its operations is one of the Group's key environmental objectives. The Group has launched a large-scale programme of upgrades and overhauls at its production facilities and is increasingly manufacturing environmentally friendly products.

The Group's production facilities conduct ongoing air and industrial emission monitoring at the borders of their sanitary protection zones and analyse the emissions from their operating facilities.

In 2019, the Group's chemical facilities upgraded equipment in their main shops in order to improve the environmental safety of processes and products.

The Acron facility in Veliky Novgorod conducted technical upgrades at the NPK and nitric acid shops. Dorogobuzh brought some engineering improvements to the AN, NPK, ammonia, and railway shops aimed at ensuring sustainable and efficient operations of the gas treatment units and compliance with emission standards.

At the Oleniy Ruchey mine (Murmansk region), employees monitored air conditions at the licence areas, used dust-control measures and watered the surfaces of dumps and access roads during the dry season.

In 2019, NWPC experts introduced new dust removal systems in the buildings that are part of the second stage of the processing plant under construction to reduce emissions. These measures are critical for improving working conditions and the environment. NWPC invested approximately RUB 10 million in aspiration equipment.

In 2019, gross atmospheric pollutant emissions from all of Acron Group's Russian production facilities totalled 32,800 tonnes, down 2% year-on-year. Emissions did not exceed legal limits.

Greenhouse Gases

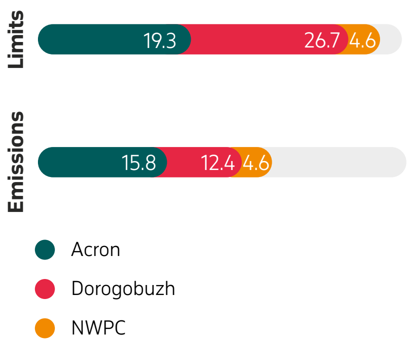
Greenhouse gases include carbon dioxide, nitrogen oxides, methane, and others. Acron Group's operations emit greenhouse gases – mainly carbon dioxide and nitric oxide.

The main source of carbon dioxide emission is ammonia production, but that carbon dioxide is used by the Group's facilities to produce urea and NPK fertilisers. Additionally, both the Acron and Dorogobuzh production facilities produce liquid carbon dioxide, a feedstock for the food industry.

These arrangements help keep the Group's overall greenhouse gas emission per tonne of commercial output at a relatively low level, approximately 2-3 times lower than greenhouse gas emissions from heavy industrial facilities.

In 2019, Acron Group drove its greenhouse gas emissions down 2.7% year-on-year to 4,404,000 tonnes.

Air Pollutant Emissions and Limits, '000 t



RUB **125** mn

invested in reducing air pollutant emissions

Water Resources Protection

RUB **49** mn

invested in reducing open water pollution

Efficient use of water resources in the footprint regions is an important component of Acron Group's environmental policy.

The Group's production facilities monitor the quality of potable water, the quality of wastewater before and after treatment, and the condition of water bodies. Wastewater is treated and decontaminated at all of the Group's facilities.

In 2019, Acron conducted repairs at the biological treatment facility, the NPK unit, and the water supply and sewage units in order to ensure sustainable equipment operation and comply with requirements for wastewater treatment and sanitary laws. Acron's water discharge was up 6.7% due to an increase in precipitation. At the same time, the rate of water consumption for technical use was down 2.1% due to process optimisation, which improved the efficiency of water consumption at the production shops.

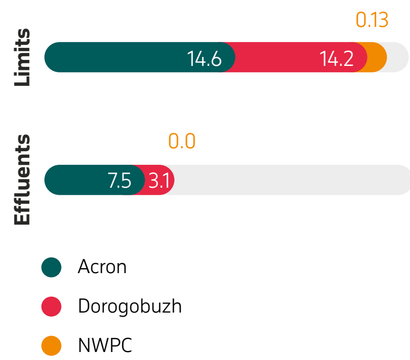
Most of the measures to protect surface water implemented by Dorogobuzh (repairs and replacement of old equipment and piping) were aimed at ensuring the accident-free operations of the biological treatment facility and hydraulic facilities.

Dorogobuzh's water discharge was up 2% year-on-year due to an increase in precipitation.

NWPC's production facilities use an open-pit and shaft water treatment complex as well as sewage treatment units to treat domestic wastewater. Accredited laboratories monitor the quality of treated wastewater during its discharge by NWPC. They also continually monitor the quality of water from the reservoirs regardless of wastewater discharge. The morphometric parameters are monitored at Komarino Lake. No wastewater from the treatment facility for open-pit and shaft water was discharged into Komarino Lake between June and September 2019.

NWPC also continued to counteract any impacts on aquatic biological resources caused by the development of its facilities. In the reporting year, 11,900 fish fry were released into a tributary of the Umba River (White Sea basin); investments totalled RUB 2.5 million. In 2020, NWPC will continue implementing these measures with estimated funding of RUB 3.6 million.

Pollutant Effluents to Open Water and Limits, '000 t



In the reporting year, Acron Group's facilities discharged a total of 27.4 million cubic metres of wastewater, up 13.7% year-on-year. Pollutant effluents to open water increased 5% year-on-year to 10,600 tonnes. None of these figures exceed legal limits.

Waste Management

The Group's waste management practices include reducing the amount of waste, introducing waste reduction technology, minimising the amount of non-recyclable waste, and disposing of it in accordance with applicable laws.

In 2019, the volume of waste generated by Acron increased 74.6% year-on-year to 75,300 tonnes due to construction of new units. Hazard class 1-2 waste at Acron remained flat at less than 0.01%.

In the reporting year, Dorogobuzh saw its waste go up 80% to 4,900 tonnes year-on-year (mainly hazard class 1, 2 and 4 waste) due to disposal of ferrous scrap generated in the course of the overhaul. Despite this increase in waste volume, Dorogobuzh did not exceed established limits for waste generation and disposal.

In addition to waste from its chemical facilities, the Group generates waste at the Oleniy Ruchey mine, mainly during the production and processing of apatite and nepheline ores (overburden rocks and process tailings of apatite-nepheline ores), which is disposed of at special facilities (overload dumps and tailings). Other waste from the mine is treated under annual agreements with companies licensed to transport, decontaminate, treat, and dispose of hazard class 1-4 waste.

NWPC is also focused on the environmentally friendly treatment of oily waste, mainly represented by such moderately hazardous waste (hazard class 3) as oil waste, pipelines, tanks, and oil separation units. In 2019, a total of 67.6 tonnes of oily waste were generated.

NWPC generated a total of 36.4 million tonnes of waste, mainly low-hazard and non-hazardous waste (overburden rocks and tailings).

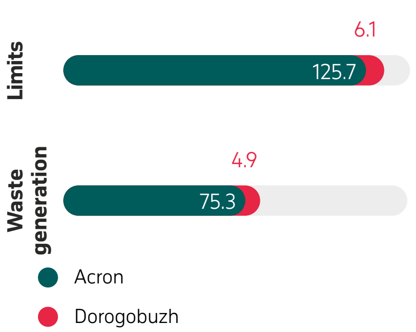
In the reporting year, all the Group's facilities took measures to comply with Russian sanitary and environmental laws on handling waste generated during biological water treatment and the operation of waste disposal facilities.

Acron continued developing design documentation for construction of hazard class 3-4 waste disposal facility.

Dorogobuzh developed a design to renovate the second stage of the calcium carbonate warehouse and obtained approval for the design documentation from the state environmental review board.

Acron Group's Russian facilities invested a total of RUB 18 million in waste management efforts.

Waste Generation, '000 t



Social Involvement

In 2019, Dorogobuzh won the regional stage of the federal competition Socially-Conscious Russian Business and was named first among Smolensk region's chemical production companies in the chemical production complex category.

Acron and NWPC won the Company of the Year Award in the industry leader in a footprint region category.

RUB **87** mn

Acron Group's charitable giving

RUB **290** mn

total social investments in the footprint regions

Acron Group makes a significant contribution to the social and economic development of its footprint regions. The Group is an attractive employer and responsible taxpayer that stays deeply involved in these regions' economies, improving the quality of life for its employees, their families, and local residents.

We are engaged in ongoing, constructive dialogue with stakeholders to learn about their needs, taking into account the interests of the Group and local communities. Acron Group invests in local infrastructure, healthcare, education, culture, arts and sports institutions, implements social and charitable programmes, and supports non-governmental organisations and local communities.

Being actively involved in the life of local communities, Acron Group is committed to creating and maintaining

Acron Group supports local communities in compliance with the following principles:

- **Projects must have great social importance**
- **The interests of the majority of residents must take priority**
- **Assistance must be targeted**
- **The use of funds by recipients must be transparent, targeted and accountable**

a favourable social environment and values and to developing the Group's footprint regions.

The Group's production facilities sponsor social and economic projects in the Group's footprint regions. In the reporting year, Acron and the Veliky Novgorod administration signed a new social and economic cooperation agreement under which the city administration and the facility continue working together to solve pressing social and economic issues and to ensure the sustainable development of the Novgorod region administrative centre. In 2019, Acron invested RUB 93.7 million in these efforts, including under the cooperation agreement with the local administration.

In the reporting year, the Acron facility in Veliky Novgorod allocated a total of RUB 28 million to charity. The Company funded repairs and purchases of furniture and modern equipment for chemistry classrooms in seven local schools, hosting the WorldSkills Russia competition at Novgorod Chemical Industrial College (NovHIT) and purchasing special cleaning machinery for Veliky Novgorod. For many years, Acron has participated in the Christmas Gift marathon for charity, which supports families with children with disabilities.

In the reporting year, Acron won the following high-profile awards:

— Company of the Year Award in the Industry Leader category

— Ecology and Environmental Management award from the Russia's Top 100 Organisations contest

— Award for environmental protection and resource efficiency in the large enterprise category from a chemical industry competition called Five Stars: Leaders of the Chemical Industry

In 2019, Dorogobuzh and the administration of Dorogobuzh district (Smolensk region) signed a new social partnership agreement. Dorogobuzh allocated a total of RUB 2.3 million to finance social projects in the city and the region, including purchasing construction materials and repairing poles, ventilation systems, cold and hot water supply systems, sewer systems, and interiors and buying furniture for several local schools and kindergartens; purchasing a playground structure for Sadovaya village, purchasing playground equipment to be installed in Dorogobuzh and Verkhnedneprovsky, funding commemorative events that mark the 74th anniversary of the end of World War II, and funding graduation parties at local schools.

Additionally, the Company invested RUB 3.7 million in local infrastructure projects: events for children and teenagers, improvements to the educational equipment at Verkhnedneprovsky Engineering College; replacement of the stable roof, installation of fencing with gates, and renovation of the show-jumping course at the equestrian section of the children's sports school; renovation of the cathedral at Trinity Boldin Monastery; support for the Disabled and Veterans Association, Saint Demetrios of Thessaloniki Convent, Smolensk Music Society, and other local organisations. Dorogobuzh delivered RUB 13.9 million in fertilisers to Smolensk region growers.

In the reporting year, Dorogobuzh invested a total of RUB 38.9 million in social and economic development in its footprint region and in charity.

In the reporting year, NWPC renewed its social and economic cooperation agreement with the Kirovsk urban district and transferred a total of RUB 98 million to the city budget. A portion of these funds was allocated to repairs and maintenance of the public roads and urban landscaping, and RUB 51 million were allocated to support educational and sports institutions, including RUB 28.5 million to support the Cultural Centre, kindergarten, secondary school, and arts school in Koashva.

As always, NWPC organised and sponsored events for Koashva residents and allocated RUB 500,000 to the 85th Festival of the North sports competition in Murmansk region. Additionally, the Company was a partner of the eighth annual Murmansk International Business Week and a title sponsor of the ninth annual conference Mining Industry in the Barents Euro-Arctic Region: View to the Future. In the reporting year, NWPC provided a total of RUB 1.9 million as charitable support for NGOs.

In 2019, NWPC won the Company of the Year award in the Murmansk region industry leader category.

In the reporting year, Partomchorr Mining Company (a subsidiary of Acron Group) and the Apatity city administration signed an agreement on social and economic partnership and cooperation in order to develop and maintain social and public infrastructure. Under this agreement, the Company transferred over RUB 94 million to the city budget.

In the reporting year, Acron Group's production facilities allocated a total of RUB 377 million to support social and economic development in their footprint regions.

Corporate Volunteering

In the late 1960s, one of Russia's first volunteer search clubs, called Sokol, was founded at Acron by Nikolay Orlov. Later, the regional search expedition Dolina was named after him. Several generations of Acron employees have participated in the Memory Watch commemorative event, setting an example of good citizenship for their colleagues. The search club excavates the remains of fallen and unburied Red Army soldiers, commemorating their sacrifice and informing their relatives of their fate.

In 2019, Acron employees from Sokol recovered and solemnly laid to rest the remains of the pilots of a night bomber that went missing near Veliky Novgorod in 1942.

Members of the club are always searching for information about relatives of the fallen soldiers and use data from the Defence Ministry archive.

For decades, Acron's employees have commemorated the fallen soldiers of the 2nd Shock Army and maintained their monuments. Children and grandchildren of Acron employees join them in the Sokol search club.

Acron's Museum of Military and Labour Glory is recognised one of Russia' best. It carefully stores unique historical artefacts of World War II located by search club members at the sites of horrible battles across the Novgorod region. Sokol is well known in Russia and abroad, and members of the search movement are highly regarded in Veliky Novgorod for their contributions to historical memory. Recently, young Acron employees have joined the search movement.

Cooperation with Stakeholders

Acron Group conducts its business with consideration for the interests of all stakeholders. The Group believes that only such close cooperation can develop productive, long-term relationships and foster an environment in which we can promptly respond to requests from local communities in rapidly changing conditions.

Acron Group used the materiality criterion to identify stakeholders, taking into account the impact of the Group's business on these groups, the impact of these groups on the Group's sustainability, and the existence of statutory obligations or obligations under any other regulations.

