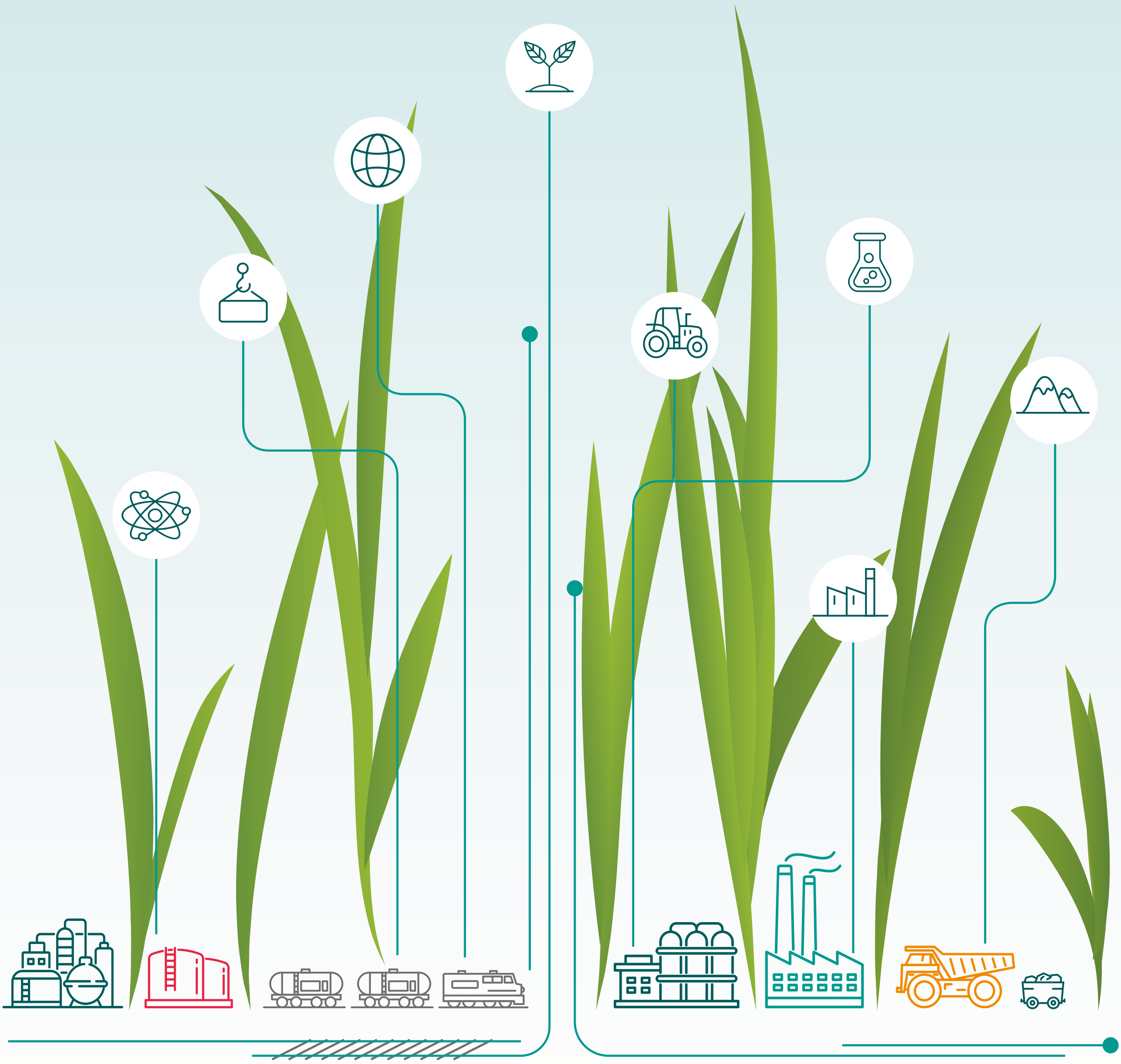
2018 Annual Report

Acron Group

ACRON®

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 2018, it sold 7.3 million tonnes of its key products.

"Looking back on the result of 2018, I would like to point to our production records. The output increased to 7.5 million tonnes, up 2.5% year-on-year".

Vladimir Kunitsky

Chief Executive Officer

Information on approval of the Annual Report:
Preliminarily approved by PJSC Acron Board of Directors on 24 April 2019
Approved by Acron General Meeting on 30 May 2019

Chief Executive Officer Vladimir Kunitsky

To read more about Acron Group please visit

www.acron.ru/en/

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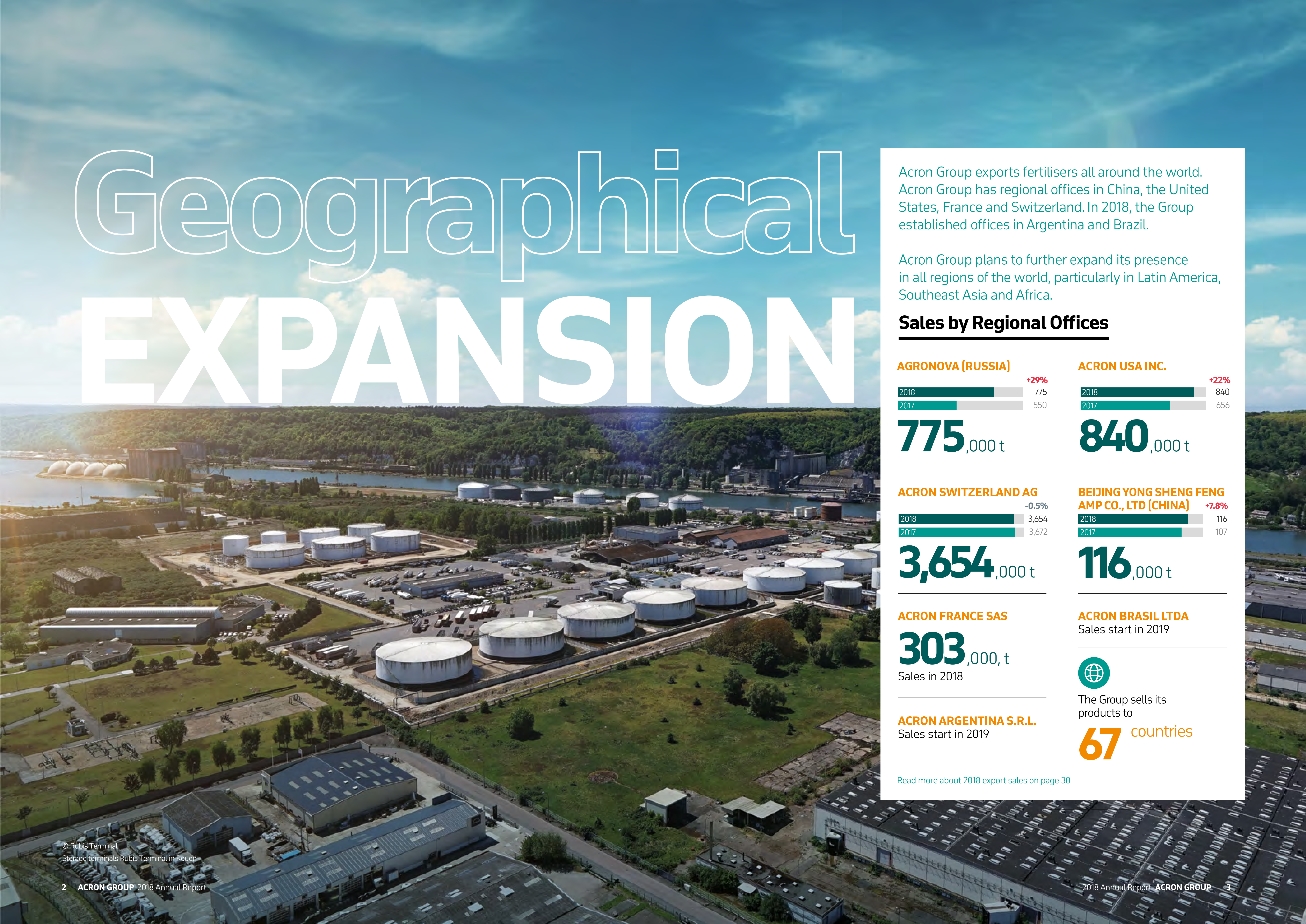
Geographical EXPANSION



© Rubis Terminal
Storage terminals Rubis Terminal in Rouen

Acron Group exports fertilisers all around the world. Acron Group has regional offices in China, the United States, France and Switzerland. In 2018, the Group established offices in Argentina and Brazil.

Acron Group plans to further expand its presence in all regions of the world, particularly in Latin America, Southeast Asia and Africa.

Sales by Regional Offices

AGRONOVA (RUSSIA)

+29%

2018	775
2017	550

775,000 t

ACRON USA INC.

+22%

2018	840
2017	656

840,000 t

ACRON SWITZERLAND AG

-0.5%

2018	3,654
2017	3,672

3,654,000 t

BEIJING YONG SHENG FENG AMP CO., LTD (CHINA)

+7.8%

2018	116
2017	107

116,000 t

ACRON FRANCE SAS

303,000, t

Sales in 2018

ACRON BRASIL LTDA

Sales start in 2019

ACRON ARGENTINA S.R.L.

Sales start in 2019

The Group sells its products to

67 countries

Read more about 2018 export sales on page 30

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 2018, it sold 7.3 million tonnes of its key products.

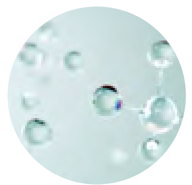
The year 2018 saw positive trends on the mineral fertiliser market. Following a decline over the past several years, global prices in all market segments hit bottom in 2017 and started recovering in 2018.

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.

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

№1

Importer of ammonium nitrate (AN) to Brazil



№1

Importer of urea - ammonium nitrate (UAN) to the United States

№2

NPK supplier to Russia

Top-3

One of Europe's top three NPK producers

Top-3

One of the world's top three producers of UAN

1.5%

Share of global mineral fertiliser output

SALES OF KEY PRODUCTS, '000 t

Product	2018	2017
AMMONIA	448	556
NITROGEN FERTILISERS	3,097	2,719
COMPLEX FERTILISERS	2,473	2,761
ORGANIC COMPOUNDS	236	223
NON-ORGANIC COMPOUNDS	799	761
APATITE CONCENTRATE	259	260

Acron Group Highlights

RUB 108 bn

Sales in 2018

- Leading producer of complex and nitrogen fertilisers
- Listed on Moscow Exchange and London Stock Exchange

7.5 mn t

Commercial product output

- Vertical integration in nitrogen and phosphates; implementation of potash project underway

10,696

Employees

ACRON GROUP'S FINANCIAL HIGHLIGHTS

Financial Performance (IFRS)	2017	2018
Revenue, RUB mn	94,342	**108,062**
Operating profit, RUB mn	21,177	**27,439**
Net profit, RUB mn	14,260	**13,318**
Earnings per share, RUB	339.43	**324.63**
EBITDA, RUB mn	29,817	**37,053**
EBITDA margin, %	32	**34**
Assets, RUB mn	186,894	**186,784**
Available-for-sale investments, RUB mn	22,698	**11,670**
Short-term borrowings, RUB mn	18,930	**17,539**
Long-term borrowings, RUB mn	55,593	**66,946**
Net debt, RUB mn	60,221	**74,025**
Cash flow from operating activities, RUB mn	16,634	**28,406**
Capital expenditures, RUB mn	11,299	**14,542**

2018 Highlights

January

1 Acron Group renamed its international sales companies in Switzerland and the United States, switching to a single brand. The Group's European trading company is now called Acron Switzerland AG, and the U.S. trading company is called Acron USA Inc.

2 Acron Group's agricultural enterprise, Kubris, was recognised as Kuban's top rice grower.

March

3 North-Western Phosphorous Company commissioned a rail branch to the Oleniy Ruchey mine.

4 Acron Group proceeded with the final stage of development at the Talitsky potash mine.

April

5 Acron held training seminars for Colombian farmers and presented a new brand NPK 18-6-18+2Mg+2S.

6 Acron upgraded its urea units 1-5 and achieved a record output of over 3,000 tonnes per day.

May

7 Acron Group set up distribution companies in Brazil and Argentina.

8 Acron held its Annual General Meeting on 31 May 2018.

November

9 Acron Group commissioned a new sixth 600 - tonne - per - day urea unit in Veliky Novgorod.

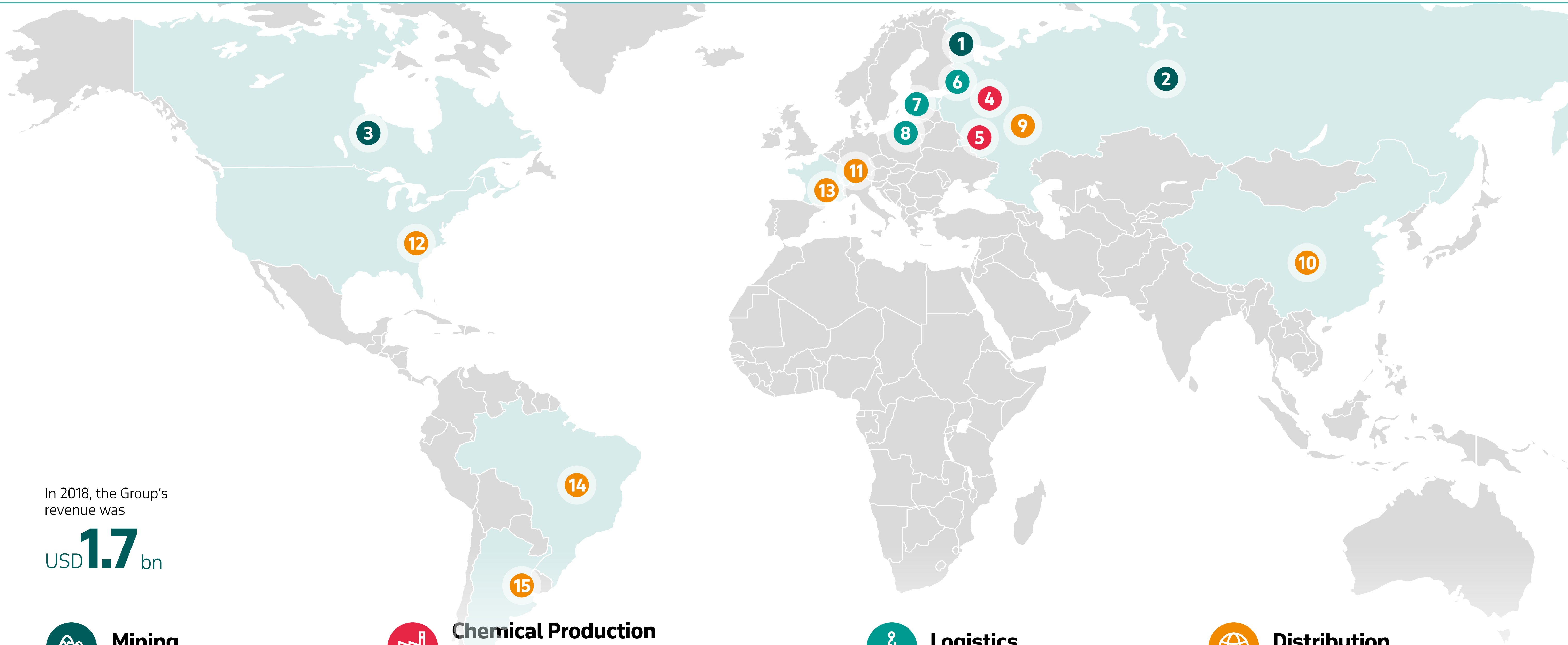
December

10 Acron Group made several changes to its Managing Board. Dmitry Balandin, Vice President for Finance, and Alexander Lebedev, Vice President for Domestic Business and Agricultural Projects, became new first-time members of the Managing Board.