Goals of Cooperation	Cooperation Tools	2019 Events and Results
Shareholders and investors		
— Ensure the Group's value grows over the long run — Provide information about the Group's development strategy — Increase the quality of corporate governance — Maintain liquidity level and share price	— Conferences for investors — Individual meetings with investors — Conference calls — Press releases and other materials within the scope of required disclosure — Regular contact with analysts — Annual general meetings and mandatory reports — Corporate website — Visits to production facilities for analysts and investors	— One general shareholder meeting and two extraordinary shareholder meetings were conducted. — Share value up 2% in RUB — Regular cooperation with investment bank analysts — 135 messages and price sensitive information statements published on disclosure portals
Federal and local government authorities in footprint regions		
— Promote social and economic development in footprint regions — Address social and economic issues	— Analysing specific needs of residents in footprint regions and executing social and economic agreements to meet such needs — Meetings with representatives of regional government and local residents — Support for local public and athletic organisations — Placement programme for young professionals	— Agreements on social and economic cooperation executed between Acron, Dorogobuzh, NWPC, Mining Company Partomchorr and local authorities for a total of RUB 290 mn — Acron Group facilities invested RUB 87 mn in charitable projects.

Goals of Cooperation	Cooperation Tools	2019 Events and Results
Media		
— Establish a positive image of the Group — Strengthen the Group's reputation in the business community — Improve disclosure and transparency	— Relations with media through meetings, interviews, press releases and other materials published and distributed on the Group's website, visits to production facilities	— 90 press releases — In 2019, Acron Group earned several awards: • Acron: Exporter of the Year Competition • Acron: Annual Report Awards organised by Moscow Exchange • Acron: Russia's Top 100 Organisations, Ecology and Environmental Management • Acron and NWPC: Company of the Year Award, Industry Leader nomination • Dorogobuzh: Best Chemical Production Facility in Smolensk Region • Acron: Five Stars. Chemical Industry Leaders national competition, Major Companies category, Environmental Protection and Resource Efficiency category
Local communities		
— Implement programmes to support young people, education and athletic development	— Cooperation with secondary schools, leading Russian higher education technology institutions and technical colleges — Specialised classes with advanced curriculum on industrial subjects involving faculty from higher education institutions — Execution of mutual obligation agreements with students who receive scholarships — Funds for specialised literature for students — Organisation of athletic events	— Taking part in academic competitions at schools; organising meetings between the Group's specialists and teachers, students, and their parents — Organising seminars for secondary school pupils, open-house days, guided tours to facilities, joint trips by the Group's specialists with graduating pupils, and athletic competitions — Approximately 900 pupils and students attended guided tours at the Group's chemical production facilities. — 409 students from vocational schools and universities participated in the apprenticeship programme at the Group's chemical production facilities, and 42 of them were subsequently hired.

Goals of Cooperation	Cooperation Tools	2019 Events and Results
Employees and trade unions		
— Create conditions for professional growth and social well-being of employees — Ensure workplace safety — Improve social and work environment — Enhance remuneration system — Improve social partnership system — Increase personnel motivation — Provide social support for employees and retirees — Develop effective corporate culture — Use human resources efficiently — Ensure labour safety	— Personnel development programmes, including talent pool programme — Intranet information portal for personnel — Meetings between personnel and the Group's management — Professional skills competitions for employees — Training events — Employee healthcare programme — Updates to the Collective Agreement — Social benefits provided under the Collective Agreement — Meetings and consultations between trade union leaders and the Group's management — Annual conferences of the primary trade union attended by the Group's management — Joint work on the Labour Dispute Committee	— 173 employees graduated from talent pool school. — Approximately 6,000 employees participated in athletic events. — 2,190 employees received industry and Company awards. — Over 1,800 employees took various training classes. — Primary trade unions held annual conferences and scheduled meetings between trade union leaders and management of the Group's facilities.
Consumers, partners, and service providers		
— Guarantee safe, high quality products for consumers — Expand sales markets and product range — Improve reliability and safety of processes and equipment — Mitigate accident risks at hazardous production facilities	— Development and production of new products meeting market demands — Long-term mutually beneficial partnerships based on trust — Equal tender conditions for suppliers and contractors — Timely fulfilment of mutual obligations — Anti-corruption efforts, ethical compliance — Improvement of Acron Group's certified management systems — Audits performed by consumers — Attendance at forums, specialised exhibitions and industry conferences — Membership and involvement in industry organisations (Association of Russian Fertiliser Producers, International Fertilizer Association, Fertilizers Europe)	— Participation in industry conferences — Centralisation of the Group's procurement — The Group signed: • Cooperation agreement with Russian Export Centre • Cooperation agreement with the Agriculture Ministry of Moscow region • 12 mineral fertiliser supply agreements with regional departments of agriculture — Participation in Golden Autumn Agro-Industry Trade Show — Attending Bryansk Field Day and Moscow Region Field Day trade shows — Taking part in St. Petersburg International Economic Forum

Goals of Cooperation	Cooperation Tools	2019 Events and Results
Rating agencies		
— Improve the Group's credit rating	— Annual meetings with analysts	— Fitch Ratings confirmed Acron Group's BB- credit rating with a Stable Outlook. — Moody's Investors Service confirmed Acron Group's Ba3 credit rating with a Stable outlook. — Expert RA agency confirmed Acron Group's ruA+ credit rating with Stable Outlook.
Banks		
— Provide required credit resources to the Group's companies	— Obtaining/repaying loans	— Refinanced RUB 24 bn in debt

Financial Statements

Responsibility Statement

Management Responsibility Statement Regarding Preparation and Approval of Consolidated Financial Statements

We confirm that to the best of our knowledge:

— The Group's IFRS consolidated financial statements present an accurate and impartial picture of its assets, liabilities, financial position, profit and loss accounts, and of the consolidated companies as a whole.

— This Annual Report provides an impartial description of the business and position of the Group and of the consolidated companies as a whole, along with a description of the key risks and uncertainties to which they are subject.

On behalf of the Board of Directors
Alexander Popov
Chairman of the Board of Directors

Independent Auditors' Report

KPMG

To the Shareholders and Board of Directors of Public Joint Stock Company "Acron"

Opinion

We have audited the consolidated financial statements of PJSC "Acron" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements** section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audited entity: PJSC "Acron".
Registration No. in the Unified State Register of Legal Entities 1025300786610.
Veliky Novgorod, Russia

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS).
The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 12006020351.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair value of derivative financial instruments

Please refer to the Notes 11, 13, 28 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The Group has derivative financial instruments - call and put options for ordinary shares of JSC Verkhnekamsk Potash Company, a subsidiary of the Group that holds a license to develop a potash deposit. The primary input for determining the fair value of the options recognised in the Group's consolidated financial statements is the fair value of the underlying asset - shares of JSC Verkhnekamsk Potash Company, which is estimated using the discounted cash flow model. We focused our attention on the issue of assessing the fair value of options due to the following: — there is an inherent risk of uncertainty in forecasting and discounting future cash flows; — the use of significant unobservable valuation inputs increases the degree of uncertainty in the calculations; — financial model includes specific parameters and subjective estimates, requiring management to apply significant professional judgment.	We have gained an understanding of the Group's internal controls over the valuation process. We assessed independence and professional competence of the appraiser engaged by the Group to perform fair value calculation of the underlying asset. We involved our valuation specialists and conducted a critical analysis of the key assumptions underlying the discounted cash flow forecast used to determine the fair value of JSC Verkhnekamsk Potash Company's shares by comparing them to external industry, economic and financial data and other available information. We checked the mathematical accuracy of the calculations. We assessed whether the applied methodology is in line with the specific conditions of the Group, as well as the generally accepted valuation practice. We checked the accuracy and completeness of the relevant disclosures in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report of PJSC "Acron" but does not include the consolidated financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Andrei V. Ryazantsev
JSC "KPMG"

Moscow, Russia
23 March 2020

Consolidated Financial Statements

Public Joint Stock Company "Acron"
Consolidated Statement of Financial Position at 31 December 2019
(in millions of Russian Roubles)

	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	10	102,157	93,532
Subsoil licences and related costs	11	39,502	36,557
Investment in equity instruments measured at fair value through other comprehensive income	12	9,784	11,670
Long-term derivative financial instruments	13	-	2,844
Right-of-use assets	18	2,690	-
Deferred tax assets	25	201	164
Other non-current assets		3,224	3,092
Total non-current assets		**157,558**	**147,859**
Current assets			
Inventories	9	16,378	16,724
Accounts receivable	8	10,878	10,815
Cash and cash equivalents	7	11,356	10,460
Short-term derivative financial instruments	13	3,093	-
Other current assets		1,092	926
Total current assets		**42,797**	**38,925**
TOTAL ASSETS		**200,355**	**186,784**
EQUITY			
Share capital	16	3,046	3,046
Treasury shares		(8)	(6)
Retained earnings		73,157	65,253
Revaluation reserve		(16,083)	(14,137)
Other reserves		(5,291)	(3,963)
Cumulative currency translation difference		6,180	7,400
Equity attributable to the Company's owners		**61,001**	**57,593**
Non-controlling interests	17	20,964	20,572
TOTAL EQUITY		**81,965**	**78,165**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	15	73,253	66,946
Long-term derivative financial instruments	13	-	1,875
Long-term lease liabilities	18	2,047	-
Deferred tax liabilities	25	8,658	6,951
Other non-current liabilities		743	641
Total non-current liabilities		**84,701**	**76,413**
Current liabilities			
Accounts payable	14	10,517	7,226
Short-term derivative financial instruments	13	679	-
Short-term borrowings	15	13,288	17,539
Advances received		6,968	5,737
Short-term lease liabilities	18	547	-
Other current liabilities		1,690	1,704
Total current liabilities		**33,689**	**32,206**
TOTAL LIABILITIES		**118,390**	**108,619**
TOTAL LIABILITIES AND EQUITY		**200,355**	**186,784**

*The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 4.

The Consolidated Financial Statements were approved for issue on 23 March 2020

A.V. Milenkov
Finance Director

V.Y. Kunitskiy
President

Public Joint Stock Company "Acron"
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019
(in millions of Russian Roubles, except for per share amounts)

	Note	2019	2018
Revenue	5	114,835	108,062
Cost of sales	19	(59,784)	(54,444)
Gross profit		**55,051**	**53,618**
Transportation expenses	21	(20,744)	(17,715)
Selling, general and administrative expenses	20	(9,332)	(8,115)
Other operating expenses, net	23	(1,574)	(349)
Operating profit		**23,401**	**27,439**
Finance income/(expenses), net	22	7,236	(8,422)
Interest expense		(1,115)	(1,607)
Gain on derivatives, net		1,445	896
Profit before taxation		**30,967**	**18,306**
Income tax expense	25	(6,181)	(4,988)
Profit for the year		**24,786**	**13,318**
Other comprehensive loss on items that will not be reclassified to profit or loss:			
Investment in equity instruments measured at fair value through other comprehensive income:			
- Losses arising during the period	12	(1,946)	(11,235)
Other comprehensive (loss)/income on items that are or may be reclassified to profit or loss			
Currency translation differences		(1,093)	1,931
Other comprehensive loss for the year		**(3,039)**	**(9,304)**
Total comprehensive income for the year		**21,747**	**4,014**
Profit is attributable to:			
Owners of the Company		24,219	12,768
Non-controlling interests		567	550
Profit for the year		**24,786**	**13,318**
Total comprehensive income is attributable to:			
Owners of the Company		21,196	3,390
Non-controlling interests		551	624
Total comprehensive income for the year		**21,747**	**4,014**

Earnings per share			
Basic (expressed in Russian Roubles)	24	619.83	324.63
Diluted (expressed in Russian Roubles)	24	618.40	323.77

*The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 4.

Public Joint Stock Company "Acron"
Consolidated Statement of Cash Flows for the year ended 31 December 2019
(in millions of Russian Roubles)

	Note	2019	2018
Cash flows from operating activities			
Profit for the period		**24,786**	**13,318**
Adjustments for:			
Income tax expense	25	6,181	4,988
Depreciation and amortisation on property, plant and equipment and intangible assets	10	11,344	9,026
Provision for / (reversal of) inventory obsolescence		181	(28)
Provision for / (reversal of) impairment of accounts receivable		24	(44)
Loss on disposal of property, plant and equipment	10	205	1,033
Interest expense		1,115	1,607
Interest income	22	(92)	(161)
Gain on derivatives, net		(1,445)	(896)
Dividend income	22	-	(402)
Loss on disposal of exploration licences	23	-	905
Unrealised foreign exchange effect on non-operating balances		(6,812)	6,559
Operating cash flows before working capital changes		**35,487**	**35,905**
Decrease/(increase) in gross trade receivables		404	(1,238)
Decrease in advances to suppliers		1,017	44
(Increase)/decrease in other receivables		(1,141)	324
Decrease/(increase) in inventories		86	(1,761)
Increase in other current assets		(166)	(19)
Increase in trade payables		3,000	776
(Decrease)/increase in other payables		(677)	389
Increase in advances from customers		1,231	1,696
(Decrease)/increase in other current liabilities		(1,670)	814
Cash generated from operations		**37,571**	**36,930**
Income taxes paid		(4,949)	(3,658)
Interest paid		(4,344)	(4,866)
Net cash from operating activities		**28,278**	**28,406**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(19,030)	(14,542)
Interest received		64	126
Dividend received		-	402
Purchase of investment measured at fair value through other comprehensive income		(60)	(207)
Net change in other non-current assets and liabilities		(28)	(218)
Net cash used in investing activities		**(19,054)**	**(14,439)**

Public Joint Stock Company "Acron"
Consolidated Statement of Cash Flows for the year ended 31 December 2019
(in millions of Russian Roubles)

	Note	2019	2018
Cash flows from financing activities			
Acquisition of non-controlling interest		(13)	(340)
Purchase of shares of subsidiary	13	-	(15,905)
Proceeds from sale of shares of subsidiary	13	-	10,743
Acquisition and redemption of treasury shares		(1,330)	(620)
Contribution of non-controlling shareholder		141	-
Dividend paid to shareholders		(14,313)	(13,278)
Dividend paid to non-controlling shareholders		(179)	(215)
Proceeds from borrowings		23,803	35,633
Repayment of borrowings		(14,963)	(35,661)
Payment of lease liabilities		(474)	-
Net cash used in financing activities		**(7,328)**	**(19,643)**
Net increase / (decrease) in cash and cash equivalents		**1,896**	**(5,676)**
Cash and cash equivalents at 1 January		10,460	14,302
Effect of movements in exchange rates on cash and cash equivalents		(1,000)	1,834
Cash and cash equivalents at 31 December	**7**	**11,356**	**10,460**

*The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 4.

Public Joint Stock Company "Acron"
Consolidated Statement of Changes in Equity for the year ended 31 December 2019
(in millions of Russian Roubles)

	Capital and reserves attributable to the Company's owners							
	Share capital	Treasury shares	Retained earnings	Revaluation reserve	Other reserves	Cumulative currency translation difference	Non-controlling interests	Total equity
Balance at 1 January 2018	**3,046**	**(6)**	**68,035**	**(2,902)**	**(3,416)**	**5,543**	**20,656**	**90,956**
Total comprehensive income								
Profit for the year	-	-	12,768	-	-	-	550	13,318
Other comprehensive loss								
Loss on investment in equity instruments measured at fair value through other comprehensive income (Note 12)	-	-	-	(11,235)	-	-	-	(11,235)
Currency translation differences	-	-	-	-	-	1,857	74	1,931
Total other comprehensive loss	**-**	**-**	**-**	**(11,235)**	**-**	**1,857**	**74**	**(9,304)**
Total comprehensive income for the year	**-**	**-**	**12,768**	**(11,235)**	**-**	**1,857**	**624**	**4,014**
Acquisition of non-controlling interest	-	-	153	-	-	-	(493)	(340)
Acquisition and redemption of treasury shares	-	-	-	-	(620)	-	-	(620)
Dividend declared	-	-	(13,278)	-	-	-	(215)	(13,493)
Transactions with shares of subsidiary	-	-	(2,425)	-	73	-	-	(2,352)
Total transactions with Company's owners	**-**	**-**	**(15,550)**	**-**	**(547)**	**-**	**(708)**	**(16,805)**
Balance at 31 December 2018	**3,046**	**(6)**	**65,253**	**(14,137)**	**(3,963)**	**7,400**	**20,572**	**78,165**

Public Joint Stock Company "Acron"
Consolidated Statement of Changes in Equity for the year ended 31 December 2019
(in millions of Russian Roubles)

	Capital and reserves attributable to the Company's owners							
	Share capital	**Treasury shares**	**Retained earnings**	**Revaluation reserve**	**Other reserves**	**Cumulative currency translation difference**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2019	**3,046**	**(6)**	**65,253**	**(14,137)**	**(3,963)**	**7,400**	**20,572**	**78,165**
Total comprehensive income								
Profit for the year	-	-	24,219	-	-	-	567	24,786
Other comprehensive loss								
Loss on investment in equity instruments measured at fair value through other comprehensive income (Note 12)	-	-	-	(1,946)	-	-	-	(1,946)
Currency translation differences	-	-	-	-	-	(1,220)	(16)	(1,236)
Total other comprehensive loss	**-**	**-**	**-**	**(1,946)**	**-**	**(1,220)**	**(16)**	**(3,182)**
Total comprehensive (loss) / income for the year	**-**	**-**	**24,219**	**(1,946)**	**-**	**(1,220)**	**551**	**21,604**
Acquisition of non-controlling interest	-	-	48	-	-	-	(4)	44
Acquisition and redemption of treasury shares	-	(2)	-	-	(1 328)	-	-	(1,330)
Contribution of non-controlling shareholder	-	-	-	-	-	-	141	141
Dividend declared		-	(14,313)	-	-	-	(296)	(14,609)
Provision for previous years obligations	-	-	(1,150)	-	-	-	-	(1,150)
Other	-	-	(900)	-	-	-	-	(900)
Total transactions with Company's owners	**-**	**(2)**	**(16,315)**	**-**	**(1,328)**	**-**	**(159)**	**(17,804)**
Balance at 31 December 2019	**3,046**	**(8)**	**73,157**	**(16,083)**	**(5,291)**	**6,180**	**20,964**	**81,965**

*The accompanying notes are an intergral part of these consolidated financial statements.

Public Joint Stock Company "Acron" Notes to the Consolidated Financial Statements for the year ended 31 December 2019

(in millions of Russian Roubles, except for per share amounts)

1. Acron Group and its Operations

These consolidated financial statements for the year ended 31 December 2019 comprise Public Joint Stock Company "Acron" (the "Company" or "Acron") and its subsidiaries (together referred to as the "Group" or "Acron Group"). The Company's shares are traded on the Moscow and London Stock Exchange.

The Group's principal activities include the manufacture, distribution and sale of chemical fertilisers and related mineral primary and by-products. The Group's manufacturing facilities are primarily based in the Novgorodskaya, Smolenskaya, and Murmanskaya regions of Russia.

The Company's registered office is at Veliky Novgorod, Russian Federation, 173012.

As at 31 December 2019, the Group`s immediate parent company is Redbrick Investments S.a.r.l. (Luxembourg). The Group's ultimate parent is Terasta Enterprises Limited (The Republic of Cyprus). In 2019 and 2018, the Group is ultimately controlled by Mr. Viatcheslav Kantor.

2. Basis of accounting

Basis of preparation. These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") under the historical cost convention except as modified by the fair value revaluation of derivative financial instruments, investments in equity instruments measured at fair value through other comprehensive income.

This is the first set of the Group's annual financial statements in which IFRS 16 Leases has been applied. Changes to significant accounting policies are described in Note 4. A number of other new standards are effective from 1 January 2019 but they do not have material effect on the Group's financial statements.

Functional and presentation currency. Functional currency of the Group's consolidated financial statements is the currency of the primary economic environment in which the Group operates. Company's functional currency and presentation currency is the national currency of the Russian Federation - Russian Rouble (RUB).

Unless otherwise indicated, all financial information presented in these consolidated financial statements are presented in millions of Russian Roubles (RUB). These consolidated financial statements have been prepared based on the statutory records, with adjustments and reclassifications recorded for the fair presentation in accordance with IFRS

3. Critical Accounting Estimates, and Judgments in Applying Accounting Policies

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and 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 financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Evaluation of put/call options for JSC Verkhnekamsk potash company (JSC VPC) shares. The fair value of stock options is estimated based on Black–Scholes Option Pricing Model which was developed for use in estimating the fair value of options on quoted shares. Option pricing method requires use of subjective inputs and assumptions including expected volatility of the share price and share spot price at the date of valuation. Since JSC VPC shares are not publicly traded, expected volatility was determined based on historical stock quotes of companies in the same industry and estimates. The estimate of the current fair value price of the shares was made on the basis of discounted cash flows attributable to JSC VPC adjusted for non-controlling discount (Notes 13 and 27).

Accounting treatment for put options, that will be regulated by the Company's shares. In 2012, 2014, and 2017, the Group sold shares of JSC VPC to the non-controlling shareholders linked to put options, which gave the right to the non-controlling shareholders to sell their shares back to the Group in exchange for the variable amount of shares in PJSC Acron. Because at the option exercise date the Group does not have obligation to deliver cash or another financial asset, the subsidiary's shares that are held by non-controlling interest holders were presented in equity as non-controlling interests and the put options were recognised as derivative financial liabilities (Note 17).

Impairment of subsoil licences and related costs. The Group performed annual impairment test of mining licence and related costs of JSC VPC. The recoverable amount of the cash-generating unit (CGU) was determined based on fair value less costs to sell calculations as at 31 December 2019. These calculations used cash flow projections based on financial budgets approved by management and incorporating expected market prices for key fertilisers for the same period according to leading industry publications. The growth rate did not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used reflected the risks inherent in this CGU, as further disclosed in Note 11.

Capitalisation of borrowing costs for subsoil licences. Subsoil licences represent part of investment projects for development of mineral deposits that necessarily take a substantial time to get ready for intended use. Accordingly, management considers exploration rights as qualifying assets for capitalisation of borrowing costs. Management assesses whether capitalisation of borrowing costs shall be continued during periods when active development is interrupted while substantial design or technical work is carried out (Note 11).

Functional currency of foreign operation. Operations of related foreign legal entities registered in Luxembourg and Cyprus in substance represent a passive activity related to holding investment portfolio within the economic environment of the Company. With regard to the above, management concluded that the functional currency of these entities should be the Russian Rouble.

4. Changes in Significant Accounting Policies

The Group has initially adopted IFRS 16 Leases from 1 January 2019.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 29.8.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

As a lessee, the Group leases many assets including property and production equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under IAS 17

Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019 (see Note 29.8). Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application: the Group applied this approach to its largest property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Group applied this approach to all other leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

Leases classified as finance leases under IAS 17

The Group leases a number of items of production equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

Impact on financial statements

Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets, including investment property, and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	1 January 2019
Right-of-use assets	3,100
Lease liabilities	(3,100)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is from 1.4% to 9% depending on economic environment of lessee.

Impacts for the period

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During 2019, the Group recognised RUB 453 of depreciation charges and RUB 125 of interest costs from these leases.

5. Segment Information

The Group prepares its segment analysis in accordance with IFRS 8, Operating Segments. Operating segments are components that engage in business activities that capable to earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker(s) ("CODM") and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management Board of the Group.

The development and approval of strategies, market situation analysis, the risk assessment, investment focus, technological process changes, goals and priorities are set and assessed in line with the current segment structure of the Group:

— Acron – representing manufacturing and distribution of chemical fertilisers by PJSC Acron;

— Dorogobuzh – representing manufacturing and distribution of chemical fertilisers by PJSC Dorogobuzh;

— Logistics – representing transportation an logistic services rendered by Estonian ports of the Group and some minor transportation companies in Russia. Comprises such entities as AS DBT, LLC Andrex. Constitutes an aggregation of a number of operating segments;

— Trading – representing overseas & domestic distribution companies of the Group;

— Mining NWPC – representing production of apatite-nepheline ore and subsequent processing in apatite concentrate;

— Mining excluding NWPC - comprise mining entities JSC VPC, JSC Mining Company Partomchorr, North Atlantic Potash Inc., and other assets in Canada being at the stage of development, exploration and evaluation;

— Other – representing certain logistic (other than included in logistic segment), service, agriculture and management operations.

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit has significant business and risk profile.

Segment financial information is presented and reviewed by the CODM based on the IFRS and includes revenues from sales and EBITDA.

The CODM evaluates performance of each segment based on measure of operating profit adjusted by depreciation and amortisation, foreign exchange gain or loss, other non-cash and extraordinary items (EBITDA). Since this term is not a standard IFRS measure Acron Group's definition of EBITDA may differ from that of other companies.

Information for the reportable segments for the year ended 31 December 2019 is set out below:

	Segment sales	Eliminable intersegment sales	External sales	EBITDA
Acron	67,112	(58,109)	9,003	25,944
Dorogobuzh	21,629	(19,669)	1,960	3,922
Logistics	4,772	(3,767)	1,005	2,221
Trading	105,533	(3,418)	102,115	1,190
Mining NWPC	11,003	(10,948)	55	2,543
Mining excluding NWPC	-	-	-	-
Other	1,670	(973)	697	(71)
Total	**211,719**	**(96,884)**	**114,835**	**35,749**

Information for the reportable segments for the year ended 31 December 2018 is set out below:

	Segment sales	Eliminable intersegment sales	External sales	EBITDA
Acron	67,754	(58,492)	9,262	23,746
Dorogobuzh	27,152	(20,285)	6,867	8,347
Logistics	4,729	(4,543)	186	1,042
Trading	94,708	(4,780)	89,928	719
Mining NWPC	9,543	(8,333)	1,210	3,352
Mining excluding NWPC	-	-	-	(65)
Other	1,582	(973)	609	(88)
Total	**205,468**	**(97,406)**	**108,062**	**37,053**

Reconciliation of EBITDA to Profit Before Tax:

	2019	2018
Operating Profit	**23,401**	**27,439**
Depreciation and amortisation of property, plant and equipment and intangible assets	11,344	9,026
Foreign currency loss/(profit) on operating transactions, net	799	(1,350)
Loss on disposal of exploration licences	-	905
Loss on disposal of property, plant and equipment	205	1,033
Total consolidated EBITDA	**35,749**	**37,053**

Information about geographical areas:

The geographic information below analyses the Group's revenue on external sales and non-current assets. In presenting the following information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

	2019	2018
Revenue		
Latin America	28,547	22,291
European Union	22,707	20,890
Russia	17,179	19,937
USA and Canada	17,395	13,598
Asia (excluding PRC)	12,373	12,931
PRC	7,133	7,242
Other regions	6,271	5,197
Commonwealth of Independent States	3,230	5,976
Total	**114,835**	**108,062**

	2019	2018
Non-current assets		
Russia	136,437	122,879
Canada	4,657	4,686
Estonia	4,885	4,349
Total	**146,307**	**131,914**

Non-current assets represent non-current assets other than financial instruments and deferred tax assets.

For 2019, revenues from logistics activities representing a separate performance obligation under IFRS 15 amounted to RUB 6,491 (2018: RUB 5,155). Adjustment associated with price changes under IFRS 15 amounted to RUB (45) (2018: RUB (349)).

This revenue was accounted for as part of the Trading in Information for the reportable segments for the year ended 31 December 2019.

In the reporting period, there is one individual export customer contributing 14% to the total revenue (2018: 17%).

6. Balances and Transactions with Related Parties

Related parties are defined in IAS 24, Related Party Disclosures. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2019 or 2018 are detailed below.

The following turnovers and balances arise from transactions with related parties:

i Balances with related parties

Statement of financial position caption	Note	Relationship	2019	2018
Trade receivables, gross	8	Companies under common control	5	4
Trade payables	14	Companies under common control	(8)	(5)

ii Transactions with related parties

	Note	Relationship	2019	2018
Sales of chemical fertilisers	5	Companies under common control	14	8
Purchases of raw materials		Companies under common control	(90)	(73)
Charity expenses	23	Companies under common control	(70)	(119)

iii Key management personnel compensation

Total key management personnel compensation in the amount of RUB 1,147 (2018: RUB 1,269) was recorded in general and administrative expenses. Related state social and pension costs included in this amount equalled to RUB 179 (2018: RUB 171).