2018

Business Geography

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.



In 2018, the Group's revenue was

USD **1.7** bn

Mining

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

Read more on page 34

Chemical Production

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

Read more on page 37

Logistics

6. Acron-Trans
   Russia (St. Petersburg)
7. AS DBT
   Estonia (Muuga and Sillamäe)
8. Andrex
   Russia (Kaliningrad)

Read more on page 43

Distribution

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

Read more on page 44

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.

Objective

Creating sustainable value and stable dividend flow

Mining

[key segment]

PHOSPHATES

NWPC, Oleniy Ruchey mine
Murmansk region, Russia

POTASH

[ongoing projects]

VPC, Talitsky mine
Perm Krai, Russia

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

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.

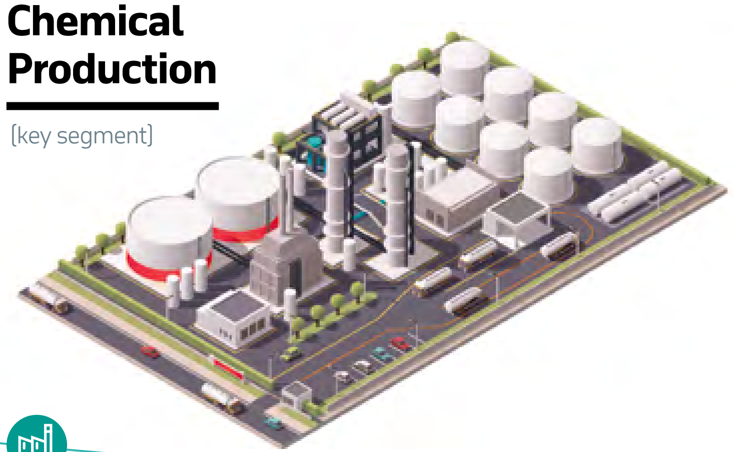
Acron Group is also implementing potash projects to secure potash feedstock for the Group's production facilities.

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

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

Chemical Production

[key segment]



NITROGEN AND COMPLEX MINERAL FERTILISERS, INDUSTRIAL PRODUCTS

Acron
Veliky Novgorod, Russia

Dorogobuzh
Smolensk region, Russia

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.

Logistics

[auxiliary segment]

SEA PORT TERMINALS

AS DBT, two port terminals
Estonia

Andrex
Russia

RAILWAY OPERATOR

Acron-Trans
Russia

AIM

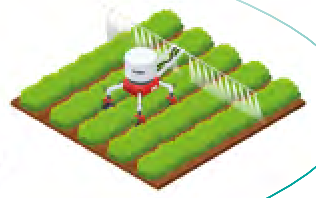
Facilitate smooth and efficient operation of the Group's facilities

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

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

Distribution

[auxiliary segment]



RUSSIA
Agronova

CHINA
Beijing Yong Sheng Feng
AMPC CO., LTD.

UNITED STATES
Acron USA Inc.

EUROPE
Acron Switzerland AG
Acron France SAS

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

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 US provide the Group with market diversification and 100% product sales.

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

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

The Group's Unique Competitive Advantages

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 Group's 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

Letter
from the Chairman of the Board of Directors

Dear Shareholders,

In 2018, Acron Group continued to pursue its updated development strategy through 2025, which was adopted in 2017 to maximise use of existing production potential. Our development strategy and the results we have already achieved will support several more years of sustainable production growth.

For the sixth year in a row, we are reporting an increase in production as a result of careful strategy. The most notable events of 2018 were the launch of the sixth urea unit and the record high UAN output at Acron in Veliky Novgorod.

But we will not stop here. We are actively furthering our investment programme, which includes a number of highly efficient projects to upgrade existing process units and build new ones at Acron and Dorogobuzh through 2025.

We are also continuing to develop our mining projects. An expansion of underground mining capacity is currently underway at the Oleniy Ruchey mine. In early 2018, a new railway line linking the mine with the main rail network was commissioned, which has allowed us to reduce costs of feedstock transportation.

We completed shaft sinking at the future Talitsky mine and reached a depth of 96.6 metres at the cage shaft and 44.3 metres at the skip shaft. Total required depth of the cage shaft is 414 metres and of the skip shaft is 364 metres.

In 2018, Acron Group continued to pursue its updated development strategy through 2025, which was adopted in 2017 to maximise use of existing production potential. Our development strategy and the results we have already achieved will support several more years of sustainable production growth.

Under the new development strategy, Acron Group is also focused on the needs of its customers, expanding the product portfolio and further developing the distribution segment. In 2018, the Group started sales through its trading company in France and set up distribution companies in Brazil and Argentina in order to increase its presence in Latin America, a major export sales market for the Group. In the reporting year, total sales of mineral fertilisers to Latin American countries exceeded 1.4 million tonnes.

The fertiliser market posted good figures in 2018. Global consumption of mineral fertilisers was up 0.9%, while prices in all segments continued to grow. In 2019, the rate of the global consumption growth is expected to increase to 1.4%.

In 2018, average global urea prices were up 15% as supply fell short and competitors were hit by increased energy prices. Prices for most of the other products in the nitrogen segment were up as well. In 2018, NPK prices were pushed upward by strong dynamics across the nitrogen, phosphate and potash segments.

That caused the financial performance to improve. The Group's revenue was up 7% to USD 1.7 billion, and EBITDA increased 15% to USD 591 million. Net profit was USD 212 million. The debt burden remained under control, with the Net Debt/EBITDA ratio falling to 1.8.

Acron's capitalisation at the Moscow Exchange was up 22% in 2018 due to higher output and prices, while the Moscow Exchange index increased only 12%. The positive trend for Acron's shares was also supported by an increased number of dividend payouts – the Company made three dividend payments totalling USD 212 million.

In 2018, Acron Group made several changes to its Managing Board. Dmitry Balandin, Vice President for Finance, and Alexander Lebedev, Vice President for Domestic Business and Agricultural Projects, became new first-time members of the Managing Board.

Alexander Popov

Chairman of Acron's Board of Directors

EBITDA increased 15% to

USD 591 mn

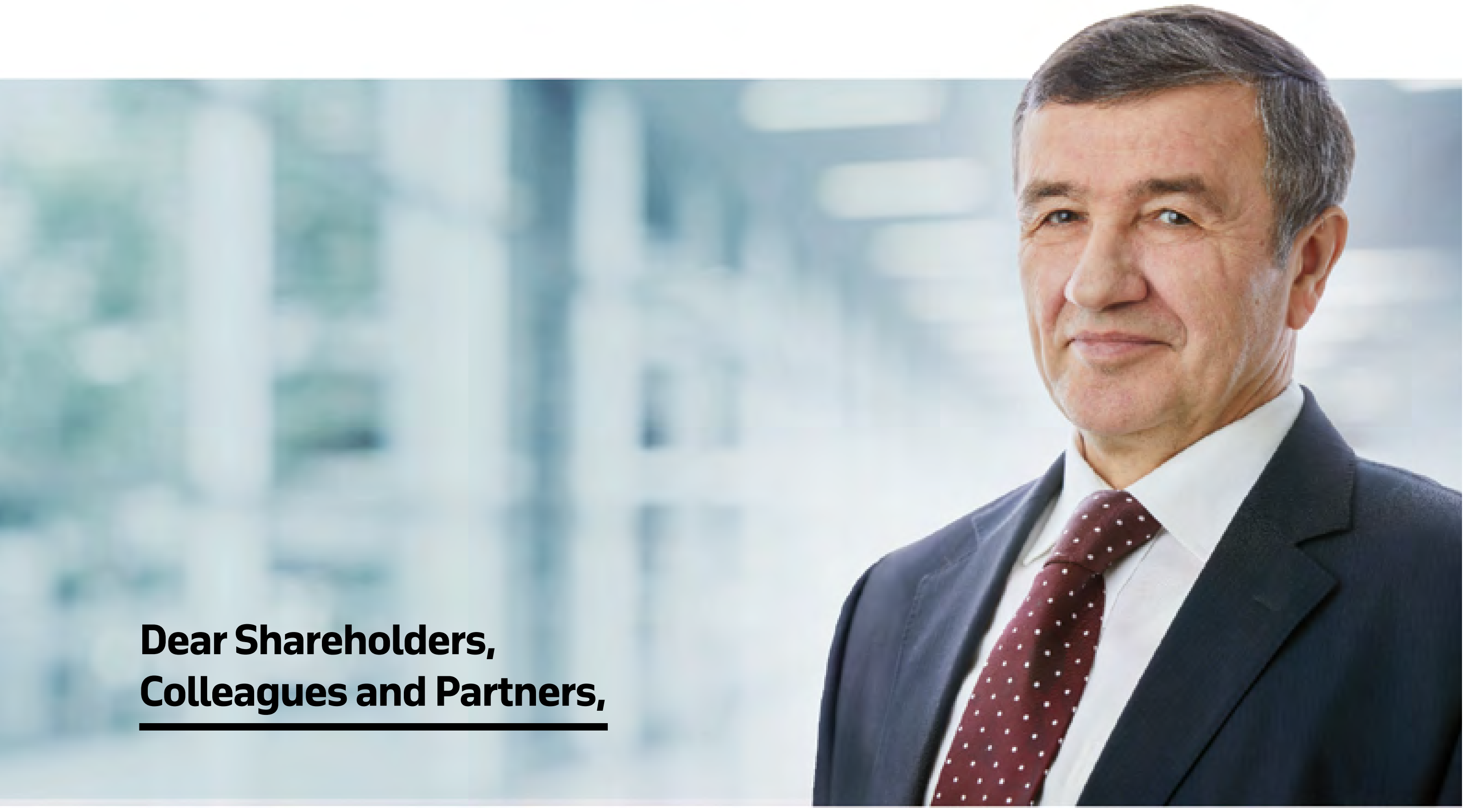
Dividends paid

USD 212 mn

The Group's revenue was up 7% to

USD 1.7 bn

Letter
from the Chief Executive Officer (President)



Dear Shareholders, Colleagues and Partners,

Looking back on 2018, first and foremost I want to point to our production records. Output was up 2.5% year-on-year to 7.5 million tonnes. Figures grew mainly at the Novgorod-based Acron site. The Group upgraded its current urea units and commissioned a new unit, reaching total output of 1,134,000 tonnes. Higher urea production supported the increase in annual UAN output to 1,422,000 tonnes.

Additionally, the Company's UAN capacity reached 1.5 million tonnes per annum. That makes Acron Group the world's largest exporter of this liquid nitrogen fertiliser.

Sale flows on mineral fertiliser markets may change depending on various market conditions. Acron Group is flexible, so it can easily adapt to new realities. In the reporting period, we reduced the production of bulk blends in the complex fertiliser segment and diversified that volume towards nitrogen products and NPK. This drove complex fertiliser output across the Group down 13% to 2,519,000 tonnes. However, the chemical production of complex fertilisers (NPK) increased 4.9%. Nitrogen fertiliser output was also up 11%.

Looking back on 2018, first and foremost I want to point to our production records. Output was up 2.5% year-on-year to 7.5 million tonnes. Figures grew mainly at the Novgorod-based Acron site. The Group upgraded its current urea units and commissioned a new unit, reaching total output of 1,134,000 tonnes.

In the phosphate feedstock segment, we gradually increased ore extraction at the underground Oleniy Ruchey mine, which reached 18% of total production in the reporting period. In 2018, apatite concentrate output increased 4% to a record-high of 1,214,000 tonnes.

Acron Group built two new nitric acid units at its Novgorod site to increase AN, UAN, and NPK output. In early 2019, the Company brought one unit on stream and plans to commission the second unit by August 2019. Additionally, Acron is developing a new, 2,000-tonne-per-day urea granulation unit with start of production scheduled for 2020.

A large-scale overhaul of Dorogobuzh's ammonia unit is planned for autumn 2019. The Company is already building a calcium-ammonium-nitrate unit.

I would like to emphasize that none of these production records and achievements would have been possible without a cohesive and enthusiastic team. The management of Acron Group clearly understands this, and we do our utmost to ensure that working at the Group is safe, interesting and honourable. Every year, we allocate significant funds for environmental measures and social events. In 2018, RUB 1.9 billion were allocated for a variety of events and programmes including: ecology, labour protection and industrial safety, support for footprint regions, and social programmes for employees. We do not look at these funds as costs. They are social investments that ensure the sustainable development of the Group for many years to come. According to the rating of environmental and energy efficiency, Acron is in the top 150 among almost 5,500 companies operating in the real sector of the economy.

Vladimir Kunitsky

Acron's CEO (President)

Output was up 2.5% year-on-year to

7.5 mn t

In 2018,

RUB **1.9** bn

for a variety of social and personnel events and programmes

Strategic Report

Mineral Fertiliser Market Overview

In 2018, global mineral fertiliser consumption continued to grow. According to the International Fertilizer Industry Association (IFA), consumption increased 0.9% to 188 million tonnes in terms of nutrients. Potash fertiliser consumption saw the biggest gains (up 2.2%). Consumption of phosphate fertilisers increased 1%, while nitrogen fertiliser consumption was up just 0.4%.

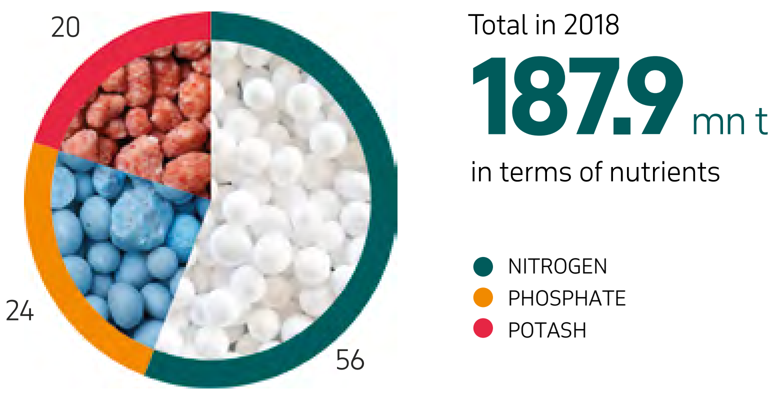
Mineral fertiliser prices demonstrated persistent strength in 2018. Average FOB Baltics prices for the main types of fertilisers in each segment – urea, DAP (Diammonium Phosphate), and potash – were up 14–19%. Urea prices were supported by reduced export from China due to increased production costs in that country.