7. Cash and Cash Equivalents

	2019	2018
Cash on hand and bank balances denominated in RUB	2,157	2,602
Bank balances denominated in USD	5,570	5,582
Bank balances denominated in EUR	3,291	1,952
Bank balances denominated in CNY	143	154
Bank balances denominated in other foreign currencies	195	170
Total cash and cash equivalents	**11,356**	**10,460**

Cash and cash equivalents include term deposits of RUB 3,338 (2018: RUB 2,391).

The fair value of cash and cash equivalents is equal to their carrying amount. All bank balances and term deposits are neither past due nor impaired. Analysis of the credit quality of bank balances and term deposits is as follows:

	2019	2018
A to AAA* rated	3,310	3,884
BBB- to BBB+* rated	7,226	5,348
BB- to BB+* rated	52	418
Baa3**	490	747
Ba2**	5	-
Unrated	273	63
Total	**11,356**	**10,460**

*Based on the credit ratings of Fitch Ratings, an independent rating agency.
**Based on the credit ratings of Moody's, an independent rating agency.

8. Accounts Receivable

	2019	2018
Trade accounts receivable	3,151	3,555
Notes receivable	262	85
Other accounts receivable	378	588
Impairment provision	(39)	(43)
Total financial assets	**3,752**	**4,185**
Advances to suppliers	1,454	2,471
Value-added tax recoverable	4,194	3,123
Income tax prepayments	722	383
Other taxes receivable	787	656
Impairment provision	(31)	(3)
Total accounts receivable	**10,878**	**10,815**

The fair value of accounts receivable does not differ significantly from their carrying amounts.

As at 31 December 2019, trade and other accounts receivable of RUB 39 (31 December 2018: RUB 43) were individually impaired and an impairment provision was recognised. Not past due receivables are not credit-impaired under IFRS 9. Exposure to credit risk is minimal due to high turnover.

The aging of trade and other accounts receivable is as follows:

	Gross 2019	Impairment 2019	Gross 2018	Impairment 2018
Not past due	3,471	-	4,086	-
Past due for less than 3 months	-	-	-	-
Past due from 3 to 9 months	17	(1)	11	(1)
Past due from 9 to 12 months	4	(4)	4	(4)
Past due over 12 months	37	(34)	42	(38)
Total	**3,529**	**(39)**	**4,143**	**(43)**

The movements in the provision for impairment of trade and other accounts receivable are as follows:

	2019	2018
Provision for impairment at 1 January	**(43)**	**(50)**
Provision for impairment	(2)	(1)
Provision used	6	8
Provision for impairment at 31 December	**(39)**	**(43)**

As at 31 December 2019 and 2018, the Group hold no collateral as security for trade receivable.

Besides trade accounts receivable and advances to suppliers, the other classes within accounts receivable do not contain impaired assets.

9. Inventories

	2019	2018
Raw materials and spare parts	8,560	8,079
Work in progress	779	460
Finished products	7,039	8,185
	16,378	**16,724**

Raw materials are shown net of obsolescence provision of RUB 280 (2018: RUB 99). No inventory was pledged as security at 31 December 2019 and 2018.

10. Property, Plant and Equipment

	Buildings and construc-tions	Plant and equip-ment	Transport	Other	Land	Mining and primary ore dressing assets	Mining assets under con-struction	Assets under con-struction	Total
Cost									
Balance at 1 January 2019	**41,904**	**46,665**	**4,826**	**3,096**	**2,614**	**35,050**	**13,352**	**9,244**	**156,751**
Additions	-	-	-	-	-	-	8,241	11,918	**20,159**
Reclassification	3,195	4,148	178	515	94	4,341	(4,341)	(8,130)	**-**
Disposals	(17)	(187)	(81)	(75)	(75)	(229)	-	-	**(664)**
Translation difference	(717)	(425)	(30)	(14)	-	-	-	(3)	**(1,189)**
Balance at 31 December 2019	**44,365**	**50,201**	**4,893**	**3,522**	**2,633**	**39,162**	**17,252**	**13,029**	**175,057**
Accumulated Depreciation									
Balance at 1 January 2019	**20,355**	**27,465**	**2,341**	**1,571**	**-**	**11,487**	**-**	**-**	**63,219**
Depreciation charge	2,682	4,199	241	233	-	3,445	-	-	**10,800**
Disposals	(16)	(183)	(70)	(10)	-	(180)	-	-	**(459)**
Translation difference	(321)	(300)	(27)	(12)	-	-	-	-	**(660)**
Balance at 31 December 2019	**22,700**	**31,181**	**2,485**	**1,782**	**-**	**14,752**	**-**	**-**	**72,900**

	Buildings and construc-tions	Plant and equip-ment	Transport	Other	Land	Mining and primary ore dressing assets	Mining assets under con-struction	Assets under con-struction	Total
Net Book Value									
Balance at 1 January 2019	**21,549**	**19,200**	**2,485**	**1,525**	**2,614**	**23,563**	**13,352**	**9,244**	**93,532**
Balance at 31 December 2019	**21,665**	**19,020**	**2,408**	**1,740**	**2,633**	**24,410**	**17,252**	**13,029**	**102,157**
Cost									
Balance at 1 January 2018	**38,501**	**41,360**	**4,933**	**2,894**	**2,603**	**29,465**	**14,703**	**7,936**	**142,395**
Additions	-	-	-	-	-	-	4,951	10,482	**15,433**
Reclassification	2,970	5,174	821	198	11	6,302	(6,302)	(9,174)	**-**
Disposals	(44)	(302)	(958)	(11)	-	(717)	-	-	**(2,032)**
Translation difference	477	433	30	15	-	-	-	-	**955**
Balance at 31 December 2018	**41,904**	**46,665**	**4,826**	**3,096**	**2,614**	**35,050**	**13,352**	**9,244**	**156,751**
Accumulated Depreciation									
Balance at 1 January 2018	**17,775**	**23,811**	**2,681**	**1,320**	**-**	**8,988**	**-**	**-**	**54,575**
Depreciation charge	2,299	3,642	168	248	-	2 642	-	-	**8,999**
Disposals	(28)	(281)	(537)	(10)	-	(143)	-	-	**(999)**
Translation difference	309	293	29	13	-	-	-	-	**644**
Balance at 31 December 2018	**20,355**	**27,465**	**2,341**	**1,571**	**-**	**11,487**	**-**	**-**	**63,219**
Net Book Value									
Balance at 1 January 2018	**20,726**	**17,549**	**2,252**	**1,574**	**2,603**	**20,477**	**14,703**	**7,936**	**87,820**
Balance at 31 December 2018	**21,549**	**19,200**	**2,485**	**1,525**	**2,614**	**23,563**	**13,352**	**9,244**	**93,532**

Included in the 2019 additions to assets under constructions and mining assets under construction, related to JSC VPC and JSC NWPC, is approximately RUB 1,525 of capitalised borrowing costs in accordance with IAS 23, Borrowing costs (2018: RUB 1,283) at the borrowing rate from 5.25% to 10.2% (2018: from 6.17% to 10.2%).

At 31 December 2019 and 2018, no pledges over property, plant and equipment.

No impairment loss in respect of individual assets was recognised in 2019 and 2018.

Non-current assets impairment test. Cash-generating units (CGUs) represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment.

Management concluded that there were no impairment indicators for CGUs as at on 31 December 2019, except for JSC VPC (Note 11), where development phase determines the necessity to perform impairment testing.

11. Subsoil Licences and Related Costs

Licence of JSC Verkhnekamsk potash company (JSC VPC)

In May 2008, the Group's subsidiary, JSC VPC, following an auction process, acquired a licence for the exploration and development of the Talitsky section of the Verkhnekamsk potash deposit, located in Perm region, Russian Federation. The licence expires in April 2053. In 2016 JSC VPC agreed on a technical project for the development of the Talitsky section. In accordance with the amended conditions of the licence changed in 2016 JSC VPC has the commitment that no later than 2028 the mine output shall be brought to a designed capacity levels.

In 2018 the Group resumed active construction of the mining and processing enterprise JSC VPC. Therefore capitalised borrowing costs in amount of RUB 2,892 (2018: RUB 3,505) in the reporting period and applied borrowing rate of 10.2% (2018: 10,2%). Mining assets under construction related to JSC VPC also include capitalised borrowing costs in amount of RUB 974 (2018: RUB 596).

Exploration Licences in Canada

In 2019, the Group continued exploration of potash deposits in the Canadian province of Saskatchewan. The term of permits expired in 2016, and the Group exercised the pre-emptive right for registration of exploration licences. As of 31 December 2019, the Group holds 11 exploration licences on potash deposits for RUB 4,657 (31 December 2018: RUB 4,686).

	2019	2018
Cost		
Balance at 1 January	**37,733**	**34,298**
Additions	3,288	3,897
Disposal	-	(905)
Currency translation difference	(331)	443
Balance at 31 December	**40,690**	**37,733**
Accumulated Amortisation and Impairment Loss		
Balance at 1 January	**(1,176)**	**(1,164)**
Amortisation charge	(12)	(12)
Balance at 31 December	**(1,188)**	**(1,176)**
Net Book Value		
Balance at 1 January	**36,557**	**33,134**
Balance at 31 December	**39,502**	**36,557**

Subsoil licences and related costs comprise of:

	2019	2018
Apatite-nepheline deposits (production / development stage)	800	812
Potash deposits (development stage)	32,608	29,716
Exploration licences	4,657	4,685
Licence and expenditure on deposit in exploration and evaluation stage	1,134	1,039
Asset related to the discharge of licence obligations	303	305
	39,502	**36,557**

Impairment test of JSC VPC

Since the assets of JSC VPC are under development, Management of the Group performed an annual testing of this cash-generating unit (CGU) for impairment as at 31 December 2019.

The recoverable amount of each CGU is determined as the highest of the fair value less costs to sell and value in use. The management of the Group attracted an independent appraiser JSC NEO Center to determine the fair value of JSC VPC shares as of 31 December 2019. These calculations used cash flow forecast prepared in nominal terms, based on financial budgets approved by management. Growth rates do not exceed the long-term average growth rates projected for the sector of the economy in which the CGU operates.

Based on these estimates, management of the Group concluded that no impairment charge is required. The main assumptions for calculating the value in use are presented below:

	31 December 2019	31 December 2018
EBITDA margin range over the forecast period after reaching the designed capacity	77-81%	80-83%
Revenue growth rate beyond forecast period	3.6%	2.75%
Start of production	2023	2023
Discount rate	12.7-13.2%	13.2-13.7%

Management determined the target EBITDA based on its most realistic expectations regarding market development. The weighted average growth rates used in the calculations are in line with the forecast calculations in industry reports. Discount rates used are post-tax rates reflecting the specific risks inherent in the CGU and estimated on the basis of the weighted average cost of capital.

The estimated recoverable amount of the CGU exceeded its carrying value by approximately RUB 32,484. Management identified that the recoverable amount strongly depends on changes in export prices expressed in roubles and discount rates. Decrease of over 15.3% in the export prices or increase by 2.6 percentage points in the discount rate used would have caused the recoverable amount to equal the carrying amount.

12. Investment in Equity Instruments Measured at Fair Value through Other Comprehensive Income

	2019	2018
Balance at 1 January	**11,670**	**22,698**
Fair value loss recognised directly in OCI	(1,946)	(11,235)
Additions	60	207
Balance at 31 December	**9,784**	**11,670**

The Group has investments in the following companies:

Name	Activity	Country of registration	31 December 2019	31 December 2018
Non-current				
Grupa Azoty S.A.	Fertilisers manufacture	Poland	9,376	11,322
Other		Russia	408	348
Total non-current			**9,784**	**11,670**
Total			**9,784**	**11,670**

The fair value of investment in Grupa Azoty S.A. was determined by reference to their quoted market prices as at 31 December 2019. As at 31 December 2019, the share price of Grupa Azoty S.A. on Warsaw Stock Exchange was RUB 475.44 (31 December 2018: RUB 575.99).

13. Derivative Financial Assets and Liabilities

In June 2018, Sberbank Investments LLC, being a financial equity investor of JSC VPC, decided to extend the term of participation in the potash project. At the same time, the Group compensated the partner for the accumulated profitability through the exercise of the put-option on 19.9% of the shares of JSC VPC with the simultaneous sale of the said block of shares back to Sberbank Investments LLC and setting up a number of option agreements. The effect from acquisition and sale back of the shares of JSC VPC was recognised in equity.

The net assets as at 31 December 2019 are represented by one call option, which gives the Group the right to purchase from non-controlling shareholders the 19.9% stake in JSC VPC up to June 2020 and two put options that give non-controlling shareholders the right to sell to the Group their 20% and 19.9% stakes of their interest in JSC VPC correspondingly in June and August 2020.

				31 December 2019
		Assets		Liabilities
	Non-Current	Current	Non-Current	Current
Put/call options on JSC VPC shares	-	3,093	-	(679)
	-	**3,093**	**-**	**(679)**

				31 December 2018
		Assets		Liabilities
	Non-Current	Current	Non-Current	Current
Put/call options on JSC VPC shares	2,844	-	(1,875)	-
	2,844	**-**	**(1,875)**	**-**

14. Accounts Payable

	2019	2018
Trade accounts payable	7,023	4,023
Dividend payable	188	71
Notes payable	-	8
Total financial payables	**7,211**	**4,102**
Payables to employees	1,419	1,411
Accrued liabilities and other creditors	984	774
Other taxes payable	903	939
Total accounts payable and accrued expenses	**10,517**	**7,226**

15. Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2019	2018
Bonds issued	23,772	13,772
Credit lines	3,185	7,160
Term loans	59,584	63,553
	86,541	**84,485**

The Group's borrowings mature as follows:

	2019	2018
Borrowings due:		
— within 1 year	13,288	17,539
— between 1 and 5 years	73,037	66,671
— after 5 years	216	275
	86,541	**84,485**

The Group's borrowings are denominated in currencies as follows:

	2019	2018
Borrowings denominated in:		
— RUB	28,510	21,813
— EUR	8,325	4,930
— USD	49,706	57,742
	86,541	**84,485**

The Group did not enter into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

At 31 December 2019, unused credit lines available under the long-term loan facilities were RUB 54,706 (31 December 2018: RUB 41,818). The terms and conditions of unused credit lines are consistent with other borrowings.