In 2018, global mineral fertiliser consumption increased **0.9**%.

Prices continued to rise across all market segments.

The rate of global consumption growth is expected to increase to **1.4**% in 2019.

GLOBAL MINERAL FERTILISER CONSUMPTION, %



Source: IFA estimate, February 2019

GLOBAL MINERAL FERTILISER CONSUMPTION, MN T

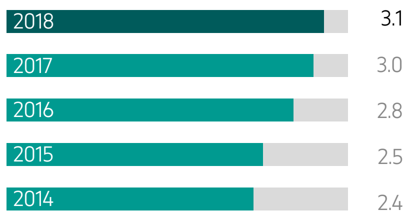
	2017	2018E	2018/2017
Nitrogen, N	105.3	105.7	+0.4%
Phosphate, P_2O_5	44.9	45.3	+1.0%
Potash, K_2O	36.1	36.9	+2.2%
Total	**186.3**	**187.9**	**+0.9%**

Source: IFA estimate, February 2019

DAP prices increased along with prices for the main feedstock. In the potash segment, prices were supported by strong demand and producer discipline.

Mineral fertiliser consumption in Russia continued to increase due to advances in the agricultural sector. In 2018, Russian growers purchased 3.1 million tonnes of mineral fertilisers in terms of nutrients from domestic producers, up 3% year-on-year.

MINERAL FERTILISERS SUPPLIED TO RUSSIAN FARMERS, MN T OF NUTRIENTS



Source: Ministry of Agriculture of the Russian Federation

According to IFA, total global mineral fertiliser consumption in 2019 will be up 1.4% to 191 million tonnes in terms of nutrients. Potash fertiliser demand will see the biggest gains (up 1.9%), with growth in nitrogen and phosphate fertiliser consumption as well (up 1.1% and 1.6% respectively). The biggest increase in fertiliser consumption is expected in Brazil, India, the United States, and Indonesia.

GLOBAL MINERAL FERTILISER CONSUMPTION, MN T

	2018E	2019F	2019/2018
Nitrogen, N	105.7	106.9	**+1.1%**
Phosphate, P_2O_5	45.3	46.0	**+1.6%**
Potash, K_2O	36.9	37.6	**+1.9%**
Total	**187.9**	**190.5**	**+1.4%**

Sources: Fertecon, FMB

INDICATIVE PRICES, USD/t

FOB Baltics / Black Sea	Average Price		YOY	Year-end Price		YOY
	2018	2017		2018	2017	
Urea	251	218	**+15%**	257	218	**+18%**
DAP	408	344	**+19%**	404	363	**+11%**
Potash	257	226	**+14%**	277	234	**+18%**

Sources: Fertecon, FMB

Nitrogen Segment

In 2018, global urea consumption and output were unchanged year-on-year.

China continued to reduce its output and exports.

Urea prices continued to rise in 2018.

GLOBAL UREA PRODUCTION AND EXPORTS, MN T

	2016	2017	2018E
Production	173.7	168.6	**169.2**
Export	50.4	48.1	**47.7**

Source: IFA estimate, February 2019

UREA IMPORTS TO KEY COUNTRIES, MN T

	2017	2018E	2018/2017
India	6.0	5.8	**–3%**
Brazil	5.7	5.3	**–7%**
US	5.5	4.3	**–22%**

Sources: IFA estimate, February 2019

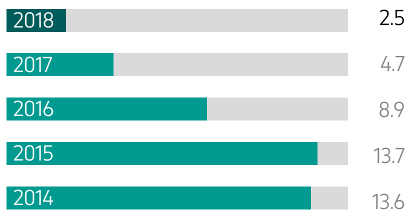
Global consumption of urea, main nitrogen fertiliser, did not show a significant growth in 2018, and output remained the same at 169 million tonnes. Global output excluding China was up 4% to 120 million tonnes. Production increased in Russia, the US, Algeria, and Nigeria. China's production decreased 7% to 49 million tonnes. This is the third year in a row that China has cut production due to lower domestic consumption and decreased export sales. Environmental measures adopted by the government put additional pressure on Chinese producers, whose share of global urea output decreased from 40% in 2014–2015 to 30% last year.

NITROGEN FERTILISERS, %

Source: IFA estimate, February 2019

In 2018, global urea export sales were down 1% to 47.7 million tonnes. Export from China continued to decline due to poor competitive strength, dropping 47% to 2.5 million tonnes in the reporting period. China's share in global urea exports fell from 28% in 2014–2015 to 5% in 2018. In Q4, export from Iran also decreased due to US sanctions. However, export from Russia, Algeria, and Nigeria was up.

UREA EXPORTS FROM CHINA, MN T

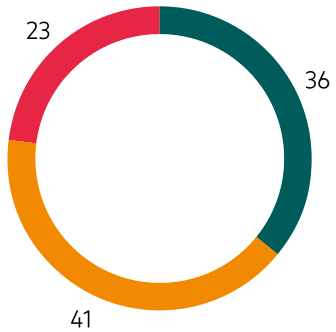


Source: SFMW

Major urea importers (India, Brazil, and the US) pulled back on purchases, and imports to India and the United States were down due to higher domestic production in those countries. Import to Brazil decreased because of the truck drivers' strike mid-year. Thailand and Vietnam increased their import purchases.

In 2018, urea prices continued to rise, supported by lack of supply in the global market due to lower export from China. High prices for coal, the main feedstock for that country's urea production, forced local producers to keep FOB China prices above USD 300 for most of the year and focus on the domestic market. However, China's exports were still in demand globally, which significantly supported global prices. The FOB Baltics prices passed USD 300 in October, breaking its three-year high.

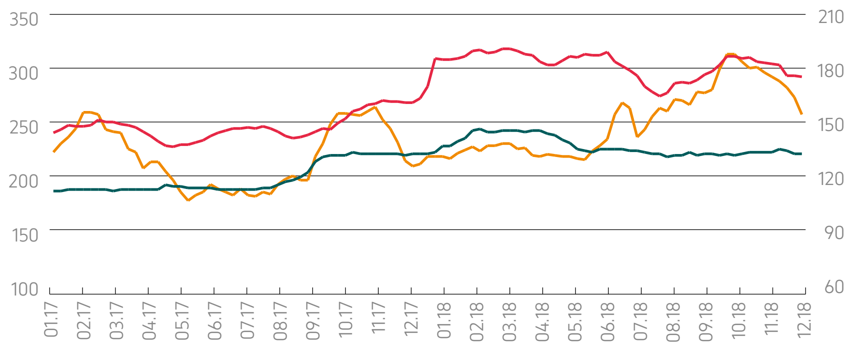
UREA FEEDSTOCK IN CHINA, %



Source: China Nitrogen Fertilizer Industry Association

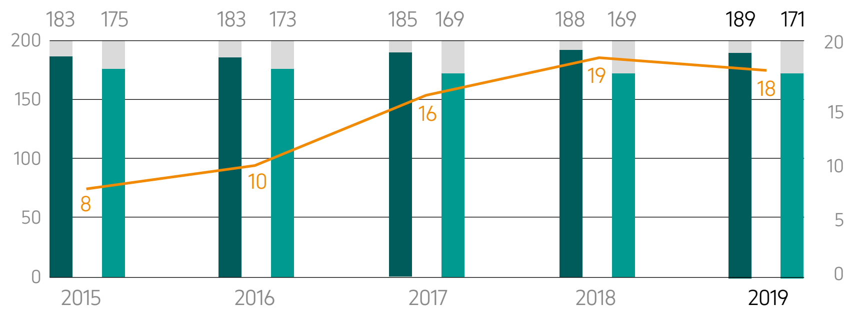
According to IFA, in 2019 urea consumption growth will outpace growth in supply. Effective capacity will increase 1% to 189 million tonnes, while consumption will be up 1.1% to 171 million tonnes. As a result, the potential urea surplus will decrease from 19 million tonnes in 2018 to 18 million tonnes.

UREA AND COAL PRICES, USD/T



Sources: Fertecon, CNCIC, Bloomberg

UREA SUPPLY/DEMAND, MN T



Source: IFA estimate, February 2019

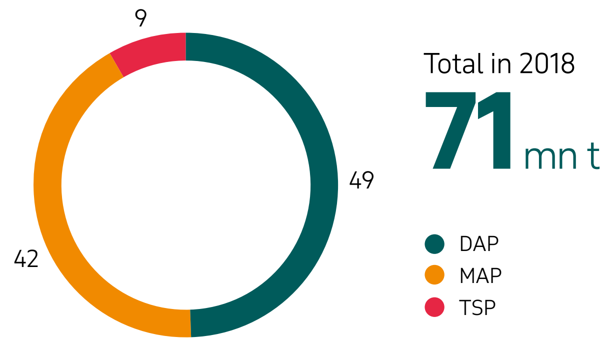
Phosphate Segment

In 2018, global phosphate fertiliser consumption continued to increase while production remained unchanged.

Morocco and Saudi Arabia increased production, and China's output was down.

Prices continued to rise in the reporting year.

PHOSPHATE FERTILISER PRODUCTION, %



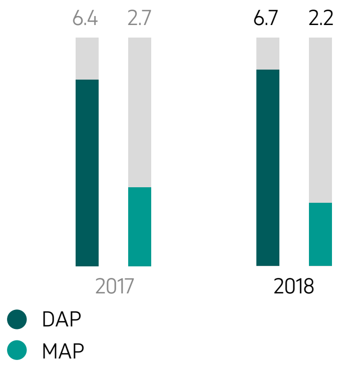
Source: IFA estimate, February 2019

In 2018, global phosphate fertiliser consumption continued to grow, while production remained flat year-on-year – 71 million tonnes of DAP, MAP (Monoammonium Phosphate), and TSP (Triple Super Phosphate). DAP output dropped 3% to 35 million tonnes but this decrease was offset by higher MAP production. China, the world's largest DAP and MAP producer, reduced output of these products by 3% and 5%, respectively. Morocco and Saudi Arabia showed the biggest jump in production due to new capacity.

Global DAP, MAP, and TSP export sales totalled 34 million tonnes. DAP exports increased 6% to 18 million tonnes, and MAP exports were up 4% to 13 million tonnes. Morocco and Saudi Arabia increased their exports of these products. In 2018, China's DAP exports were up 5% to 6.7 million tonnes, while MAP exports dropped 20% to 2.2 million tonnes. India, traditionally the major DAP importer, increased its purchases by 37% to 6 million tonnes. Pakistan, Bangladesh, and the US also increased their DAP imports. DAP imports dropped in Brazil, Vietnam, Southeast Asia and Africa. Brazil, the major MAP importer, cut purchases 20% to 3.5 million tonnes. The US and Africa both increased their MAP imports.

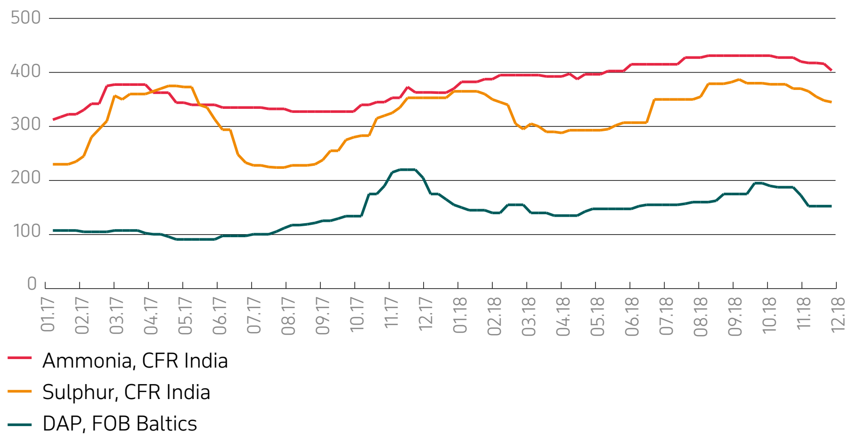
In 2018, phosphate fertiliser prices were pushed upward by higher feedstock prices (ammonia, sulphur, and phosphoric acid), which resulted in higher cost of production for non-integrated producers in India, which accounts for one-third of global DAP imports. As a result, DAP prices in India passed USD 400 and pushed up global phosphate fertiliser prices.

DAP AND MAP EXPORTS FROM CHINA, MN T



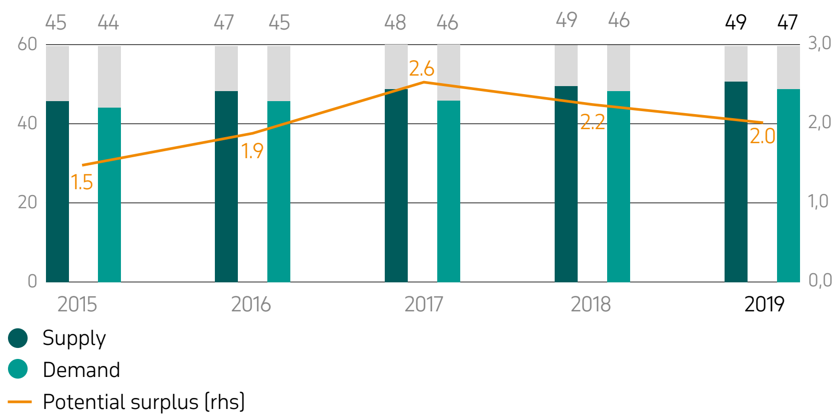
Source: CFMW

DAP, AMMONIA AND SULPHUR PRICES, USD/T



Sources: Fertecon, FMB

PHOSPHORIC ACID SUPPLY/DEMAND, MN T OF P_2O_5



Source: IFA estimate, February 2019

According to IFA, phosphate fertiliser consumption growth will surpass the growth of supply in 2019. Effective phosphoric acid (used for phosphate fertiliser production) capacity will increase 1.2% to 49 million tonnes of P_2O_5, while the consumption will be up 1.8% to 47 million tonnes of P_2O_5. As a result, the potential phosphoric acid surplus will decrease from 2.2 million tonnes of P_2O_5 in 2018 to 2 million tonnes of P_2O_5.

Potash Segment

In 2018, global potash consumption and output continued to grow.

Most regions increased their imports, except for the US.

Prices continued to rise in the reporting year.