The details of the significant short-term loan balances are summarised below:

	2019	2018
Short-term borrowings		
RUB		
Bonds with fixed interest rate from 9.55% to 10.2% per annum	8,772	-
Loans with floating interest rates from 90% of the key rate of the Bank of Russia+1.8% to 90% of the key rate of the Bank of Russia+2.275% (2018: from the key rate of the Bank of Russia+0.55% to the key rate of the Bank of Russia+1.5%) per annum	343	6,813
EUR		
Loans with floating interest rates from 6M EURIBOR+0.65% to 6M EURIBOR+1.9% (2018: from 6M EURIBOR+0.75% to 6M EURIBOR+2.85%) per annum	361	414
Loans with floating interest rate of 3M EURIBOR+1.7% per annum	1,026	248
Loans with fixed interest rate of 5.27% per annum	-	125
USD		
Loans with fixed interest rates from 2.48% to 5.61% per annum	-	82
Loans with floating interest rate of 1M LIBOR+2.10% (2018: 1M LIBOR+2.25%) per annum	2,786	9,857
Total short-term borrowings	**13,288**	**17,539**

The details of the significant long-term loan balances are summarised below:

	2019	2018
Long-term borrowings		
RUB		
Bonds with fixed interest rates from 7.25% to 8.6% (2018: from 8.6% to 10.2%) per annum	15,000	13,772
Loans with floating interest rate: the key rate of the Bank of Russia +2% per annum	1,445	1,228
Loans with fixed interest rate of 7.35% per annum	2,950	-

	2019	2018
EUR		
Loans with floating interest rates from 6M EURIBOR+0.65% to 6M EURIBOR+1.9% per annum	975	1,531
Loans with floating interest rates from 3M EURIBOR+1.25% to 3M EURIBOR+1.7% per annum	5,963	2,612
USD		
Loans with floating interest rates from 1M LIBOR+2% to 1M LIBOR+4.5% (2018: from 1M LIBOR+2.1% to 1M LIBOR+2.25%) per annum	46,920	47,803
Total long-term borrowings	**73,253**	**66,946**

In May 2011, the Group placed through an offering to the public under an open subscription RUB non-convertible bonds with a face value of RUB 7,500 to be redeemed in May 2021. In 2012, the Group redeemed bonds in the amount of RUB 3,377. The holders of this bond issue were granted an option to redeem the bonds in May 2015 and May 2016 which resulted in early redemption of bonds for RUB 1,354. The Group further placed the bonds of this issue for RUB 1,354. At 31 December 2019, the Group's subsidiary PJSC Dorogobuzh held bonds in the amount of RUB 351.

In October 2016, the Group placed non-convertible interest-bearing documentary bonds in the amount of RUB 5,000 to be redeemed in September 2026. The bonds were placed at 9.55% per annum with the option of early redemption in October 2020.

In June 2017, the Group placed non-convertible interest-bearing documentary bonds in the amount of RUB 5,000 to be redeemed in May 2027. The bonds were placed at 8.6% per annum with the option of early redemption in December 2021.

In October 2019, the Group placed non-convertible interest-bearing documentary bonds in the amount of RUB 10,000 to be redeemed in April 2023. The bonds were placed at 7.25% per annum without the option of early redemption.

All of the above bonds were admitted to the quotation list B and are traded on Moscow Stock Exchange. The fair value of the outstanding bonds as at 31 December 2019 was RUB 24,506 with reference to Moscow Stock Exchange quotations as of this date (31 December 2018: RUB 14,001).

Significant loan agreements contain certain covenants including those which require the Group and the Group entities to maintain a minimum level of net assets, net debt/EBITDA ratio, and EBITDA/interest expense ratio. Some of the loan agreements provide for the borrower's obligation to maintain the required level of inflows through the accounts opened with the lending banks. The loan agreements also contains a number of covenants and acceleration clause in case of the borrower's failure to fulfil its obligations under the loan agreements which include restrictions on significant transactions with assets. Also, these covenants permit the respective banks to directly debit the accounts opened by the debtors with the banks to ensure repayment of the loans. The Group is in compliance with these covenants.

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Loans	Bonds	Total
Balance at 1 January 2019	**70,713**	**13,772**	**84,485**
Changes from financing cash flows			
Proceeds from borrowings	13,803	10,000	**23,803**
Repayment of borrowings	(14,963)	-	**(14,963)**
Total changes from financing cash flows	**69,553**	**23,772**	**93,325**
The effect of changes in foreign exchange rates	**(6,978)**	**-**	**(6,978)**
Other changes			
Capitalised borrowing interests (Notes 10 and 11)	2,439	984	**3,423**
Interest expense	810	305	**1,115**
Interest paid	(3,055)	(1,289)	**(4,344)**
Total liability-related other changes	**194**	**-**	**194**
Balance at 31 December 2019	**62,769**	**23,772**	**86,541**

16. Capital and Reserves

The total authorised number of ordinary shares is 40,534,000 shares (31 December 2018: 40,534,000) with a par value of RUB 5 per share. All authorised shares have been issued and fully paid.

Total number of outstanding shares comprises (par value is expressed in roubles per one share):

	No. of outstanding ordinary shares	No. of treasury shares	Total share capital	Treasury share capital	Outstanding share capital
At 1 January 2018	**40,534,000**	**(1,146,452)**	**3,046**	**(6)**	**3,040**
Redemption of treasury shares	-	121,100	-	-	-
Acquisition of treasury shares	-	(260,448)	-	-	-
At 31 December 2018	**40,534,000**	**(1,285,800)**	**3,046**	**(6)**	**3,040**
Redemption of treasury shares	-	91,662	-	-	-
Acquisition of treasury shares	-	(382,792)	-	(2)	(2)
At 31 December 2019	**40,534,000**	**(1,576,930)**	**3,046**	**(8)**	**3,038**

In March 2019, dividend for previous years was declared and paid in amount of RUB 130 per ordinary share.

In May 2019, dividend for 2018 was declared and paid in the amount of RUB 135 per ordinary share.

In November 2019, dividend for the nine months 2019 was declared and paid in the amount of RUB 101 per share.

Shares issue to non-controlling interest

In accordance with the agreements with the banks the Group has unconditional right to discharge of obligations by transferring to option holders Company's own shares (ordinary shares of PJSC Acron) in amount, calculated based on the total amount of obligation and own shares fair value to be transferred at a future date. As at 31 December 2019, related financing received by the Group was recorded in the Group's equity as non-controlling interest in amount of RUB 18,873 (31 December 2018: RUB 18,376).

Derivative financial instruments related to above share issues are disclosed in Note 13.

17. Non-controlling Interests

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interest, before any intra group eliminations.

As at 31 December 2019

	JSC VPC	PJSC Dorogobuzh	Other individually immaterial subsidiaries	Intra-group elimination	Total
Non-controlling interest percentage	**39.9%**	**3.27%**			
Non-current assets	48,685	20,101			
Current assets	1,329	27,687			
Long-term liabilities	(2,044)	(670)			
Current liabilities	(670)	(6,531)			
Net assets	**47,300**	**40,741**			
Carrying amount of non-control interests	18,873	1,332	759	-	20,964
Revenue	-	21,629			
Profit and total comprehensive income	1,245	3,680	-	-	
Profit attributed to non-controlling interest	497	120	(50)	-	567
Cash flows (used in)/from operating activities	(182)	5,305			
Cash flows from investment activities	296	6,261			
Cash flows used in financing activities (dividend to non-controlling interests PJSC Dorogobuzh: 296)	-	(8,998)			
Net increase in cash and cash equivalents	114	2,568			
Effect of exchange rate changes	(8)	(178)			

As at 31 December 2018

	JSC VPC	PJSC Dorogobuzh	Other individually immaterial subsidiaries	Intra-group elimination	Total
Non-controlling interest percentage	**39.9%**	**3.31%**			
Non-current assets	24,578	14,877			
Current assets	23,341	33,824			
Long-term liabilities	(1,658)	(585)			
Current liabilities	(205)	(2,145)			
Net assets	**46,056**	**45,971**			
Carrying amount of non-control interests	18,376	1,522	674	-	20,572
Revenue	-	27,152			
Profit and total comprehensive income	1,272	9,380			
Profit attributed to non-controlling interest	508	309	(267)	-	550
Other comprehensive income attributed to non-control interest	-	-	-	74	74
Cash flows (used in)/from operating activities	(59)	4,712			
Cash flows used in investment activities	(157)	(529)			
Cash flows used in financing activities (dividend to non-controlling interests PJSC Dorogobuzh: 215)	-	(6,900)			
Net decrease in cash and cash equivalents	(216)	(2,717)			
Effect of exchange rate changes	64	604			

18. Lease

(a) Leases as a lessee

The Group leases warehouse and factory facilities. The leases typically run for a period of 10 years, with an option to renew the lease after that date. Some leases provide for additional rent payments that are based on changes in local price indices. For certain leases, the Group is restricted from entering into any sub-lease arrangements.

The warehouse and factory leases were entered into many years ago as combined leases of land and buildings. Previously, these leases were classified as operating leases under IAS 17.

(i) Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment

	Buildings and construction	Land	Total
2019			
Balance at 1 January	**1,710**	**1,390**	**3,100**
Depreciation charge for the year	(401)	(52)	(453)
Additions to right-of-use assets	368	-	368
Cumulative currency translation difference	-	(325)	(325)
Balance at 31 December	**1,677**	**1,013**	**2,690**

(ii) Lease liability

	2019
Short-term lease liabilities	
In RUB with interest rate of 9%	139
In EUR with interest rate from 1.4% to 7%	80
In USD with interest rate from 4.2% to 7%	289
In other currency with interest rate from 1.5% to 3.35%	39
Total short-term lease liabilities	**547**

	2019
Long-term lease liabilities	
In RUB with interest rate of 9%	550
In EUR with interest rate from 1.4% to 7%	1,159
In USD with interest rate from 4.2% to 7%	226
In other currency with interest rate from 1.5% to 3.35%	112
Total long-term lease liabilities	**2,047**

(iii) Amounts recognised in profit or loss

	2019
2019 – Leases under IFRS 16	
Interest on lease liabilities	125
Depreciation charge for the year	453

(iv) Amounts recognised in statement of cash flows

	2019
Total cash outflow for leases	(474)

(v) Extension options

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liability of RUB 238.

19. Cost of Sales

	2019	2018
Natural gas	15,550	15,550
Depreciation and amortisation of property, plant and equipment and intangible assets	11,344	9,026
Fuel and energy	8,661	7,630
Staff costs	7,309	6,331
Potash used in production	6,925	6,721
Other materials and components	4,018	3,437
Repairs and maintenance	2,993	3,214
Drilling and blasting	857	471
Services	840	901
Production overheads	658	446
Social expenditure	629	717
	59,784	**54,444**

20. Selling, General and Administrative Expenses

	2019	2018
Staff costs	4,697	4,059
Buildings maintenance and rent	1,017	718
Taxes other than income tax	822	640
Representation expenses	537	582
Audit, legal and consulting services	448	443
Commission fees	434	340
Security	384	388
Other expenses	324	302
Business trip expenses	267	284
Marketing services	144	168
Insurance	107	64
Telecommunication costs	74	79
Bank services	49	71
Change in provision for bad debts	28	(23)
	9,332	**8,115**

21. Transportation Expenses

	2019	2018
Ocean freight	6,955	4,505
Handling of goods	5,068	4,262
Railway tariff	4,205	4,418
Container transportation	1,908	1,795
Railcar lease	1,120	1,115
Maintenance of rolling stock	842	1,086
Other	646	534
	20,744	**17,715**

22. Finance Income / (Expenses), net

	2019	2018
Foreign exchange gain / (loss) on financial transactions, net	7,812	(8,393)
Interest income from loans provided and term deposits	92	161
Commission expense	(476)	(283)
Other finance costs	(192)	(309)
Dividend income	-	402
	7,236	**(8,422)**

23. Other Operating Expenses, net

	2019	2018
Foreign exchange (loss) / gain on operating transactions, net	(799)	1,350
Charity expenses	(386)	(242)
Loss on disposal of property, plant and equipment	(205)	(1,033)
Other operating (costs) / income	(184)	481
Loss on disposal of exploration licences	-	(905)
	(1,574)	**(349)**

24. 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 year, excluding treasury shares. As at 31 December 2019 and 2018, ordinary shares of the Company have a potential dilutive effect associated with the right to exercise obligations under the redemption put-options by transferring its own ordinary shares (Note 16).

	2019	2018
Weighted average number of shares outstanding	40,534,000	40,534,000
Adjusted for weighted average number of treasury shares	(1,460,177)	(1,202,565)
Weighted average number of shares outstanding (basic)	**39,073,823**	**39,331,435**
Effect of right to settle in own ordinary shares	90,406	103,838
Weighted average number of shares outstanding (diluted)	**39,164,229**	**39,435,273**
Profit attributable to the equity holders of the Company	24,219	12,768
Basic (in Russian Roubles)	**619.83**	**324.63**
Diluted (in Russian Roubles)	**618.40**	**323.77**

25. Income Tax

	2019	2018
Income tax expense – current	4,511	4,095
Deferred tax charge – origination and reversal of temporary differences	1,670	893
Income tax charge	**6,181**	**4,988**

Profit before taxation for financial reporting purposes is reconciled to tax charge as follows:

	2019	2019	2018	2018
Profit before taxation	**30,967**	**100%**	**18,306**	**100%**
Theoretical tax charge at statutory rate of 20%	6,193	20%	3,661	20%
Effects of different tax rates	131	0%	(144)	(1%)
Tax effect of items which are not deductible or assessable for taxation purposes	(35)	0%	1,152	6%
Change in unrecognised deductible temporary differences	(108)	0%	319	2%
Income tax charge	**6,181**	**20%**	**4,988**	**27%**

In the context of the Group's current structure, tax losses and current tax assets of different group subsidiaries may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity. Differences between IFRS and Russian and other countries statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded for major Russian subsidiaries at the rate of 20% (2018: 20%).