POTASH, MN T

	2016	2017	2018E
Production	61.8	67.0	**69.0**
Export	47.5	53.0	**53.7**

Source: IFA estimate, February 2019

POTASH IMPORTS TO KEY COUNTRIES, MN T

	2017	2018E	2018/2017
Brazil	9.6	9.9	**+3%**
United States	9.4	9.0	**–4%**
China	7.0	7.2	**+3%**
Malaysia and Indonesia	5.4	5.6	**+3%**
India	4.9	4.9	**0%**

Source: IFA estimate, February 2019

In 2018, global potash production was up 3% to a record high of 69 million tonnes. Output mainly increased in Canada and Russia.

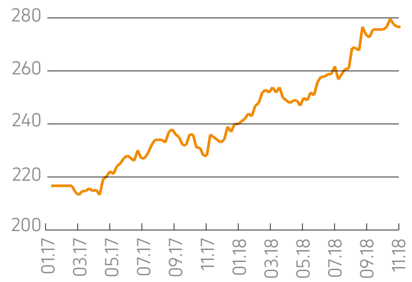
Global potash export sales increased 1% to 53.7 million tonnes. Most regions, except for the US, increased their imports due to strong demand. Brazil, the major potash importer, increased its purchases by 3% to 9.9 million tonnes. China's import was up 3% to 7.2 million tonnes. Southeast Asia and Africa also increased their imports. The US cut its imports by 4% to 9 million tonnes due to weak demand and high inventories at the beginning of the year.

In the reporting year, potash prices continued to grow backed by strong demand and producer discipline. The annual contract with India was executed at a price of USD 290 per tonne, USD 50 more than the previous contract. The contract with China was also executed at a price of USD 290 per tonne, USD 60 more than the 2017 contract.

In 2019, global potash consumption is expected to continue its upward trend. According to IFA, global exports will be up 2% to 55 million tonnes, along with increasing supplies. After commissioning the Usolskiy mine in 2018, EuroChem plans to bring its Gremyachinskiy mine on stream in 2019. The capacity at the first stage of each mine is 2.3 million tonnes. Other producers have announced plans to shut down facilities with a total capacity of 3.1 million tonnes. In 2018, Nutrien closed its 2 million tonnes mine in New-Brunswick, Canada. K+S announced the closure of 0.7 million tonnes of capacity in Germany, and ICL is shutting down 0.4 million tonnes of capacity in the UK.

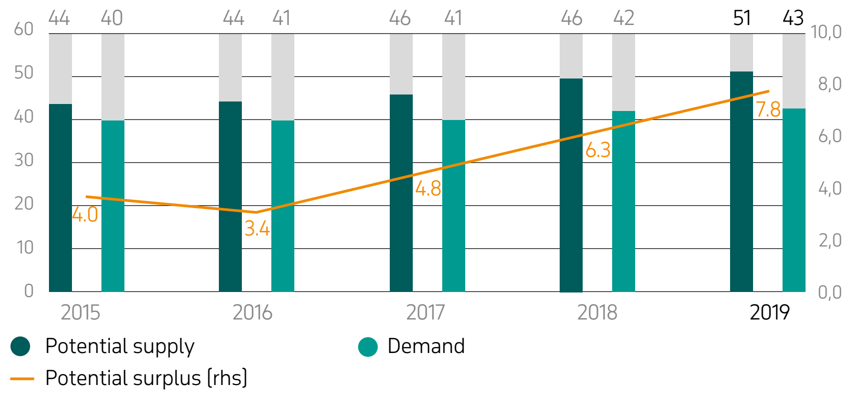
According to IFA, in 2019 effective potassium capacity will increase 4.7% to 51 million tonnes of K_2O, and consumption will be up 2% to 43 million tonnes of K_2O. As a result, the potential surplus will increase from 6.3 million tonnes of K_2O in 2018 to 7.8 million tonnes of K_2O.

POTASH PRICES,
USD/T, SPOT, FOB FSU



Source: FMB

POTASSIUM SUPPLY/DEMAND, MN T K_2O



Source: IFA estimate, February 2019

Complex Fertilisers

NPK fertilisers are increasingly popular.

Producers strive to expand their range of NPK brands.

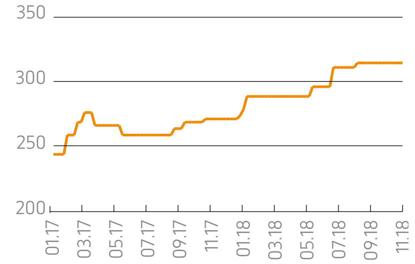
Prices continued to increase in 2018.

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 potash 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, diversification of brands 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. However, even producers of standard large-tonnage NPK have been vigorously improving the flexibility of their production facilities and diversifying their product portfolios. NPK blends containing microelements, water-soluble and controlled-release NPK are increasingly popular.

NPK prices are less volatile and traditionally track the prices of the basic products (urea, DAP and potash) with a lag in time. In 2018, NPK prices continued to grow along with prices for nitrogen, phosphate and potash fertilisers. NPK 16-16-16 retained a premium of 15% over the basic product basket throughout the year.

NPK 16-16-16 PRICES,
USD/T, FSU



Source: FMB

Development Strategy and Prospects

In 2017, Acron Group presented a revised investment programme through 2025 that focuses on maximum utilisation of existing industrial potential.

The new development programme 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 focused on consumers of Acron Group's products 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 the 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 2018	NEXT STEPS	RISKS
1 Improved production performance through improved efficiency and construction of new processing capacity; product portfolio diversification	— Implement new projects, commission new production lines — CAPEX budget — Output volume — Number of products — Additional EBITDA for the Group	— Commercial output increased to 7.5 mn t — New Urea-6 unit commissioned — Expanded portfolio of the most popular NPK brands to 17 — A 66% increase year-on-year in output of industrial urea, including urea for production of AdBlue solution — In 2018, total CAPEX was USD 232 million, as expected. — In 2018, EBITDA was USD 591 million, up 16% year-on-year. — Changes were made to the investment programme to add new projects currently under review. Read more about Investment Programme and Chemical Production on pages 28/37	— Implement projects under the Development Strategy through 2025 — Introduce new complex fertiliser brands — Increase output of premium products Read more about Financial Overview on page 53	— Industry risks — Operating risks — Financial risks — Social and environmental risks Read more to Risks and Risk Mitigation Strategy on page 62
2 Covering the increasing feedstock needs of the Group's production facilities through implementation of mining projects, maintaining business vertical integration	— Comply with licence provisions — Self-sufficiency in major raw materials — Complete projects milestones — CAPEX budget — Additional EBITDA for the Group	**PHOSPHATES** **Oleniy Ruchey mine** — In 2018, the mine produced 1.214 mn t of apatite concentrate, providing all the Group's phosphate feedstock for NPK; 267,000 t were supplied to third-party consumers. — Ore extraction at the underground Oleniy Ruchey mine increased in the reporting period and reached 18% of the total production. Read more about Mining/Phosphates on page 34 **POTASH** **Talitsky mine** — In 2018, Acron Group resolved to reactivate the project and starting shaft sinking. By the end of 2018, shaft depth reached 97 m for cage shaft No. 2 and 44 m for skip shaft No. 1. Read more about Mining/Potash on page 34	**PHOSPHATES** **Oleniy Ruchey mine** — Continue constructing the underground mine and expand the processing plant's capacity to increase apatite concentrate output Read more about Mining/Phosphates on page 34 **POTASH** **Talitsky mine** — Further project implementation. Start of production is expected in 2023. — Look for co-investors and raising project financing to implement the project Read more about Mining/Potash on page 34	— Industry risks — Operating risks — Financial risks — Social and environmental risks — Legal risks Read more to Risks and Risk Mitigation Strategy on page 62
3 Ensure sale of increasing output through development of distribution segment	— Selling prices — Sales volumes — Sales markets — Market penetration — Create stable distribution channels	— In 2018, the Group's sales totalled 7.3 mn t. — The Group sold its products in 67 countries. — Acron France SAS started sales, and Acron Group set up branches in Brazil and Argentina to start sales there in 2019. — In early 2018, Acron Group renamed its export trading companies Agronova Europe AG and Agronova International Inc. to Acron Switzerland AG and Acron USA Inc. respectively in order to improve Acron's trademark and brand awareness and enhance the image connection between the Group's production and trading assets.	— 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. Read more about Distribution on page 44	— Industry risks Read more to Risks and Risk Mitigation Strategy on page 62

Development Strategy and Prospects (continued)

Strategic Report
Corporate Governance
Sustainability
Financial Statements
Appendices

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, completed vertical integration

Considerably developed distribution and enhanced penetration in key markets

In 2018, as part of its distribution development strategy Acron Group commenced supplying UAN to European markets through its new trading company, Acron France SAS, and shipped 265,000 tonnes of the product. In the reporting year, the Group also set up branches in Brazil and Argentina.

STRATEGY ELEMENT	KEY PERFORMANCE INDICATORS	ACHIEVEMENTS IN 2018	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 — Loan portfolio duration — Credit ratings	— The Group's total debt was down from USD 1.294 bn to USD 1.216 bn. — Net debt increased from USD 1.045 bn to USD 1.066 bn. — Net Debt/EBITDA was 1.8 against 2 at the end of 2017 (expressed in USD). — The duration of the Group's loan portfolio fell from 2.4 to 1.9 years. — As of 31 December 2018, the average interest rate on loans and borrowings was 5.5%, against 6% in 2017. — Expert RA agency assigned Acron Group a ruA+ rating with Stable outlook. Read more about Financial Overview on page 53	— 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 Read more about Financial Overview on page 53	— Industry risks — Financial risks Read more about Risks and Risk Mitigation Strategy on page 62
5 Enhancing investment appeal through transparency and excellent corporate governance	— Compliance with corporate principles, Russian laws, and the most significant recommendations of Russian and international best practices — Clear distribution of responsibility among the main management and supervision bodies of the Group's companies — Dividend payment and maintenance of a moderate debt burden	— In 2018, Acron Group paid dividends for RUB 13.3 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 Read more about Corporate Governance on page 74	— Legal risks Read more about Risks and Risk Mitigation Strategy on page 62
6 Corporate and social responsibility	— Personnel qualifications — Ensure industrial safety at the Group's production facilities — Contribute to economic and social development in footprint regions — Maintain a healthy environment in footprint regions	— In 2018, over 1,700 Group employees received industry and corporate awards for their professional achievements. Two employees were given the honorary title the Honoured Chemist of the Russian Federation. — All employees of production facilities complete occupational and industrial safety courses annually. — In 2018, 1,500 employees completed advance training and occupational retraining coursers. — 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 281 mn in social and economic development in its footprint regions. Read more about Sustainability on page 106	— Enhance the level of employee qualifications — Develop and introduce measures to reduce air pollutant emissions and pollutant effluents to open water, as well as generation and storage of industrial waste and consumer waste Read more about Sustainability on page 106	— Social and environmental risks Read more about Risks and Risk Mitigation Strategy on page 62

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 phosphate and potash raw material segments.

The Group reviews and updates the list of projects annually. In 2018, it amended the investment programme to review the feasibility of building a new complex phosphorous fertiliser unit at Dorogobuzh. At the same time, the Group resolved to commence design work and studies for two new projects to build a calcium-ammonium nitrate (CAN) and calcium nitrate (CN) unit and identified the potential to further upgrade its urea units.

In 2018, Acron Group commissioned a new Urea-6 unit and launched the following projects:

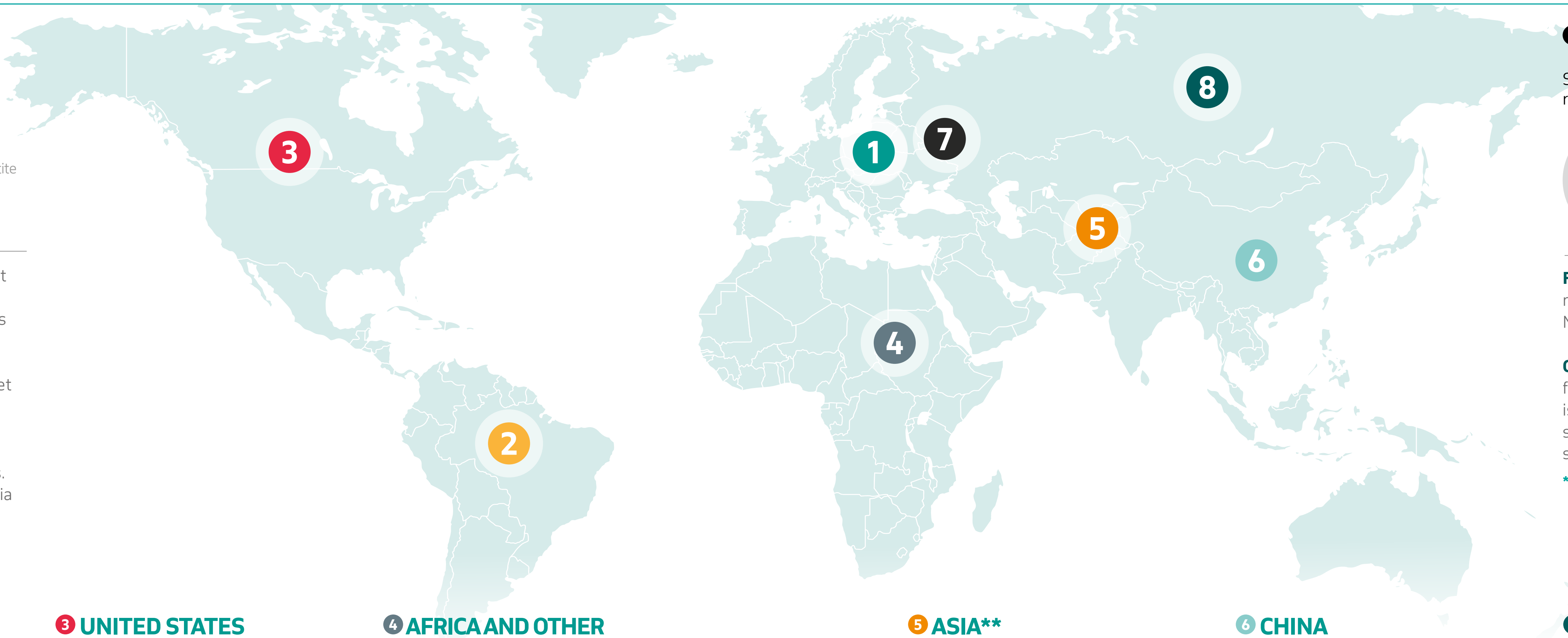
- Upgrade of the ammonia unit at Dorogobuzh
- Upgrade of the Ammonia-4 unit at Acron
- Construction of two nitric acid units
- Construction of a urea granulation unit
- Resumption of the Talitsky mine construction

Key Projects in the Investment Programme

Project	Production Increase per Year	Investments, USD mn	Progress
ACRON			
Upgrading Ammonia-4 unit to increase capacity	**70,000** T of ammonia	**28**	In progress To be commissioned in 2020
Upgrading Ammonia-3 unit to increase capacity	**130,000** T of ammonia	**75**	Design in progress
Building two nitric acid units, upgrading equipment at AN unit, and modernising NPK unit	**250,000** T of AN **70,000** T of NPK	**60**	Construction of the two units is nearing completion, to be commissioned in 2019. A third unit may be constructed later.
Building Urea-6 unit	**210,000** T of urea	**30**	Commissioned in 2018
Building a urea granulation unit	**700,000** T of granulated urea (instead of prilled urea)	**35**	In progress To be commissioned in 2019
CN production unit	**100,000** T of CN	**15**	Pre-design studies
Upgrading Urea-6 unit to increase capacity	**520,000** T of urea	**81**	Pre-design studies
DOROGOBUZH			
Integrated project to build complex fertiliser production facility (JSC Dorogobuzh Phosphorus)	**1** MN T of various complex fertiliser brands	**320**	Resolved to review feasibility
Upgrade of the ammonia unit to increase capacity	**130,000** T of ammonia	**75**	In progress To be commissioned in 2019
CAN production unit together with nitric acid unit construction	**600,000** T of CAN	**70**	Pre-design studies
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 achieved by 2022
POTASH RAW MATERIALS AT THE TALITSKY MINE*	**2** MN T of potassium chloride capacity with further increase to **2.6** MN T	**1,350**	In progress Mining to start by 2023, design capacity to be achieved in 2025

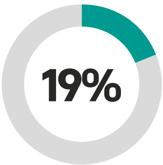
*Projected investments up to projects completion

Sales Markets



1 EUROPE

Share in Group's revenue



Sales of own products

1,392,000 t

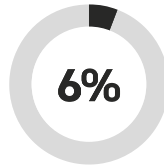
(ammonia, urea, UAN, NPK, bulk blends, apatite concentrate, industrial products)

Features: Europe is a stable market for a wide variety of products. The major consumers of the Group's products in the region are France, Norway, Belgium, Lithuania and Finland. Europe is a key sales market for urea and bulk blends.

Outlook: The Group will continue to expand into regional UAN markets. Sales of apatite concentrate, ammonia and industrial products are expected to increase.

7 CIS***

Share in Group's revenue



Sales of own products

395,000 t

(NPK, AN, industrial products)

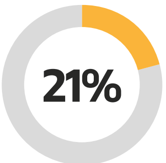
Features: CIS is a large NPK sales market for the Group (11% of the total NPK sales volume).

Outlook: Over the long term, demand for the Group's products in this region is expected to remain stable due to such factors as an extensive agricultural sector and a long history of cooperation.

*** Excluding Russia

2 LATIN AMERICA

Share in Group's revenue



Sales of own products

1,438,000 t

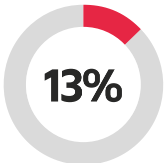
(AN, urea, NPK, bulk blends)

Features: Brazil is the Group's largest export sales market for agricultural use AN (35% of total AN sales volume in 2018) and NPK. Demand for nitrogen-based and NPK fertilisers is growing in other countries in the region, as well.

Outlook: Robust sales are expected to continue in Brazil (47% of total AN imports in 2018). Stronger demand for fertilisers will support a further increase in and diversification of sales in all key countries in the region.

3 UNITED STATES AND CANADA

Share in Group's revenue



Sales of own products

906,000 t

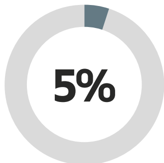
(UAN, AN, NPK)

Features: The United States is the Group's largest UAN market (54% of total UAN sales volume in 2018). The Group also sells third-party products in this market.

Outlook: Despite the commissioning of new UAN facilities in the United States, the Group's position in the U.S. market remains stable (33% of total UAN imports in 2018) due to convenient distribution channels and strong relations with local distributors.

4 AFRICA AND OTHER COUNTRIES*

Share in Group's revenue



Sales of own products

381,000 t

(NPK, AN, urea, ammonia)

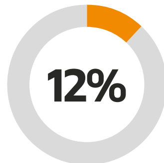
Features: This region is an evolving sales market for a wide variety of products. Morocco, Côte d'ivoire, Ghana, Nigeria are the Group's main consumers in the region.

Outlook: Fertiliser demand is on the rise in the region because of the high rate of agricultural development, and there is enormous potential for an increase in fertiliser consumption. A more aggressive increase in consumption is hindered by several infrastructure bottlenecks in African countries. The relatively low purchasing power of consumers is another obstacle. Competition among fertiliser suppliers in the region is heating up, as well.

*Australia, Oceania and others

5 ASIA**

Share in Group's revenue



Sales of own products

663,000 t

(NPK)

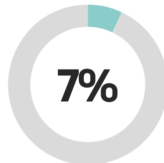
Features: Thailand is the largest sales market for the Group's NPK in this region. India, Vietnam and Indonesia are other large markets in the region for the Group's products.

Outlook: There are several large and mature markets in this region that recently slowed their increase 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.

**Excluding China

6 CHINA

Share in Group's revenue



Sales of own products

326,000 t

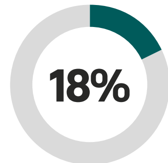
(NPK)

Features: China is a stable sales market for the Group's NPK (15% 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 23% of total NPK imports to China.

Outlook: China remains a key NPK market, and the Group is committed to maintaining its position in this market.

8 RUSSIA

Share in Group's revenue



Sales of own products

1,811,000 t

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

Features: Russia is the Group's second largest AN market (36% of total AN sales), a key market for industrial products and apatite concentrate and a large market for the Group's NPK (16%).

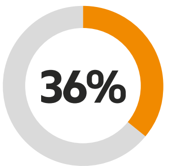
Outlook: The Russian market remains a top priority, and the Group continues to be one of the largest fertiliser suppliers in Russia. Dynamic development in the agricultural sector is triggering a rapid increase in fertiliser consumption in the country.

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.

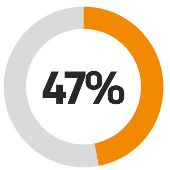
Mining

Share in Group's assets Read more on page 34



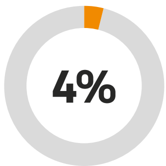
Chemical Production

Share in Group's assets Read more on page 37



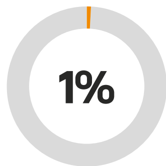
Logistics

Share in Group's assets Read more on page 43



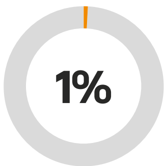
Distribution

Share in Group's assets Read more on page 44



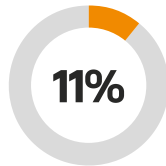
Plodorodie Agribusiness Holding

Share in Group's assets Read more on page 46

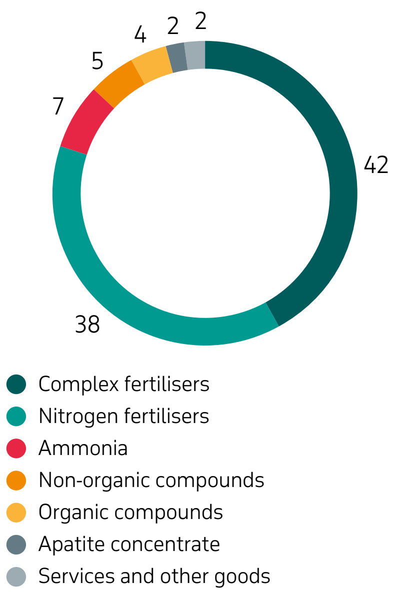


Portfolio Investments

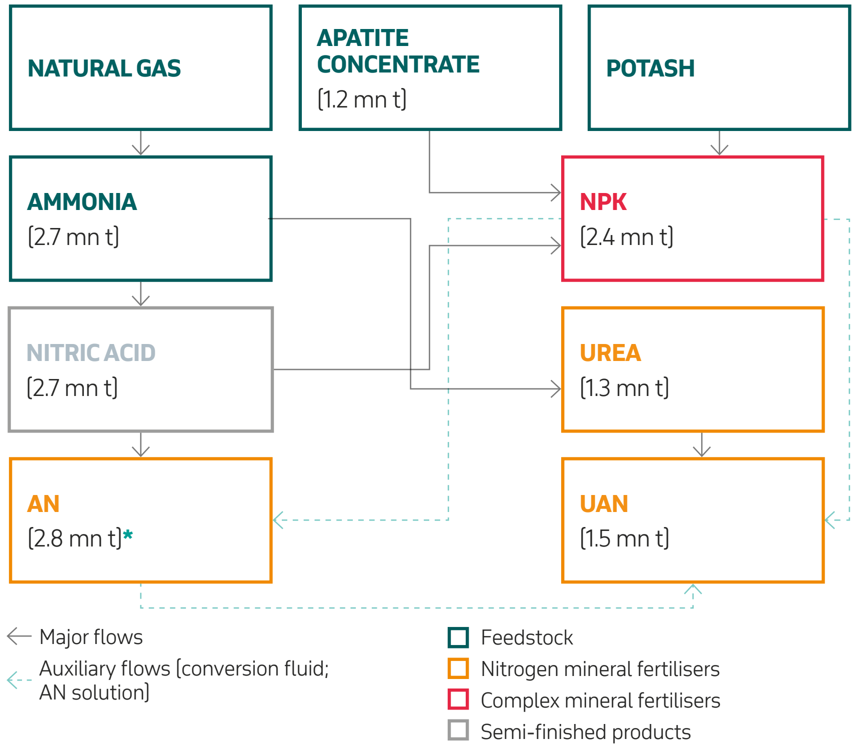
Share in Group's assets Read more on page 52



REVENUE BY PRODUCT IN 2018, %

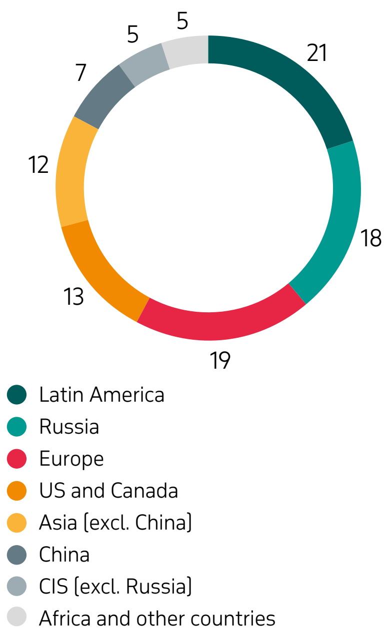


SIMPLIFIED PROCESS FLOW
SHOWS AGGREGATE PRODUCTION CAPACITY OF THE GROUP'S FACILITIES



* Including solution used to produce UAN

2018 REVENUE BY REGION, %



Commercial output ('000 t) *	2018	2017
Ammonia	**438**	551
Nitrogen fertilisers	**3,278**	2,690
Complex fertilisers	**2,475**	2,819
Organic compounds	**236**	224
Non-organic compounds	**824**	779
Apatite concentrate	**264**	269
Total	**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) *	2018	2017
Ammonia	**448**	556
Nitrogen fertilisers	**3,097**	2,719
Complex fertilisers	**2,473**	2,761
Organic compounds	**236**	223
Non-organic compounds	**799**	761
Apatite concentrate	**259**	260
Total	**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 2018):

— Categories B+C1: 250.1 million tonnes (P_2O_5: 41.1 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 59 years.

2018 Operating Results

In 2018, the Oleniy Ruchey mine produced a total of 1,214,000 tonnes of apatite concentrate, up 47,000 tonnes (4%) year-on-year. The Oleniy Ruchey mine met all demand from the Group's Russian production facilities, providing them with 950,000 tonnes of apatite concentrate, and shipped 267,000 tonnes to third-party consumers (against 260,000 tonnes in 2017).

In 2018, total output was 4,481,000 tonnes of apatite-nepheline ore (including 805,000 tonnes from the underground mine), down 0.5% year-on-year. In the reporting year, the Oleniy Ruchey mine extracted 10.2 million m^3 of rock at its open pit, yielding 3,676,000 tonnes of apatite-nepheline ore with an average P_2O_5 grade of 12.06%, against 4,265,000 million tonnes of ore with an average P_2O_5 grade of 11.88% in 2017.

Work Completed and Development Plans

In 2018, the Group commissioned a temporary railway facility and a 50-km railway branch to connect Oleniy Ruchey to Aikuven station, investing a total of RUB 5 billion. This large-scale project included the overhaul of old bridges and overpasses and construction of 50 new structures. As a result, apatite concentrate is delivered by railcars directly from the Oleniy Ruchey mine site.

In the reporting period, a number of underground facilities were put on stream: main fan and heating unit, central step-down station, pumping station, explosives storage, repairs shops, and pre-repairs unit. The Group started active underground preparations, created an area for capital development excavation, and began construction of a crushing and conveyor unit. The mine is equipped with a modern maintenance and servicing shop for mining machinery.

With open pit and underground mining capacity operating, the mine is expected to gradually bring apatite concentrate output to 1.7 million tonnes per annum by 2021, and further to 2 million tonnes per annum.

Potash

TALITSKY MINE

Acron Group subsidiary VPC continued working on a mining and processing facility at the Talitsky area of the Verkhnekamsk potassium-magnesium salt deposit in Perm Krai.

Once this project for development of one of the most promising potash deposits globally is on stream, it will complete Acron Group's vertical integration for all key inputs – ammonia, phosphates 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), including recoverable reserves of 80.2 million tonnes of KCl

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 1.3 billion. The Group has already spent USD 180 million in CAPEX, excluding the cost of the licence.

— The project timeline has already been set by the approved technical design for deposit development. Ore production is to start in late 2021, and the mine is to reach design capacity in 2025.

Key Results Since Start of the Project

Designing

— VPC obtained subsoil licence ПЕМ 02683 ТП 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 of the Talitsky mine, external utility facilities, and infrastructure (gas supply, electricity, water supply and railway facilities).

— VPC took administrative and technical measures to elaborate technical solutions for increasing capacity to 2.6 million tonnes per annum of the finished product.

Construction

Shafts

— Ground freezing and cage and skip shaft sinking are in progress.

— Shaft sinking machine was mounted and put into operation in the cage shaft.

— Mounting of the shaft sinking machine and tunnelling equipment for the skip shaft is in progress (mounting completed in January 2019).

— In 2018, 97 metres of the cage shaft and 44 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.

Temporary structures and facilities for shaft sinking

— VPC completed construction of all temporary structures and facilities for shaft sinking.

Industrial site

— Utilities were installed (external electric lighting, on-site compressed air, water supply and waste water discharge network).

— Main site development work was completed.

2019 Development Plans

— Continue sinking and constructing the two shafts and a permanent cast-iron and concrete lining

— Start geological survey of subsurface at the East Talitsky area of the Verkhnekamsk potassium-magnesium salt deposit in Perm Krai

— Start:

- Grading at the Talitsky mine site
- Constructing a haul road to the Talitsky mine
- Developing the Talitsky Open Pits deposits to secure ground materials required for facilities construction
- Constructing the Ural main step-down substation

Acron Group continues negotiations with banks to raise project financing.