Unrecognised deferred tax liabilities

At 31 December 2019, a deferred tax liability of RUB 13,212 (31 December 2018: RUB 13,764) for temporary differences of RUB 66,059 (31 December 2018: RUB 68,821) related to an investment in a subsidiary was not recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Movement in deferred tax balances

	1 January 2018	Charged to profit or loss	Charged to capital	31 December 2018	Charged to profit or loss	31 December 2019
Property, plant and equipment	2,557	408	-	2,965	35	3,000
Subsoil licences and related costs	3,802	939	-	4,741	866	5,607
Inventory	(64)	(612)	-	(676)	561	(115)
Financial instruments	(612)	181	620	189	289	478
Tax loss carry-forwards	(137)	(78)	-	(215)	(82)	(297)
Accounts receivable	28	15	-	43	32	75
Accounts payable	(95)	(8)	-	(103)	(4)	(107)
Staff costs payable	(30)	-	-	(30)	-	(30)
Other temporary differences	(175)	48	-	(127)	(27)	(154)
Net deferred tax (asset)/liability	**5,274**	**893**	**620**	**6,787**	**1,670**	**8,457**
Recognised deferred tax asset	(172)	8	-	(164)	(37)	(201)
Recognised deferred tax liability	5,446	885	620	6,951	1,707	8,658
Net deferred tax (asset)/liability	**5,274**	**893**	**620**	**6,787**	**1,670**	**8,457**

Substantially all deferred assets and liabilities presented in the statement of financial position are expected to be realised after more than 12 months from the reporting date.

26. Contingencies, Commitments and Operating Risks

i Contractual commitments and guarantees

As at 31 December 2019, the Group had outstanding capital commitments in relation to property, plant and equipment for the amount of RUB 11,220 (31 December 2018: RUB 13,285).

In accordance with the conditions of the exploration licences the Group has to commence the extraction of certain mineral resources by certain dates as stipulated by licence agreements (Note 11).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As at 31 December 2019 and 2018, the Group had no issued guarantees.

ii Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims.

iii Business environment

The Group's operations are primarily located in the Russian Federation, also the Group has distribution companies in the countries of European Union, USA, Asia and Latin America. Consequently, the Group is exposed not only to the economic and financial markets of the Russian Federation which display characteristics of an emerging market, but also is exposed both to macroeconomic indicators and specific requirements of local regulators in other countries where the Group operates.

The legal, tax and regulatory frameworks in the Russian Federation continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and gradually expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

The first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a depreciation of the Russian Rouble. These developments are further increasing the level of uncertainty in the Russian business environment. These events may have a potential negative effect on the availability and cost of borrowed funds, as well as on the volatility of assets and liabilities measured at fair value. The situation with the spread of coronavirus and quarantine measures taken by countries does not yet have a significant impact on fertiliser demand. Management believes that if the situation worsens, the need for food security will support the demand for mineral fertilisers worldwide. At the time of approval of these consolidated financial statements, management is in the process of estimating the impact of the facts and circumstances described above on the operations and financial position of the Group.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment

iv Taxation contingencies in Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 Russian Federal law 376-FZ introduced changes aimed at regulating tax consequences of transactions with foreign companies and their activities. These changes may potentially impact the Group's tax position and create additional tax risks going forward. This legislation is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

These transfer pricing rules provide for an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe the basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1 billion in 2014 and thereon).

The compliance of prices with the arm's length level could be as well subject to scrutiny on the basis of unjustified tax benefit concept.

All these circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts, especially due to reform of the supreme courts that are resolving tax disputes, could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The amount of possible tax liabilities related to uncertainties in practical application of legislation could be material, but cannot be determined with sufficient reliability. However, management believes that its interpretation of the relevant legislation is generally appropriate, and the Group's tax, currency and customs positions will be sustained. Management believes that all necessary provisions in respect of probable tax risks were recognised as liabilities.

v Environmental matters

The environmental regulation in the Russian Federation continues to evolve. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

27. Financial and Capital Risk Management

27.1. Financial risk management

Presentation of Financial Instruments by Measurement Category

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2019:

	Financial assets at amortised cost	Fair value through other comprehensive income - equity instruments	Total
ASSETS			
Cash and cash equivalents (Note 7)			
— Cash on hand and bank balances	11,356	-	11,356
Trade and other receivables (Note 8)			
— Trade receivables, net of provision	3,112	-	3,112
— Notes receivable	262	-	262
— Other financial receivables	378	-	378
Investments in equity instruments (Note 12)			
— Corporate shares	-	9,784	9,784
TOTAL FINANCIAL ASSETS	**15,108**	**9,784**	**24,892**

All of the Group's financial liabilities except for derivatives are carried at amortised cost.

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2018 in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", which was applicable before 1 January 2019:

	Financial assets at amortised cost	Fair value through other comprehensive income - equity instruments	Total
ASSETS			
Cash and cash equivalents (Note 7)			
— Cash on hand and bank balances	10,460	-	10,460
Trade and other receivables (Note 8)			
— Trade receivables, net of provision	3,512	-	3,512
— Notes receivable	85	-	85
— Other financial receivables	588	-	588
Investments in equity instruments (Note 12)			
— Corporate shares	-	11,670	11,670
TOTAL FINANCIAL ASSETS	**14,645**	**11,670**	**26,315**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange 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.

(a) Market risk

(i) Foreign currency risk

Foreign currency risk is the risk of losses resulting from adverse movements in different currency exchange rates against the Group functional currency. Foreign currency risk arises from the international operations of the Group, future commercial transactions in foreign currencies, including repayment of foreign currency denominated borrowings and recognition of assets and liabilities denominated in a currency which is not a functional currency of the Group.

The objective of the Group's foreign exchange risk management activities is to minimise the volatility of the Group's financial results by matching the same foreign currency denominated assets and liabilities.

The Group relies on export sales to generate foreign currency earnings. As the Group sells approximately 84% of its production outside the Russian Federation, it is exposed to foreign currency risk arising primarily on volatility of USD rate. Since the Group's major operational expenses are denominated in Russian Roubles the benefit from the weak Rouble exchange rate is partially offset by the growth of borrowing costs and foreign exchange differences on the Group's loans which presumably denominated in USD.

Group's policies for attracting foreign exchange denominated borrowings depend on current and forward rates of foreign currencies to Russian Rouble. Credit lines denominated in various currencies allow the Group to be flexible in reaction to foreign currency rate shocks and minimise foreign currency exposure.

The tables below summarise the Group's exposure to foreign currency exchange rate risk at the reporting date:

At 31 December 2019	USD	EUR	CNY
Financial assets:			
Cash and cash equivalents	5,570	3,291	143
Accounts receivable	2,507	231	91
Derivative financial instruments	-	3,093	-
	8,077	**6,615**	**234**
Financial liabilities:			
Accounts payable and other liabilities	(473)	(658)	(3)
Borrowings and notes payable	(49,706)	(8,325)	-
Derivative financial instruments	-	(679)	-
	(50,179)	**(9,662)**	**(3)**
Net position	**(42,102)**	**(3,047)**	**231**

At 31 December 2018	USD	EUR	CNY
Financial assets:			
Cash and cash equivalents	5,582	1,952	154
Accounts receivable	2,683	165	98
Derivative financial instruments	-	2,844	-
	8,265	**4,961**	**252**
Financial liabilities:			
Accounts payable and other liabilities	(283)	(346)	(3)
Borrowings and notes payable	(57,742)	(4,930)	-
Derivative financial instruments	-	(1,875)	-
	(58,025)	**(7,151)**	**(3)**
Net position	**(49,760)**	**(2,190)**	**249**

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange risk exposure and primarily arises from accounts receivable, cash and cash equivalents, borrowings, accounts payable, derivative financial assets and liabilities denominated in US dollars.

	2019	2018
Impact on post-tax profit and on equity of:		
USD strengthening by 20%	(6,736)	(7,962)
USD weakening by 20%	6,736	7,962

Since the Group does not hold any foreign currency denominated equity securities and other financial instruments revalued through equity, the effect of a change in the exchange rate on equity would be the same as that on the post-tax profit.

(ii) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. A change in interest rates may cause variations in interest income and expense. The primary objective of the Group's interest rate management is to protect the net interest result. Interest risk management is carried out by the corporate finance and corporate treasury functions of the Group.

All entities of the Group obtain any required financing through the corporate treasury function of the Group in the form of loans. Generally, the same concept is adopted for deposits of cash generated by the units.

Monitoring of current market interest rates and analysis of the Group's interest-bearing position is performed by the corporate treasury and corporate finance functions as a part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group interest rate risk arises from various debt facilities. Borrowings at variable rates expose the Group's cash flow to an interest rate risk. At 31 December 2019 and 2018 borrowings at variable rates amounted to RUB 59,819 and RUB 70,506 respectively (Note 15).

At 31 December 2019, if interest rates at that date had been 5 percentage points higher with all other variables held constant, profit for the year would have been RUB 3,340 (2018: RUB 3,286) lower, mainly as a result of higher interest expense on variable interest liabilities. The effect of a change for the year in the interest rate on equity would be the same as that on post-tax profit.

(iii) Price risk

From time to time the Group makes investments in entities with high upside market potential. Investments are assessed by corporate treasury department and accepted provided that internal rate of return for investment exceeds current weighted average cost of capital.

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 trade receivables, 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 of RUB 15,108 (2018: RUB 14,645) resulting from financial assets is equal to the carrying amount of the Group's financial assets, including loans receivable, cash and cash equivalents. The amount does not include equity investments disclosed in Note 27.1.

As at 31 December 2019, cash and cash equivalents in the amount RUB 485 were held in Russian bank with credit rating BBB- (2018: RUB 5,259), RUB 490 was held in Russian bank with credit rating Baa3 (2018: RUB 747), and RUB 273 were held in bank without credit rating (2018: RUB 63). The Group has no significant concentrations of credit risk for other financial assets.

Cash and cash equivalents. Cash and short-term deposits are placed in major multinational and Russian banks with independent credit ratings and Chinese banks with top internal credit ratings. All bank balances and term deposits are neither past due nor impaired. See analysis by credit quality of bank balances and term deposits in Note 7.

Trade receivables. Trade receivables and loans receivable 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 receivables is to sustain the growth and profitability of the Group by optimising asset utilisation whilst maintaining risk at an acceptable level.

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 customers or borrowers. The credit quality of each new customer is analysed before the Group provides it with the standard terms of goods supply and payments. The credit quality of new borrowers is analysed before the Group provides it with the loan. The credit quality of customers and borrowers is assessed taking into account their financial position, past experience and other factors. Customers which do not meet the credit quality requirements are supplied on a prepayment basis only.

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of 10% of the Group's gross accounts receivable balances. At 31 December 2019, the Group has 1 counterparty with aggregated receivables balances in excess of 10% of the Group's gross accounts receivable balances (2018: 1 counterparty).

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 8).

(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.

The Group seeks to maintain a stable funding base primarily consisting of borrowing, trade and other payables and debt securities. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 7), investment in equity instruments measured at fair value through other comprehensive income (Note 12). Management estimates that the liquidity portfolio can be realised in cash within a day in order to meet unforeseen liquidity requirements.

Weekly liquidity planning is performed by the corporate treasury function and reported to the management of the Group. Beyond cash management, the Group mitigates liquidity risk by keeping committed credit lines available.

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.

	Carrying amount	On demand and less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
As at 31 December 2019							
Bonds issued*	23,772	496	9,945	6,122	10,945	-	**27,508**
Credit lines*	3,185	289	164	3,003	-	-	**3,456**
Term loans*	59,584	600	5,611	17,499	41,076	218	**65,004**
Notes payable	-	-	-	-	-	-	**-**
Lease liabilities	2,594	141	406	395	775	877	**2,594**
Trade payables	9,614	9,614	-	-	-	-	**9,614**
Derivatives	679	-	679	-	-	-	**679**
Total	**99,428**	**11,140**	**16,805**	**27,019**	**52,796**	**1,095**	**108,855**

	Carrying amount	On demand and less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
As at 31 December 2018							
Bonds issued*	13,772	-	1,289	9,868	5,429	-	16,586
Credit lines*	7,160	220	6,985	355	-	-	7,560
Term loans*	63,553	506	11,234	15,615	29,693	282	57,330
Notes payable	8	8	-	-	-	-	8
Trade payables	6,279	6,279	-	-	-	-	6,279
Derivatives	1,875	-	-	1,875	-	-	1,875
Total	**92,647**	**7,013**	**19,508**	**27,713**	**35,122**	**282**	**89,638**

*The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as at 31 December 2019 and 31 December 2018, respectively.

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 and bank deposits. Group's policy for financing its working capital is aimed at maximum reliance on own operating cash flows, availability of short-term bank and other external financing to maintain sufficient liquidity.

At 31 December 2019, unused credit lines available under long-term loan facilities were RUB 54,706 (2018: RUB 41,818).

27.2. Capital risk management

The Group's objectives 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 monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital under management. The Group considers total capital under management to be equity as shown in the IFRS consolidated statement of financial position. This is considered more appropriate than alternative methods available, such as the value of equity shown in the Company's statutory financial (accounting) reports. In 2019, the Group's strategy, as in 2018, was to maintain the gearing ratio at the level not exceeding 150%.

The gearing ratio as at 31 December 2019 and 31 December 2018 is shown in the table below:

	2019	2018
Long-term borrowings	73,252	66,946
Short-term borrowings	13,288	17,539
Total debt	**86,541**	**84,485**
Shareholders' equity	**81,965**	**78,165**
Gearing ratio, %	**106%**	**108%**

The Group also maintains an optimal capital structure by tracing certain capital requirements based on the minimum level of EBITDA/net interest expense ratio.