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 Potash Management Inc.) have ten mineral leases and one exploration permit covering approximately 0.5 million acres (2,100 square kilometres) at a potash deposit in Saskatchewan, Canada. In 2018, it was resolved to discontinue three leases with insignificant mineral resources. In December 2018, the Group acquired one exploration permit in the closest proximity to the proposed site of the Albany project to reduce development and production costs. 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 mineral leases and one exploration permit), the Foam Lake project (four leases in the north of 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 (leaching).

Highlights

- In 2016, all permits were converted into 21-year mining leases, and supporting documents were received in early 2017.
- Albany project (joint venture with Rio Tinto): 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 for this cluster. 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 mineral leases recorded 229.5 million tonnes of KCl in recoverable reserves, including 23.1 million tonnes in proved reserves and 206.4 million tonnes in probable reserves. Currently, 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 (a cluster of four leases in the north of the province with a total area of 150,000 acres): 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. This cluster is suitable for constructing a conventional potash mining facility.
- Stockholm project (mineral lease KP 421 with the area of 56,000 acres): 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.

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 2018, Acron Group posted record high ammonia output of 2,616,000 tonnes (up 1% year-on-year) due to sustainable operation of all ammonia units.
- Nitrogen fertiliser output also hit a record high at 3,278,000 tonnes (up 22% year-on-year), primarily due to the commissioning of the new Urea-6 unit at the Veliky Novgorod site. Changing market conditions also contributed to higher UAN and urea output and larger volume of free AN due to lower output of bulk blends.
- In the reporting period, NPK output also hit a record high at 2,329,000 tonnes (up 5% year-on-year) following a systematic upgrade and sustainable operation of units at Veliky Novgorod and Dorogobuzh sites.

Development Plans

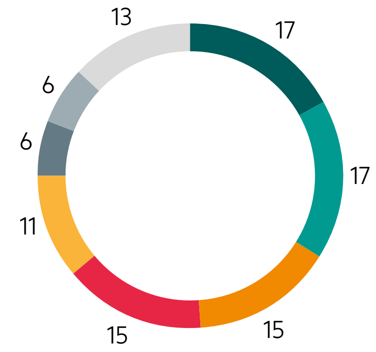
- Implementing a complex project to construct new nitric acid units, upgrading the NPK units and revamping the AN units at Veliky Novgorod site to boost AN output by 250,000 tonnes per annum
- Upgrading the ammonia units at the Veliky Novgorod and Dorogobuzh sites to boost the Group's ammonia output by over 300,000 tonnes per annum
- Upgrading the Urea - 6 constructed in 2018 to boost capacity by over 500,000 tonnes per annum, and upgrading the Urea 1 to 5 units.
- Constructing a 700,000 - tonne - per - annum urea granulation unit at the Veliky Novgorod site
- Constructing a 100,000 - tonne - per - annum calcium nitrate (CN) facility and a 600,000 - tonne - per - annum calcium - ammonium nitrate (CAN) facility at the Veliky Novgorod and Dorogobuzh sites

2018 OPERATING RESULTS, '000 t

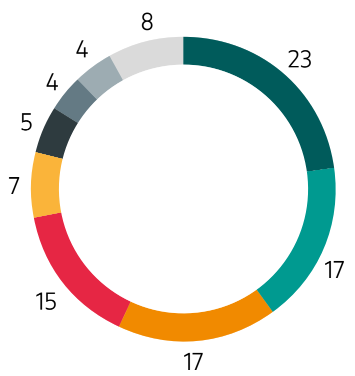
	Ammonia	Nitrogen Fertilisers			
		AN	Urea	UAN	Total for the Group
Output					
Acron	2,016	642	1,015	1,422	3,079
Dorogobuzh	601	1,156	–	–	1,156
Total output	**2,616**	**1,798**	**1,015**	**1,422**	**4,235**
Incl. in-house consumption	2,178	355	602	–	958
Total commercial output	**438**	**1,443**	**413**	**1,422**	**3,278**
Year-on-year	–20%	+12%	–9%	+50%	+22%
Sales*	**448**	**1,470**	**406**	**1,221**	**3,097**

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

2018 AMMONIA PRODUCTION IN RUSSIA BY PRODUCER, %



2018 NITROGEN FERTILISER PRODUCTION IN RUSSIA BY PRODUCER, %*



* In terms of nutrient

Source: Azotecon-Plus

ACRON (VELIKY NOVGOROD)

Ammonia. In the reporting year, Acron posted a record high ammonia output of 2,016,000 tonnes, up 24,000 tonnes year-on-year due to higher output at the Ammonia-3 unit following its overhaul in 2017. In the reporting period, Ammonia-4 operated sustainably at capacity with output of 789,000 tonnes, up 3,000 tonnes year-on-year. Due to a lengthy overhaul at Ammonia-2, output at this unit declined slightly in the reporting year. Average aggregate natural gas consumption at the ammonia units decreased in 2018 year-on-year to 1,038 m^3 per tonne.

AN. In the reporting period, Acron produced 800,000 tonnes of AN (including 642,000 tonnes for agriculture and 157,000 tonnes for industrial purposes), down 10% year-on-year due to considerable growth in UAN output, which requires AN, mainly in form of fluid, as a feedstock, which in turn is a by-product of NPK production.

Due to engineering specifics, the AN conversion fluid (melt) is produced as a by-product of the NPK process and is used as feedstock to produce AN and UAN. In the reporting year, 434,000 tonnes of AN melt were used for UAN production.

AN in-house consumption was 211,000 tonnes (mainly to produce UAN).

Urea. In the reporting year, urea output hit a record high of 1,134,000 tonnes, up 19% year-on-year following the commissioning of the new 200,000-tonne-per-annum Urea-6 unit. A high utilisation rate across all units also contributed to strong operating results.

Over recent years, the Group has invested significant effort to boost current capacity, which also contributed to higher urea output. In 2018, the Group:

— Upgraded the wash columns at the Urea 1 to 4 units

— Upgraded the CO_2 compressor at the Urea-5 unit, replaced condensers and brought new high-pressure pumps on stream

Acron's output of urea for industrial purposes increased. In 2018, 119,000 tonnes of urea were shipped to industrial consumers (up 19% year-on-year), including 117,000 tonnes of extra-pure urea required for the production of AdBlue solution.

In 2018, 602,000 tonnes of urea were used internally (53% of the total output), mainly for UAN and UFR production.

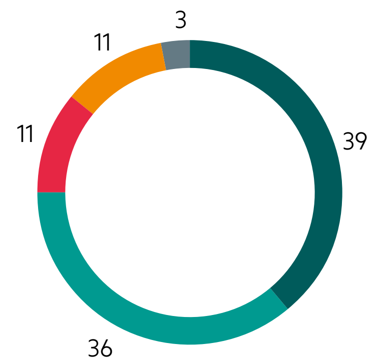
UAN. Urea and AN are the key components for producing UAN. The process flow at Veliky Novgorod is able to use conversion fluid from the NPK units as a partial replacement for finished AN as a source of nitrate nitrogen. This type of operations integration improves the aggregate performance of all the units. In the reporting year, Acron increased its UAN output 50% to 1,422,000 tonnes due to changes in the market environment causing increased production of UAN among other nitrogen-based products.

DOROGOBUZH

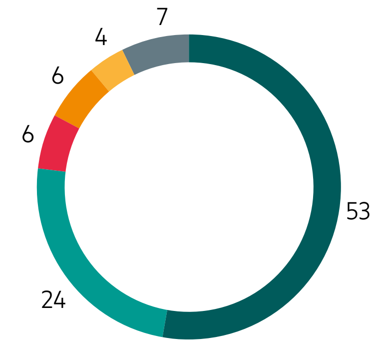
Ammonia. In 2018, Dorogobuzh's ammonia output was 601,000 tonnes, unchanged year-on-year. Equipment upgrades helped reduce natural gas consumption in 2018 by 0.7% to 1,096 m^3 per tonne. All of the facility's ammonia was allocated for further processing, and an additional 85,000 tonnes of ammonia were purchased from other producers, including 18,000 tonnes from Acron (Veliky Novgorod). All of the purchased ammonia was processed at the facility.

AN. In 2018, AN output was 1,168,000 tonnes (including 12,000 tonnes of industrial AN), down 4% year-on-year because AN production using purchased ammonia was not cost-effective as ammonia prices rose significantly in H2 2018. In-house consumption of AN for bulk blends production was 144,000 tonnes, 12% of total AN output.

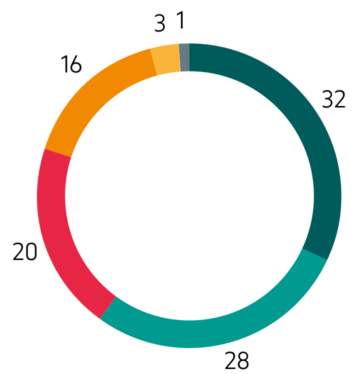
GEOGRAPHY OF AGRICULTURAL AN SALES IN 2018, %



GEOGRAPHY OF UAN SALES IN 2018, %



GEOGRAPHY OF AGRICULTURAL UREA SALES IN 2018, %



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

Complex Fertilisers

Operating Results

- In 2018, total complex fertiliser output, including NPK and bulk blends, was 2,519,000 tonnes (down 13% year-on-year).
- NPK output was 2,329,000 tonnes (up 5% year-on-year), a record high.
- In the reporting period, the Group marketed 14 brands of complex fertilisers.

Development Plans

- Implement a comprehensive project to construct new nitric acid units, upgrade the NPK units and revamp the AN units at Veliky Novgorod site; increase NPK output by 70,000 tonnes per annum
- In the long term: use only internal source of potash feedstock once the Talitsky mine is commissioned.

ACRON

In 2018, Acron posted a record high NPK output of 1,553,000 tonnes, up 6% year-on-year. The strong performance was supported by sustainable operation of the units at the achieved capacity and implementation of the overhaul programme ahead of schedule, which included capital repairs of one unit in 2018 made in record-short time.

A staged increase in capacity to 2,500 tonnes per day at each of the two units was underway:

- A Solex granular cooler was constructed and commissioned to ensure the required temperature conditions for finished product shipped in summer.
- A continuous analyser for finished product was installed.

2018 OPERATING RESULTS, '000 T

	NPK	Bulk Blends	Complex Fertilisers, Total for the Group
Output			
Acron	1,553	2	1,556
Dorogobuzh	776	188	963
Total output	**2,329**	**190**	**2,519**
Incl. in-house consumption	44	–	44
Total commercial output	**2,285**	**190**	**2,475**
Year-on-year	+7%	–72%	–12%
Sales*	**2,244**	**229**	**2,473**

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

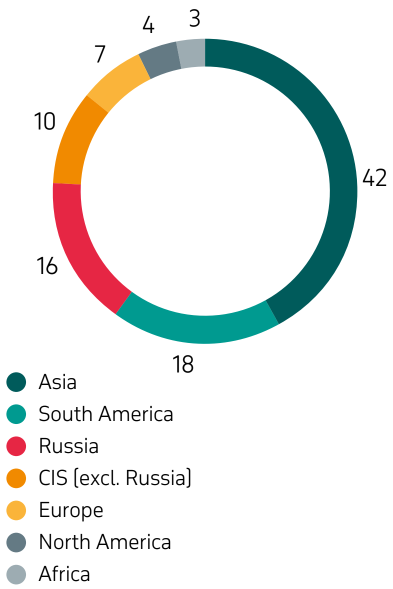
Acron completed a project to introduce microelement additives, carried out pilot testing of fertiliser brands including zinc and boron, and commenced commercial production of NPK 20:20:0 and 18:9:20. To meet market demand, the facility produced 358,000 tonnes of 12 other brands (including a chlorine-free NPK 15-15-15 and 45,000 tonnes of the new NPK 20-20-0), in addition to NPK 16-16-16 and NPK 15-15-15 based on potassium chloride.

DOROGOBUZH

In the reporting period, Dorogobuzh produced 776,000 tonnes of NPK, up 18,000 tonnes (2%) year-on-year, an all-time record high. The increase was powered by installation of a granular cooler in the NPK production chain in 2017, which obviated output volume reductions and ensured sustainable quality of finished products in the warm season. Output was also supported by a lack of time-consuming overhauls at the ammonia unit and shorter outage periods for the NPK unit in 2018. Dorogobuzh actively uses NPK and AN to produce bulk blends. In 2018, 43,000 tonnes of NPK (6% of total output) were allocated for this purpose. Due to changes in the market environment, demand for bulk blends shrank, and its production decreased by a factor of 3.6 year-on-year to 188,000 tonnes.

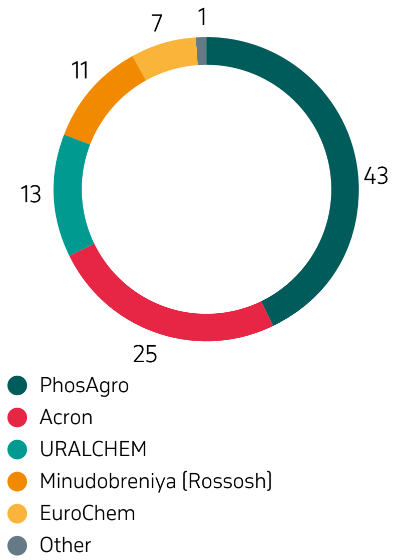
In 2018, the Veliky Novgorod and Dorogobuzh facilities received all of their apatite concentrate from the Group's NWPC.

2018 NPK SALES GEOGRAPHY, %



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

2018 COMPLEX FERTILISER PRODUCTION IN RUSSIA BY PRODUCER, %*



* In terms of nutrients
Source: Azotecon-Plus

Industrial Products

2018 OPERATING RESULTS, '000 T

	Acron	Dorogobuzh	Total Output	Commercial Products, Total	YOY	Sales
Organic compounds			**475**	**236**	+5%	**236**
Methanol	108	–	**108**	**20**	+2%	**21**
Formalin	174	–	**174**	**24**	–5%	**24**
UFRs	193	–	**193**	**192**	+7%	**192**
Non-organic compounds			**824**	**824**	+6%	**799**
Low-density and technical-grade AN	157	12	**170**	**170**	+29%	**160**
Industrial urea	119	–	**119**	**119**	+66%	**121**
Calcium carbonate	417	56	**473**	**473**	–8%	**456**
Liquid carbon dioxide	24	31	**55**	**55**	–1%	**55**
Argon	7	–	**7**	**7**	+19%	**7**

ACRON

Fuelled by the beneficial environment in the organic synthesis market in 2018 and an upgrade to methanol synthesis units No. 2 and 3 in 2017, methanol output at the facility hit all-time record highs. In the reporting period, methanol output was 108,000 tonnes, up 6% (6,000 tonnes) year-on-year. Formalin output was 174,000 tonnes, up 7% (12,000 tonnes) year-on-year.

Acron mainly uses methanol and formalin for further processing and UFR production. In the reporting year, 84% of the total methanol and formalin output was used in-house.

Deteriorated and outdated equipment was replaced at the reaction mixture sections of the formalin units.

UFR output in 2018 was 193,000 tonnes, up 7% year-on-year, a 10-year record high. 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. Using the new resin synthesis formulas adopted at the Novgorod facility in 2018, the IKEA plant can produce chipboard in formaldehyde emissions class 1/2E-1 while retaining high pressing speeds. In 2018, 17,000 tonnes of melamine-based resins, which are also used to produce similar chipboard, were shipped to consumers.

Acron has been cooperating with IKEA since 2005. IKEA's Novgorod branch is one of the largest consumers of resins produced by Acron.

Overall output of non-organic compounds (low-density and technical-grade AN, industrial urea, liquid carbon dioxide, argon and calcium carbonate) was up 12% to 725,000 tonnes due to higher demand for AN and industrial urea.

DOROGOBUZH

In 2018, overall output of non-organic compounds was 99,000 tonnes, down 26% year-on-year mainly due to lower calcium carbonate output (by 43,000 tonnes, 44%) because of decreased demand from glass producers.

RARE EARTH ELEMENT PROJECT

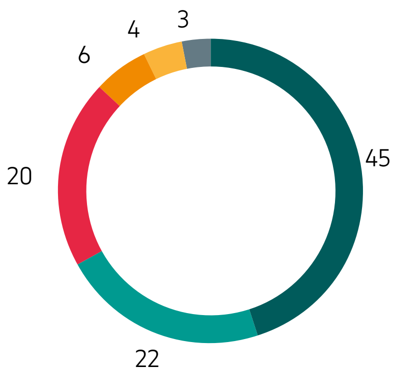
Acron has developed a technology for extracting rare earth element (REE) concentrate from the apatite concentrate process flow to obtain several products, including lanthanum, cerium, neodymium oxides, and medium heavy and light REE concentrates.

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, including workflow streamlining and replacing some mixers and equipment. Neodymium oxide reached 99.95% purity.

In 2018, REE commercial output totalled 87.2 tonnes (in terms of 100% oxides).

REE COMMERCIAL OUTPUT IN 2018, %*



* Excl. commercial output of lanthanum and neodymium carbonates, which totalled 2.6 tonnes (in-house consumption exceeded output)

The range of commercial products has expanded, with didymium oxide now available for sale. Acron finished fine-tuning the technology under government contract, including successful recovery and production of mixed REE carbonates.

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

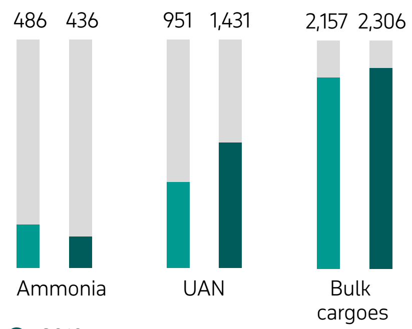
Acron Group owns three port terminals on the Baltic Sea that ship most of the Group's export cargo. AS DBT (Muuga, Estonia) and Andrex (Kaliningrad, Russia) transship bulk cargoes, while AS DBT (Sillamäe, Estonia) transships liquid fertilisers and ammonia.

Operating Results

In 2018, the Group's port terminals transshipped a total of 4.2 million tonnes, up 16% year-on-year. The Group's own products made up 99% of this cargo.

Due to increased export of the Group's liquid and bulk fertilisers, cargo turnover at the port terminal facilities was up 628,000 tonnes (16%). Greater transshipment of in-house liquid and bulk fertilisers was partially offset by lower transshipment of in-house ammonia, which was down 42,000 tonnes, and third-party products, down 49,000 tonnes.

TRANSSHIPMENT AT ACRON GROUP'S PORT TERMINAL FACILITIES BY PRODUCT, '000 T



Rail Fleet

In 2018, Acron Group's Russian companies moved a total of 8.5 million tonnes of feedstock and finished products by rail. Acron Group operates over 1,700 railcars and tanks owned by the Group, and 4,300 leased railcars. As railcars and tanks age, the Group is systematically upgrading to more innovative and economical railcars with increased carrying capacity. In 2018, the Group purchased 200 of these railcars.

Distribution

This segment of Acron Group's operations includes distribution networks in Russia (Agronova) and China (Beijing Yong Sheng Feng AMP CO., LTD – YSF) and the wholly owned trading companies Acron USA Inc., Acron Switzerland AG, and Acron France SAS. In 2018, the Group established its distribution arm in Brazil (Acron Brasil Ltda.).

Distribution Networks

RUSSIA (AGRONOVA)

Agronova comprises 11 specialised trading companies (two of which merged in 2018) that provide direct access to consumers in the country's key farming regions. Agronova's subdivisions store, sell and deliver mineral fertilisers. The distribution network has total storage capacity of 189,000 tonnes.

In 2018, Acron Group sold its products to more than 80 regions of Russia. Shipments totalled 1,811,000 tonnes of various products, up 11% year-on-year due to higher volumes of agricultural AN and NPK, up 57% and 51% respectively. Mineral fertiliser sales in Russia totalled 896,000 tonnes, up 44% year-on-year. In addition, the Group supplied 71,000 tonnes of industrial-grade AN and urea, a double increase against previous year. UFR sales were up 5% to 165,000 tonnes. Higher sales of fertilisers and resins were a response to favourable market changes. According to the Russian Association of Fertiliser Producers, at year-end the Group accounted for 32% of AN and 15% of NPK (all brands) sold 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 footprint. In 2018, YSF sold 116,000 tonnes of NPK in the Chinese domestic market, up 8% year-on-year. The Group's share in the total volume of China's NPK imports was 23%.

YSF focuses on fertiliser distribution in China. In 2018, the Company continued to supply and promote the Group's new NPK brands in the Chinese market by improving marketing and streamlining its corporate structure and internal procurement.

Trading Companies

The Group's trading companies (Acron USA Inc., Acron Switzerland AG and Acron France SAS) handle marketing, distribution and sea transportation of the Group's export fertilisers. In the reporting year, the Group's trading companies posted aggregate sales of 4.8 million tonnes (up 6% year-on-year), excluding resale of third-party products.

Key Results by Sales Market

The Group's export strategy aims to achieve a diversified sales geography and increase 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.

SOUTHEAST ASIA

Despite falling global prices for agricultural products and weaker national currencies against the dollar, both of which negatively affected demand in Southeast Asian markets, the Group retained its position in the region and increased sales in certain markets. Thailand, Indonesia and Vietnam are the key markets in the region.

In 2018, the Group's supplies to Myanmar hit record high. Sales of new NPK brands in the region also increased.

In the reporting period, Acron Group again passed the Indonesian National Standard compliance inspection carried out by Indonesian certification authorities, who granted NPK certification for supplies to Indonesia.

Southeast Asia remains a key market for the Group's NPK sales.

NORTH AMERICA

Acron Group continues to increase its presence in the U.S. and Canadian markets. It is also developing its distribution network in various regions of these countries. In the reporting period, the Group's sales to North America increased 43% to 1,071,000 tonnes. The Group's main product in these countries is UAN. Based on 2018 results, Acron Group is a leading importer of this product, accounting for more than 33% of UAN imports to the United States. With sustainable distribution channels, the Group controls sales on both the East and West Coasts of the continent.

SOUTH AMERICA

In 2018, the Group continued to increase sales to Latin American countries, up 1% year - on - year. Brazil remains the region's key market. Sales in this country totalled 1 million tonnes of products. Acron Group remains the largest supplier of AN and the second largest NPK exporter.

AFRICA

Africa remains a key market for the Group, with over 310,000 tonnes of the Group's products supplied in the reporting period. In 2018, Acron Group became the leading AN supplier to Morocco.

Complex fertilisers are supplied to the West and East African markets.

EUROPE

Europe is the Group's main ammonia, apatite concentrate, and technical urea market, and the second most important UAN market. In 2018, sales to Europe increased 10% to 1,392,000 tonnes, largely due to higher ammonia, UAN and apatite concentrate sales. The main markets in Europe are France, Norway, Belgium, Finland, and the UK. In Eastern Europe, the Group is gradually increasing its NPK sales, while Finland and Ireland remain the main consumers of bulk blends.

In the reporting period, the Group supplied over 265,000 tonnes of UAN through its subsidiary Acron France SAS, which was established for direct supplies to France and its neighbouring countries.

Read more about Sales Markets on page 30

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 2018, the harvested area totalled 17,400 hectares. In 2017, the Plodorodie Development Strategy through 2025 was adopted, under which the holding's lands will be put to use.

Plodorodie cultivates winter wheat, rice, barley, soybeans, rye, flax, oat, peas and lentils, 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 farmers 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 Plodorodie Agribusiness 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.

The success of Plodorodie is also based on modern technologies that can be used even in poor weather conditions. They are based on qualitative soil cultivation and timely seeding with new, high-yielding varieties and hybrids. These achievements are the result of hard work by highly qualified and professionally trained personnel with many years of farming experience. Plodorodie continually improves its working methods, uses advanced experience, and upgrades its technologies and instrumentation.

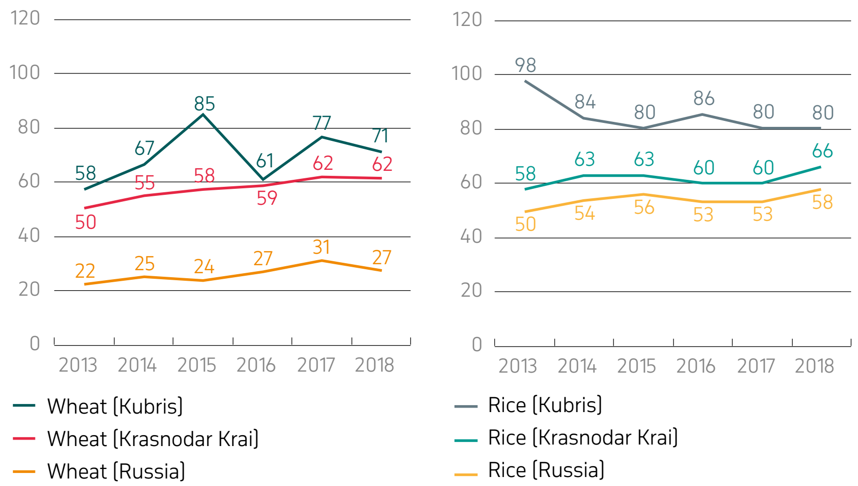
Today, Plodorodie is working to improve automated management systems for agribusiness and implement precision agriculture technologies. Kubris uses a field planning system based on a fixed satellite radio navigation station. This system makes it possible to achieve positioning accuracy when planning 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.

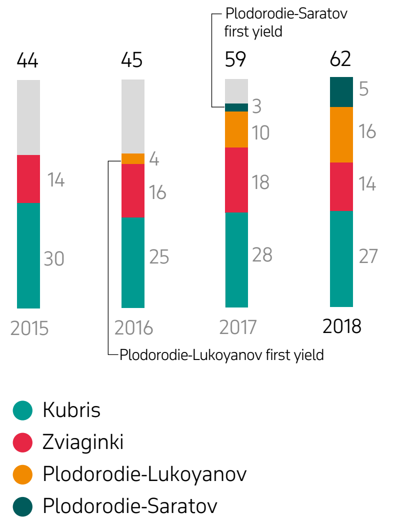
Plodorodie uses a GIS system to make it easier to classify the holding's land and adjust crop rotations. The holding has also invested in a weather station to obtain quality data for accurate agricultural process timing and to prevent blight before it occurs. Further plans include developing data and adjusted algorithms to forecast weather-sensitive pest proliferation.

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.

KUBRIS WHEAT AND RICE YIELD, 100 KG/HA



GROSS OUTPUT OF PLODORODIE AGRIBUSINESS HOLDING COMPANIES, '000 T



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 Agribusiness Companies

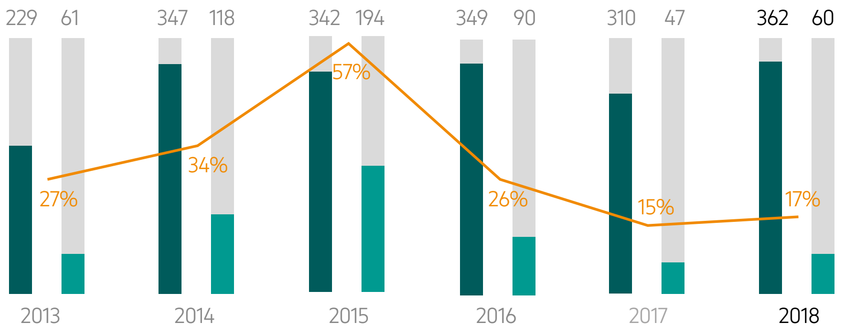
Kubris (Krasnodar Krai)

Kubris is the most advanced rice producer in Russia.

HIGHLIGHTS

Best rice yield in Russia	8,000–9,800 kg/ha in 2013–2018 (Russia's average: 5,000–5,800 kg/ha)
Main crops	rice, wheat and soybeans
Own storage capacity	25,000 tonnes

KUBRIS FINANCIALS, RUB mn



Cultivated area
5,700
hectares

Gross output
27,100
tonnes

Zvyaginki (Orel region)

Zvyaginki is ranked No. 2 in terms of beet yield in the rain-fed area in Orel region.

HIGHLIGHTS

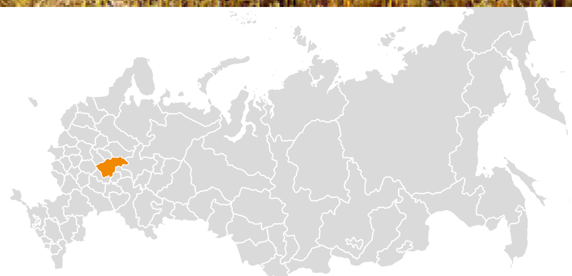
Wheat yield	average of 5,000 kg/ha in 2014–2018 (region's average: 4,000 kg/ha)
Barley yield	average of 4,500 kg/ha in 2014–2018 (region's average: 3,300 kg/ha)
Main crops	wheat, barley, rapeseed, soybeans, peas and sugar beet
Own storage capacity	12,000 tonnes

Cultivated area
3,000
hectares

Gross output
14,100
tonnes

Plodorodie-Lukoyanov (Nizhny Novgorod region)

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



HIGHLIGHTS

Wheat yield	average of 3,000 kg/ha in 2017–2018 (region's average: 2,500 kg/ha)
Barley yield	average of 3,500 kg/ha in 2017–2018 (region's average: 2,200 kg/ha)
Harvested area	6,500 hectares in 2018
Main crops	wheat, barley, flax and rye
Own storage capacity	36,000 tonnes

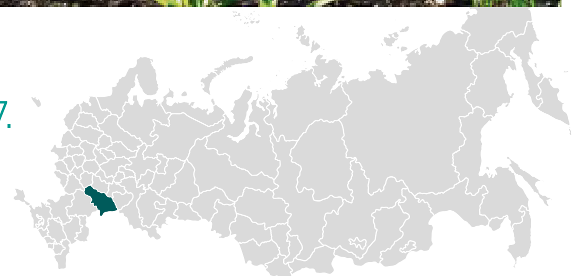
Total land owned
15,000
hectares

Gross output
15,700
tonnes

In 2019, the area under crop will be increased to 13,900 hectares from 9,400 hectares (including winter crops), while the harvested area will increase to 8,600 hectares from 6,500 hectares.