In 2019, the Group's strategy, which was unchanged from 2010, was to maintain EBITDA/net interest expense ratio at the level not lower than 3.5:1. For this purpose EBITDA is defined as earnings before tax, interest, depreciation and amortisation adjusted for operating foreign exchange gain or loss, result on disposal of property, plant and equipment and investments and extraordinary items. Net interest expense is defined as interest expense less interest income. This ratio is included as a covenant in the loan agreements (Note 15).

The ratios of EBITDA over net interest expense are shown in the table below:

	2019	2018
EBITDA	**35,749**	**37,053**
Interest income (Note 22)	(92)	(161)
Interest expense	1,115	1,607
Interest expense capitalised (Notes 10 and 11)	3,423	3,317
Net interest expense	**4,446**	**4,763**
EBITDA/Net interest expense	**8:1**	**7.8:1**

The Group's capital management includes compliance with the externally imposed minimum capital requirements arising from the Group's borrowings (Note 15) and imposed by the statutory legislation of the Russian Federation and Estonia. Since EBITDA is not standard IFRS measure the Group's definition of EBITDA may differ from that of other companies.

28. Fair Value of Financial Instruments

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.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Investment in equity instruments measured at fair value through other comprehensive income, and derivatives are carried in the consolidated statement of financial position at their fair value.

This Group discloses the value of financial instruments that are measured in the consolidated statement of financial position at fair value by three levels in accordance with IFRS 13, Fair values.

The level in the fair value hierarchy into which the fair values are categorised as one of the three categories:

Level 1: quoted price in an active market;
Level 2: valuation technique with inputs observable in markets;
Level 3: valuation technique with significant non-observable inputs.

Investment in equity instruments was included in level 1 category in the amount of RUB 9,376 (31 December 2018: RUB 11,322).

All liabilities on bonds issued were included in level 1 category in the amount of RUB 23,772 (31 December 2018: RUB 13,772).

The fair value of the call/put options on shares of JSC VPC was determined based on the Black–Scholes Option Pricing Model with the adjustments and using of unobservable inputs, and included in level 3.

The spot price of JSC VPC is one of the inputs to the valuation using Black–Scholes Option Pricing Model. Since the shares are not quoted, management applied discounted cash flows method attracting an independent appraiser. The appraisal model provides for the calculation of the present value of the JSC .

VPC CGU using the risk-adjusted discount rate. The calculation was based on the cash flow forecast prepared in nominal terms and derived from financial budgets.

Significant unobservable inputs	Inter-relationship between significant unobservable inputs data and fair value measurement
— Forecast annual revenue growth rate: 3.6%. — Forecast EBITDA margin after reaching the designed capacity: 77%-81%. — Risk-adjusted discount rate: 12.7-13.2%. — Production start year: 2023. — Non-controlling discount: 15.97%.	The estimated fair value of the shares of JSC VPC would increase (decrease) if: — The annual revenue growth rate were higher (lower); — The EBITDA margin were higher (lower); or — risk-adjusted discount rate were lower (higher) ; or — production began earlier (later); or — non-controlling discount were lower (higher). Generally, EBITDA margin follows any changes in the trend set by the annual revenue growth rate.

Significant unobservable inputs of Black–Scholes Option Pricing Model are shown in the following table:

Financial instrument	Significant unobservable inputs	Inter-relationship between significant unobservable inputs data and estimate of fair value
Put option on shares of JSC VPC (liability)	— The current fair value of the shares (calculated as above) — Volatility: 32.63%. — Risk-free rate of return: (0.39)%. — No dividend assumed	The estimated fair value would increase (decrease) if: — current fair value of the shares were lower (higher); — volatility were higher (lower); or — the risk-free rate of return were lower (higher).

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally 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. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables and loans receivable approximate fair values.

Liabilities carried at amortised cost. The fair value of floating rate liabilities is normally their carrying amount. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. At 31 December 2019, the fair value of borrowings was RUB 136 higher than their carrying amounts. At 31 December 2018, the fair value of borrowings was RUB 558 higher than their carrying amounts.

The fair value of payables does not differ significantly from their carrying amounts.

29. Significant Accounting Policies

29.1. Group accounting

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence of possibility when the Group has existing rights that give it the current ability to direct the relevant activities of other entity, i.e. the activities that significantly affect the other entity's returns, is considered when assessing whether the Group controls another entity. The Group can have power over other entity even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities. Subsidiaries are 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 purchase method of accounting is used to account for the acquisition of subsidiaries except for those acquired as the result of the business combinations under common control. 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 that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation 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") 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 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 net assets of a subsidiary, which is 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.

Purchases of non-controlling interests. The Group applies economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as capital transaction directly in equity.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries as the result of business combinations under common control are accounted for using the predecessor values method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these financial statements. The consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

Investments in 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 by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss for the year as share of result of associates.

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.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

29.2. Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

— represents a separate major line of business or geographical area of operations;

— is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

— is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

29.3. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Bank overdrafts are shown within borrowings in the current liabilities statement of financial position. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

29.4. Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. A trade receivable without a significant financing component is initially measured at the transaction price.

Loss allowances for trade receivables are measured at an amount equal to lifetime expected credit losses (ECLs). Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. ECLs are a probability-weighted estimate. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). The Group takes into account credit risk of each debtor based on data that is determined to be predictive of the risk of loss (including external ratings) applying experienced credit judgement and actual credit loss experience.

Loss allowances for trade and other receivables are deducted from the gross carrying amount of the assets.

29.5. Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

29.6. Inventories

Inventories comprise raw materials, finished goods, work in progress, catalytic agents, spare parts and other materials and supplies. Inventories are recorded at the lower of cost and net realisable value. 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 cost of completion and selling expenses.

29.7. Property, plant and equipment

Property, plant and equipment are recorded at cost, restated where applicable to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of profit or loss and other comprehensive income. 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 assets recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit or loss.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated to allocate cost of property, plant and equipment to their residual values on a straight-line basis. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	40 to 50
Plant and machinery	10 to 20
Other equipment and motor vehicles	5 to 20

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal 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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in profit or loss.

Borrowing costs on specific or general funds borrowed to finance the construction of qualifying asset are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

29.8. Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options, the assessment of whether the Group is reasonably certain to exercise, such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

In determining the enforceable period (i.e. the maximum lease term), the Group considers whether both it and the lessor has a right to terminate the lease without permission from the other party and, if so, whether that termination would result in more than an insignificantly penalty. If a more than insignificant penalty exists, then the enforceable period extends until the point at which a no more than an insignificant penalty exists.

In accordance with IFRS 16 variable payments which do not depend on index or rate, e. g. which do not reflect changes in market rental rates, should not be included in the measurement of lease liability. In respect of municipal or federal land leases where lease payments are based on cadastral value of the land plot and do not change until the next revision of that value or the applicable rates (or both) by the authorities, the Group has determined that, under the current revision mechanism, the land lease payments cannot be considered as either variable that depend on index or rate or in-substance fixed, and therefore these payments are not included in the measurement of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

29.9. Amortisation of exploration and evaluation licences and expenditure

Exploration and evaluation licences and expenditure are amortised on a straight-line basis over expected term of site development, commencing upon readiness of processing facilities to produce ore usable for production of complex mineral fertilisers or for external sale.

29.10. Borrowings

Borrowings are stated at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

Capitalisation of borrowing costs. 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. 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. Foreign exchange differences regarded as an adjustment to interest costs are included in borrowing costs capitalised in the qualifying asset. The adjustment includes the amount of additional interest that would have been incurred on a borrowing with identical terms in the entity's functional currency.

29.11. Income tax

Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the countries, where most significant subsidiaries of the Group are located, enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current income tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

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 and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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 reverse through dividends or otherwise in the foreseeable future.

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.

29.12. Foreign currency transactions

Foreign currency translation. For the Company and its subsidiaries monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank at the respective ends of the reporting periods. 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 of the Central Bank are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Foreign exchange gains and losses on operating items are presented within other operating expenses, foreign exchange gain and losses on finance items are presented within net finance income.

Translation from functional to presentation currency. The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of profit or loss and other comprehensive income are translated at 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); and

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

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. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified from other comprehensive income to profit or loss.

At 31 December 2019 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 61.9057 , USD 1 = CNY 6.9762, EUR 1 = RUB 69.3406 (31 December 2018: USD 1 = RUB 69.4706, USD 1 = CNY 6.8632, EUR 1 = RUB 79.4605). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

29.13. Provisions for liabilities and charges

Provisions 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. 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.

Provisions are evaluated and re-estimated annually, and are included in the financial statements at their expected net present values using discount rates appropriate to the Company or its subsidiaries in applicable economic environment at each end of the reporting period.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Provisions are reassessed annually and changes in provisions resulting from the passage of time are reflected in the consolidated income statement each year within interest expense. Other changes in provisions related to a change in the expected repayment plan, in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the period of the change and, with the exception of provision for restoration liabilities, reflected in the consolidated income statement.

Provisions for restoration liability are recognised when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the liability, determined using pretax risk free discount rates adjusted for risks specific to the liability. Changes in the provision resulting from the passage of time are recognised as interest expense. Changes in the provision, which is reassessed at each reporting date, related to a change in the expected pattern of settlement of the liability, or in the estimated amount of the provision or in the discount rates, are treated as a change in an accounting estimate in the period of change. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability.

29.14. Shareholders' equity

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 notes as a share premium.

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's owners until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

Dividends. Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared and approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Accounting treatment for put options to be settled in shares of Company. The subsidiaries sell to non-controlling shareholders own shares linked to put option. This gives to non-controlling shareholders the right to sell the Group those shares in exchange for a variable number of Company's shares. If at the option exercise date the Group has no obligation to deliver cash or another financial asset, the subsidiary's shares that are held by non-controlling interest holders are presented as equity and the put options are recognised as derivative financial liabilities. Such options are accounted at fair value with changes recognised in profit or loss for the period in accordance with IAS 39.

On initial recognition of the liability, the debit entry it to other equity. The interests of non-controlling shareholders that hold the written put options or forwards (in respect of those shares) are not derecognised when the financial liability is recognised.

Accounting treatment for call options over subsidiary shares. The Group buys the call options issued by third parties, which entitle to buy (from this third party) the shares in a subsidiary. Initially the call option is recognised in capital of the owner's of the Company for credit side and on as a derivative financial asset for debit side. Further it is accounted at fair value with changes are recognised in profit or loss in accordance with IAS 39.

29.15. Revenue recognition

Revenues from sales of chemical fertilisers and related by-products are recognised at the point when control of the goods passes to the customer. Control passes to the customer at the point of transfer of risks and rewards of ownership of the goods normally when the goods are shipped.

Sales are shown net of VAT, custom duties and discounts, and after eliminating sales within the Group.

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients). The effect of initially applying this standard at the date of initial application (i.e. 1 January 2018) is estimated as inconsequential. Accordingly, the information presented for 2017 has not been restated — i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

The Group assessed the impact of the new standard on the Group's performance and financial position. The Group identified that under contract conditions related to significant portion of fertilisers sales the Group promises to provide shipping and other freight services after the date when control of the goods passes to the customer at the loading port. Under IAS 18, the Group recognised revenue for such services and associated costs in full immediately after loading as revenue from trading activities. Under IFRS 15 such revenue is expected to be a separate performance obligation and shall be recognised over time of shipping as revenue from logistic services. However, the Group recognises revenue from logistic services at a point in time at the end of shipping due to the fact that potential impact was calculated and estimated as inconsequential.

The Group has also assessed the impact of the new standard on revenue disclosures. The Group concluded that existing disclosures are consistent with the new requirements. The Group will continue monitoring the impact of treating logistic services as a separate performance obligation and will adjust its accounting policies as appropriate in the future if and when such impact becomes material.

29.16. Mutual cancellations

A portion of sales and purchases are settled by mutual settlements or non-cash settlements. These transactions are generally in the form of direct settlements through cancellation of mutual trade receivables and payables balances within the operational contracts. Non-cash settlements include promissory notes or bills of exchange, which are negotiable debt obligations. Sales and purchases that are expected to be settled by mutual settlements or other non-cash settlements are recognised based on the estimate of the fair value to be received or given up in non-cash settlements. The fair value is determined with reference to various market information. Non-cash transactions have been excluded from the consolidated cash flow statement, so investing activities, financing activities and the total of operating activities represent actual cash transactions.

The Group also accepts bills of exchange from its customers (both issued by customers and third parties) as a settlement of receivables. A provision for impairment of bills of exchange is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

29.17. Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group and are included within labour costs in operating expenses.

Social costs. The Group incurs significant costs on social activities. These costs include the provision of health services, kindergartens, and the subsidy of worker holidays. These amounts represent an implicit cost of employing principally production workers and other staff and, accordingly, have been charged to operating expenses.

Pension costs. In the normal course of business the Group contributes to state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued in the year in which the associated services are rendered by the employees of the Group. The Group recognises these contributions as part of labour costs.

29.18. Financial assets and liabilities

Recognition and initial measurement. Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement. On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI — debt investment; FVOCI — equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Financial assets —Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities — Classification, subsequent measurement and gains and losses. Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets. The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Derivative financial instruments. As part of its financing activities the Group is also party to derivative financial instruments including foreign currency and interest rate swap contracts and put/call option on shares. The Group's policy is to measure these instruments at fair value with resultant gains or losses being reported within the profit and loss. The fair value of derivative financial instruments is determined using actual market data information and valuation techniques based on prevailing market interest rate for similar instruments as appropriate. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. The Group has no derivatives accounted for as hedges.

29.19. Finance lease liabilities

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

29.20. Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share repurchase option.

29.21. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Operating segments which external and inter-segment sales, assets, profit and loss are 10% or more from appropriate operational segments measure are reported separately.

29.22. Exploration and evaluation expenditure

Exploration and evaluation costs are capitalised. Capitalised costs are directly related to exploration and evaluation activities in the relevant area of interest and include acquisition of rights to explore, including cost related to compliance with licence terms; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching and sampling; and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. 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. Exploration assets are not depreciated until the production phase.

The stripping costs associated with future production are capitalised prior to the start of the production stage.

The Group tests exploration and evaluation assets for impairment when there are facts and circumstances that suggest that the carrying value of the asset may not be recoverable.

29.23. Development expenditure

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises cost directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the expenditure in respect of the area of interest is classified in "mining assets under construction" category and separately disclosed in Note -. Costs incurred are tested for impairment upon commencement of development phase.

Development expenditure is reclassified as a "Mining and primary ore dressing assets" at the end of the commissioning phase, when the mine and surface infrastructure are capable of operating in the manner intended by management. No depreciation is recognised in respect of development expenditures until they are reclassified as "Mining and primary ore dressing assets".

30. New Standards and Interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

31. Subsequent Events

In March 2020, the Board of Directors of PJSC Acron recommended to the extraordinary general meeting of shareholders to declare dividends for previous years in the amount of RUB 157 per ordinary share.

RAS Financial Statement

Acron's complete 2019 RAS Financial Statement including Independent Auditor's Report is in Appendix 5. Below is the Balance Sheet as of 31 December 2019 and the 2019 Profit and Loss Statement.

Acron's Balance Sheet as of 31 December 2019

Notes	Item	Code	As of 31 December 2019	As of 31 December 2018	As of 31 December 2017
	ASSETS				
	I. NON-CURRENT ASSETS				
2.2	Intangible assets	1110	78,970	75,811	70,905
	Research and development costs	1120	-	-	-
	Intangible development assets	1130	-	-	-
	Tangible development assets	1140	-	-	-
2.1	Fixed assets	1150	39,894,196	39,341,253	37,484,285
	Income-bearing investment in tangible assets	1160	-	-	-
2.8	Financial investments	1170	99,492,209	90,559,047	90,929,656
2.18	Deferred tax assets	1180	269,242	264,118	253,651
2.4	Other non-current assets	1190	1,039,379	655,786	572,654
	Total under Section I	**1100**	**140,773,996**	**130,896,015**	**129,311,151**
	II. CURRENT ASSETS				
2.3	Inventory	1210	6,803,712	6,795,557	6,588,939
	VAT on purchased items	1220	49,498	78,461	1,145,102
2.5	Accounts receivable	1230	6,275,526	9,689,871	4,603,407
2.8	Financial investments (less cash equivalents)	1240	10,911	12,313	12,809
2.6	Cash and cash equivalents	1250	2,581,009	4,409,642	7,160,696
2.7	Other current assets	1260	28,067	31,670	28,969
	Total under Section II	**1200**	**15,748,723**	**21,017,514**	**19,539,922**
	GRAND TOTAL	**1600**	**156,522,719**	**151,913,529**	**148,851,073**

Notes	Item	Code	As of 31 December 2019	As of 31 December 2018	As of 31 December 2017
	LIABILITIES				
	III. EQUITY				
2.11	Charter capital (pooled capital, charter fund, partners' contributions)	1310	202,670	202,670	202,670
	Treasury stock	1320	(-)	(-)	(-)
2.11	Non-current asset revaluation	1340	936,533	938,268	946,893
	Capital surplus (less revaluation)	1350	-	6,846	6,846
2.11	Capital reserve	1360	30,401	30,401	30,401
	Retained profit (loss)	1370	23,103,543	18,389,603	21,226,467
	Total under Section III	**1300**	**24,273,147**	**19,567,788**	**22,413,277**
	IV. NON-CURRENT LIABILITIES				
2.10	Borrowings	1410	98,665,780	65,682,055	59,171,688
2.18	Deferred tax liabilities	1420	6,892,222	6,823,028	6,971,381
	Estimated liabilities	1430	-	-	-
	Other liabilities	1450	-	-	-
	Total under Section IV	**1400**	**105,558,002**	**72,505,083**	**66,143,069**
	V. CURRENT LIABILITIES				
2.10	Borrowings	1510	18,078,659	56,149,942	57,918,211
2.9	Accounts payable	1520	8,181,207	3,217,312	2,090,335
	Deferred revenue	1530	64,458	67,667	25
2.12	Estimated liabilities	1540	367,246	335,944	283,606
2.13	Other liabilities	1550	-	69,793	2,550
	Total under Section V	**1500**	**26,691,570**	**59,840,658**	**60,294,727**
	GRAND TOTAL	**1700**	**156,522,719**	**151,913,529**	**148,851,073**

Chief Executive Officer Vladimir Kunitsky

Chief Accountant Nadezhda Pavlova

26 March 2020

Acron's 2019 Profit and Loss Statement

Notes	Item	Code	2019	2018
2.15	**Revenue**	**2110**	**67,112,310**	**67,753,913**
2.16	Cost of goods sold	2120	(40,731,147)	(36,629,423)
	Gross profit (loss)	**2100**	**26,381,163**	**31,124,490**
2.16	Selling expenses	2210	(5,049,555)	(4,600,071)
2.16	Administrative expenses	2220	(3,743,361)	(3,780,911)
	Sales profit (loss)	**2200**	**17,588,247**	**22,743,508**
	Profit from shareholdings in other companies	2310	9,600,540	9,104,742
	Interest income	2320	33,578	43,901
	Interest expense	2330	(6,776,359)	(7,729,472)
2.15	Other income	2340	6,529,962	706,231
2.16	Other expenses	2350	(4,171,060)	(13,312,913)
	Profit (loss) before tax	**2300**	**22,804,908**	**11,555,997**
2.18	Income tax	2410	(3,193,354)	(923,389)
2.18	incl. permanent tax liabilities (assets)	2421	(1,303,558)	(1,546,630)
2.18	Change in deferred tax liabilities	2430	(69,194)	148,353
2.18	Change in deferred tax assets	2450	5,124	10,467
	Other	2460	(16,691)	18,938
	Incl. income tax from previous periods	2461	(16,691)	18,938
	Net profit (loss)	**2400**	**19,530,793**	**10,810,366**
	Effect from revaluation of non-current assets not included in the net profit (loss) of the period	2510	-	-
	Effect from other operations not included in the net profit (loss) of the period	2520	-	-
	FOR REFERENCE			
	Total financial result of the period	2500	19,530,793	10,810,366
2.17	Basic earnings (loss) per share	2900	0.482	0.267

Chief Executive Officer Vladimir Kunitsky

Chief Accountant Nadezhda Pavlova

26 March 2020

Appendices

Appendix 1
List of Major and Related-Party Transactions

List of Acron Group's transactions in 2019 that are recognised as major transactions under the Federal Law On Joint Stock Companies, and other transactions that the Group's Charter subjects to the procedure for major transaction approval.

In 2019, the Group did not execute any transaction recognised as major transaction in accordance with the Federal Law On Joint Stock Companies.

List of Acron Group's transactions in 2019 that are recognised as related-party transactions under the Federal Law On Joint Stock Companies.

Detailed information on these transactions is included in a separate document, the Report on Related-party Transactions Executed by Acron Group in 2019 (approved by the Board of Directors on 24 April 2020), in accordance with Paragraph 9, Clause 70.3 of the Regulation on Information Disclosure by Issuers of Equity Securities approved by the Bank of Russia.

Acron's Report on Related-party Transactions Executed in 2019 prior to approval of this Annual Report will be available for all persons entitled to participate in the Annual General Meeting as part of the information (materials) to be provided to such persons in the course of preparation for the Group's Annual General Meeting, including on the issuer's website used for information disclosure at

http://www.acron.ru/en/ (in the section: Investors → Shareholder Information → General Meeting. The full webpage address is https://www.acron.ru/en/investors/acron-shareholders/meeting/).

Additionally, Acron's Report on Related-party Transactions Executed in 2019 will be available to all related parties after approval of this Annual Report:

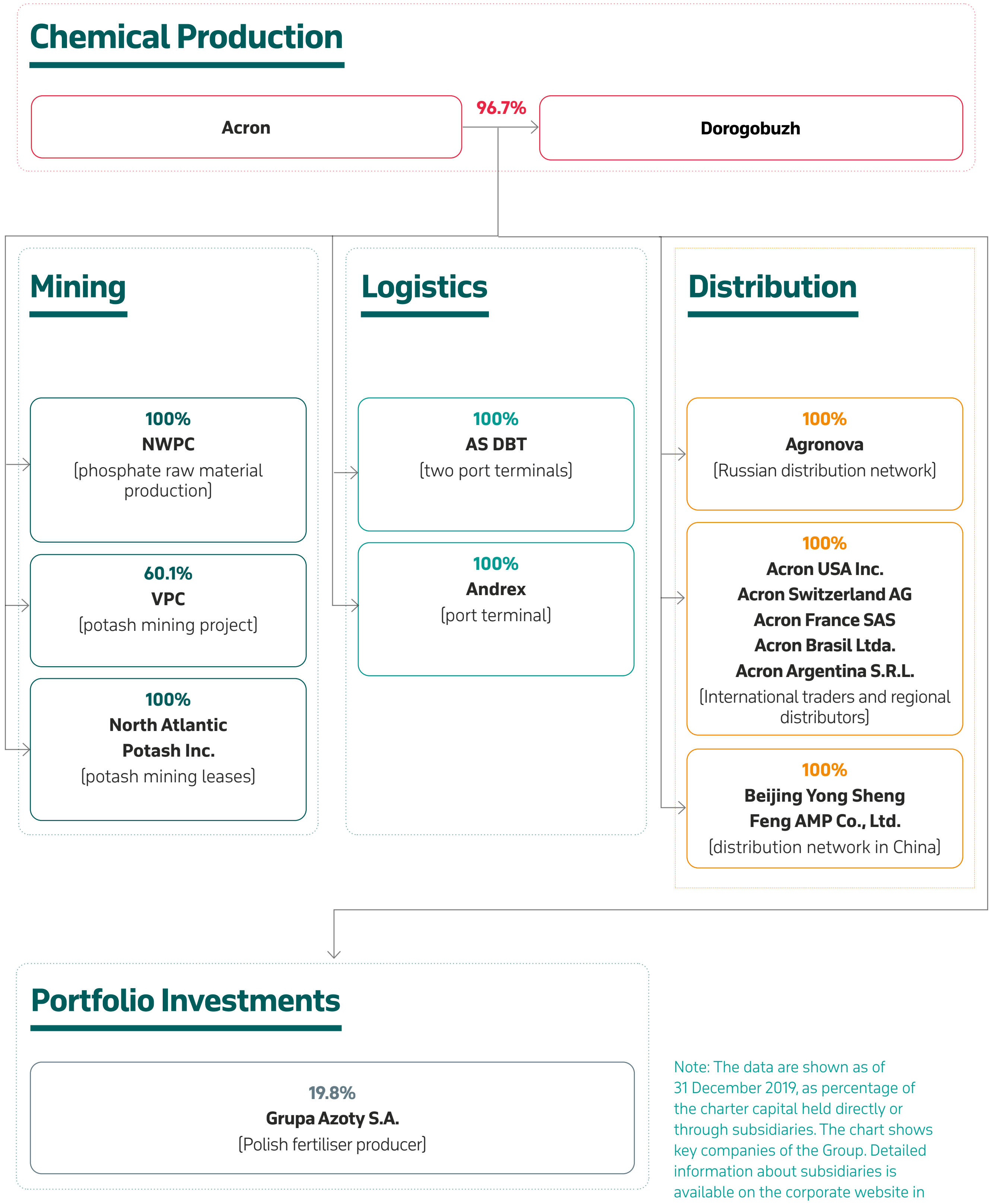
— On the issuer's website used for information disclosure at

http://www.acron.ru/en/ (section Investors → Statements → Financial Statements → Acron → Annual Reports → 2019. The full webpage address is https://www.acron.ru/en/investors/financial-statements/?brand=1988&type=202&year=2019)

— On the Group's corporate disclosure page in the Interfax Company Disclosure System at

http://www.e-disclosure.ru/portal/company.aspx?id=357 (section: Reporting → Annual Reporting. The full webpage address is http://www.e-disclosure.ru/portal/files.aspx?id=357&type=2).

Appendix 2
Group Structure



Note: The data are shown as of 31 December 2019, as percentage of the charter capital held directly or through subsidiaries. The chart shows key companies of the Group. Detailed information about subsidiaries is available on the corporate website in the Information Disclosure section.

Appendix 3
Report on Raw Material and Energy Consumption

Consumption and cost data for each energy resource used by the Company in the reporting year (nuclear energy, thermal energy, electric energy, electromagnetic energy, oil, motor gasoline, diesel fuel, heating oil, natural gas, coal, oil shale, peat, and others).

In the reporting year, Acron did not use nuclear energy, electromagnetic energy, oil, heating oil, coal, oil shale or peat.

Raw Material and Energy Consumption by Acron (Veliky Novgorod)

	2019		2018	
	Consumption Volume	Cost, RUB '000	Consumption Volume	Cost, RUB '000
Natural gas, mn m^3	2,618	12,403,246	2,510	11,549,324
Electricity, mn KWt · h	1,048	3,960,604	986	3,444,204
Thermal energy, '000 Gcal	1,373	1,435,940	1,406	1,444,475
Motor gasoline, '000 litres	267	9,717	290	9,692
Diesel fuel, '000 litres	1,440	52,553	1,630	52,735

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For information about Acron Group and its subsidiaries please visit http://www.acron.ru/en.

Forward-looking Statements

This Annual Report 2019 of Public Joint Stock Company Acron and its subsidiaries (hereinafter "Acron Group") contains certain forward-looking statements in relation to the Group's operations and its expected results, economic performance, financial conditions, projects, and growth prospects. All statements other than statements of historical facts as of the date of this Annual Report are forward-looking statements. Words and expressions, such as "may", "will", "expect", "estimate", "plan", "forecast", "assume", "continue", "strive", "consider", and other similar words or expressions or their negative (positive) forms, identify forward-looking statements based on assumptions and estimates which the Group believes are reasonable as of the date of this Annual Report 2019.

These forward-looking statements in relation to the future are subject to uncertainties, assumptions and inherent risks, both of a general nature and specific to the Group's business. There is a possibility that assumptions, intents and other forward-looking statements will not be achieved. The Group hereby informs that its actual performance may differ from forecasts, which are only valid as of the date of this Annual Report 2019. The Group neither represents nor warrants that its forecasted performance will be achieved or should be considered the most probable scenario.