Plodorodie-Saratov (Saratov region)

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



HIGHLIGHTS

Rye yield	average of 3,200 kg/ha in 2017-2018 (region's average: 2,300 kg/ha)
Wheat yield	2,900 kg/ha in 2018 (region's average: 2,000 kg/ha)
Harvested area	2,200 hectares in 2018
Main crops	rye, wheat, peas and lentils
Own storage capacity	62,000 tonnes

Total land owned
45,000
hectares

Gross output
4,500
tonnes

In 2019, the area under crops will increase to 21,700 hectares from 2,200 hectares (including winter crops), while the harvested area will increase to 9,700 hectares from 2,200 hectares.

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.

Return on sales of financial investments may be used for investments, debt service and dividends.

Stake in Grupa Azoty S.A.

In 2018, 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 2018 was RUB 11.3 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 2018 and the financial year that ended on 31 December 2017. 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 337 per one share, totaling RUB 13.3 billion (USD 212 million) less dividends paid on shares held be subsidiaries (quasi-treasury shares).

— Acron's extraordinary general meeting on 12 January 2018 resolved to distribute part of Acron's earnings for previous years in the amount of RUB 112 per share.

— Acron's annual general meeting on 31 May 2018 resolved to declare dividends of RUB 185 per share based on 2017 results.

— Acron's extraordinary general meeting on 19 October 2018 resolved to distribute part of Acron's earnings for previous years in the amount of RUB 40 per share.

Debt Structure

Total debt increased 13% to RUB 84,485 million as of the end of 2018, against RUB 74,523 million year-on-year. USD-denominated debt was down 6% to USD 1,216 million. Net debt was up 23% to RUB 74+,025 million as of the end of 2018, against RUB 60,221 million in 2017. USD-denominated net debt was up 2% to USD 1,066 million. In November 2018, the Group redeemed bonds in amount of RUB 9,995. Net debt/EBITDA ratio did not change and was 2. In dollar terms it was 1.8 against 2.0 as of the end of 2017.

As of 31 December 2018, long-term loans and borrowings made up 79% of the total debt, and the remaining 21% was short-term loans and borrowings. In 2017, short-term and long-term loans and borrowings made up 25% and 75%, respectively. In the reporting period, the duration of the Group's debt portfolio decreased from 2.4 to 1.9 years.

2018 Financial Highlights

Revenue increased 7% to
USD **1,723** mn

EBITDA increased 16% to
USD **591** mn

Net profit was
USD **212** mn

Three dividend payments for a total of
USD **212** mn

Net debt/EBITDA ratio was (in dollar terms)
USD **1.8** mn

NET DEBT INDEX, RUB MN

	As of 31 December 2018	As of 31 December 2017	YOY, %
Long-term loans and borrowings	**66,946**	55,593	+20
Short-term loans and borrowings	**17,539**	18,930	-7
Total debt	**84,485**	**74,523**	**+13**
Less:			
Cash and cash equivalents	**10,460**	14,302	-27
Net debt	**74,025**	**60,221**	**+23**
EBITDA	**37,053**	**29,817**	**+24**
Net debt/EBITDA	**2.0**	**2.0**	-

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 Sberbank, UniCredit Bank, Nordea Bank Abp, ING Bank Belgium SA/NV, HSBC Bank plc, VTB Bank, and Sviaz Bank.

In the reporting period, the Group raised USD 120 million under an agreement for a five-year syndicated pre-export loan executed in May 2017.

As of 31 December 2018, the share of dollar-denominated loans and borrowings was 68%, against 54% in 2017; the share of rouble loans and borrowings was 26%, against 41% in 2017; the share of euro-denominated loans and borrowings was 6%, against 5% in 2017.

In November 2018, B-02 and B-03 Series bonds were fully redeemed for a total of RUB 9,995 million.

As of 31 December 2018, the Group has made a public offering of four issues of its rouble bonds:

- Series 04 with a par value of RUB 3,750 million, to be redeemed in 2021 and with a put date in 2020. In 2012, Series 04 bonds were redeemed for RUB 1,380 million under the Group's reorganisation. In 2015 and 2016, securities worth RUB 10 million and RUB 725 million respectively were redeemed during the offering. Later in 2016, the Group offered all securities redeemed during previous offerings. 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 a put date in 2020. In 2012, Series 05 bonds were redeemed for RUB 1,997 million under the Group's reorganisation. In 2015 and 2016, securities worth RUB 9 million and RUB 610 million respectively were redeemed during the offering. Later in 2016, the Group offered all securities redeemed during previous offerings. As a result, securities currently in circulation are worth RUB 1,753 million.
- Series BO-001R-01 with a par value of RUB 5,000 million, to be redeemed in 2026 and with a put date in 2020, were issued in 2016. All bonds from this series are currently in circulation.
- Series BO-001R-02 with a par value of RUB 5,000 million, to be redeemed in 2027 and with a put date in 2021, were issued in 2017. All bonds from this series are currently in circulation.

The total volume of bonds in circulation as of 31 December 2018 at par value was RUB 14,123 million (RUB 13,772 million not counting bonds held by Acron Group's subsidiaries).

Group's Credit Ratings

In October 2017, Fitch Ratings changed Acron Group's long-term foreign currency issuer default outlook to "Stable" from "Positive" and confirmed its BB- rating. This rating was not reviewed in 2018.

In October 2015, Moody's Investors Service confirmed Acron Group's Ba3 long-term foreign currency corporate family rating. The outlook is "Stable". In 2018 the rating wasn't revised.

In December 2018, the Expert RA agency assigned Acron the rating of creditworthiness ruA+ /Stable.

Financial Performance

Revenue

In physical terms, sales of the Group's main products remained at the level of 2017 at 7.3 million tonnes.

Most of the Group's revenue is generated by sales of nitrogen and complex fertilisers. In 2018, Russia, Brazil, the United States, China, and European countries were the Group's key markets by volume.

In 2018, the Group's revenue was up 15% to RUB 108,062 million. Higher revenue was generated due to higher average USD/RUB exchange rate over 2018 compared to 2017. Higher average annual dollar-denominated global prices for the Group's products affected the Group's revenue as well. In dollar terms, revenue increased 7% to USD 1,723 million.

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SALES OF ACRON GROUP'S MAIN PRODUCTS, '000 T

Product	2018	2017	YOY, %
Ammonia	**448**	556	-19
Nitrogen fertilisers	**3,050**	2,719	+12
Complex fertilisers	**2,473**	2,761	-10
Organic compounds	**236**	223	+6
Non-organic compounds	**799**	761	+5
Apatite concentrate	**259**	260	0
Fertiliser and industrial products	**7,265**	**7,279**	**0**

AVERAGE INDICATIVE GLOBAL FERTILISER PRICES

USD/t, FOB Baltic Sea/Black Sea Ports	2018	2017	YOY, %
Ammonia	**288**	267	+8
Urea (prilled)	**251**	218	+15
AN	**188**	193	-2
UAN	**179**	145	+23
NPK 16-16-16	**300**	265	+13

Sources: Fertecon, FMB

OFFICIAL USD/RUB EXCHANGE RATE

	2018	2017	YOY, %
USD exchange rate as of 31 December	**69.4706**	57,6002	+21
Average annual USD exchange rate*	**62.7078**	58,3529	+7

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

REVENUE BY REGION, RUB MN

Region	2018	2017	YOY, %
Russia	**19,937**	16,035	+24
European Union	**20,890**	16,040	+30
CIS	**5,976**	14,044	-57
USA and Canada	**13,598**	9,296	+46
Latin America	**22,291**	16,985	+31
China	**7,242**	6,292	+15
Asia (excl. China)	**12,931**	9,777	+32
Other regions	**5,197**	5,873	–12
Total	**108,062**	**94,342**	**+15**

Cost of Sales

In 2018, the cost of the Group's sales was RUB 54,444 million, up 5% year-on-year.

Natural Gas

In 2018, natural gas costs were up 1% because of a 1% increase in consumption. The average price of purchased natural gas changed only slightly. The total output at the ammonia units (which are the main consumers of natural gas) increased 1% as well.

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 2018, salary costs reflected in the cost of sales stood at RUB 6,331 million.

Total salary costs reflected in the cost of sales and in Selling, General and Administrative Expenses in 2018 amounted to RUB 10,390 million, up 7% year-on-year (against RUB 9,686 million in 2017). Higher salary costs were the result of an indexation of salaries and a weaker rouble against US dollar, since the Group has staff costs denominated in US dollars, including salaries at the Group's international facilities. In 2018, the Group reduced staffing 3% to 10,696 persons.

COST OF SALES, RUB MN

Type of Expense	2018	2017	YOY, %
Natural gas	**15,550**	15,406	+1
Staff costs	**6,331**	6,062	+4
Depreciation and amortisation	**9,026**	7,957	+13
Fuel and energy	**7,630**	7,219	+6
Repairs and maintenance	**3,214**	3,057	+5
Potash feedstock for production	**6,721**	5,192	+29
Other materials and components for production	**3,437**	4,736	-27
Services	**901**	886	+2
Social expenditures	**717**	670	+7
Production overhead	**446**	300	+49
Drilling and blasting	**471**	398	+18
Impairment loss	-	26	-
Total	**54,444**	**51,909**	**+5**

Fuel and Energy

In 2018, the Group's fuel and energy costs were up 6%. Approximately 65% of this item are energy costs, and thermal power (steam) costs are the second major component.

In 2018, electricity cost went up 3%, due to a 4% increase in average price and a 1% decrease in consumption. Thermal power costs were up 6%, due to an 11% consumption increase and a 5% decrease in average price.

The significant increase in Fuel and Energy Costs was the result of a significant increase in diesel fuel and fuel oil costs caused by higher average annual prices (up 21% and 34% respectively).

Potash Feedstock

In the reporting year, potassium chloride costs were up 27%, mainly due to a 23% increase in the average annual price of purchased potassium chloride. The consumption rate was up 3%.

INPUTS AND ENERGY CONSUMPTION

	2018			2017		
	Price, RUB*	Quantity	Amount, RUB mn	Price, RUB*	Quantity	Amount, RUB mn
Acron and Dorogobuzh						
Natural gas, m³ mn	**4,628**	**3,360**	**15,550**	4,640	3,321	15,407
Acron	**4,601**	**2,510**	**11,549**	4,646	2,463	11,445
Dorogobuzh	**4,710**	**849**	**4,001**	4,623	857	3,963
Apatite concentrate, '000 t	**8,913**	**945**	**8,423**	8,569	901	7,718
Acron	**8,721**	**616**	**5,373**	8,357	591	4,936
Dorogobuzh	**9,274**	**329**	**3,050**	8,973	310	2,782
Sylvine (potassium chloride), '000 t	**10,913**	**606**	**6,619**	8,899	586	5,217
Acron	**10,868**	**395**	**4,298**	8,865	386	3,421
Dorogobuzh	**10,998**	**211**	**2,321**	8,966	200	1,796
Energy, kWh mn	**3,581**	**1,249**	**4,474**	3,409	1,280	4,365
Acron	**3,492**	**986**	**3,444**	3,349	1,016	3,402
Dorogobuzh	**3,918**	**263**	**1,030**	3,640	265	963
Thermal power, Acron, '000 Gcal	**1,028**	**1,406**	**1,444**	1,080	1,262	1,363
NWPC						
Energy, kWh mn	**2,401**	**187**	**449**	2,351	174	410
Diesel, '000 l	**37**	**16,853**	**624**	30.6	18,211	557
Fuel oil, '000 t	**17,110**	**25**	**428**	12,752	24	310

*Including transportation costs and related expenses; unit prices: natural gas per 1,000 m³, 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

In 2018, transportation expenses were up 29% to RUB 17,715 million, driven by higher sales on terms that include transportation as part of a commercial strategy aimed at strengthening the distribution segment and an increase in the sea freight price. Additionally, the price of logistics services outside Russia increased due to a weaker rouble, and Russian railway operators adjusted their railway tariffs for inflation and increased the rate for leasing railcars.

Selling, General and Administrative Expenses

In 2018, selling, general and administrative expenses were up 13% to RUB 8,115 million. This increase was due to higher staff costs, more active international activity of the Group, and related expenses. Acron Group continues to expand its presence in the Latin American and European markets. In 2018, the Group started selling products through its new trading company, Acron France SAS. Acron also established trading subsidiaries in Argentina and Brazil.

EBITDA

EBITDA is calculated as operating profit (operating results) adjusted for depreciation and amortisation, foreign exchange gain or loss on operations and other non-cash and extraordinary items. In 2018, EBITDA was up 24% to RUB 37,053, against RUB 29,817 million in 2017. A weaker rouble and higher global prices for the Group's products positively affected the dynamic. Dollar-denominated EBITDA was up 16% to USD 591 million, against USD 511 million in 2017. EBITDA margin was 34% (against 32% in 2017).

TRANSPORTATION EXPENSES, RUB MN

Type of Expense	2018	2017	YOY, %
Railway tariff	**4,418**	3,822	+16
Sea freight	**4,505**	2,747	+64
Maintenance of rolling stock	**1,086**	932	+17
Container transportation	**1,795**	1,553	+16
Transshipment of goods	**4,262**	3,722	+15
Lease of railcars	**1,115**	635	+76
Other	**534**	317	+68
Total	**17,715**	**13,728**	**+29**

EBITDA CALCULATION, RUB MN

	2018	2017
Operating profit	**27,439**	21,177
Depreciation and amortisation	**9,026**	7,957
Net foreign currency gain / (loss) on operations	**(1,350)**	561
Loss on disposal of development permits	**905**	
Loss on disposal of fixed assets	**1,033**	122
Total consolidated EBITDA	**37,053**	**29,817**

Financial Income / Costs

In 2018, financial costs were RUB 8,422 million, against financial income of RUB 358 million in 2017. This change was due to the fact that, in 2017, foreign currency net gains were RUB 856 million, while in 2018 there was the foreign currency net loss of RUB 8,393 million.

Interest Due Costs

Interest due costs were down 61% to RUB 1,607 million due to cost capitalisation as the Group resumed active construction at the Talitsky mine. Capitalised interest was RUB 3,317 million. Therefore, interest paid within the reporting period was slightly lower than in 2017 and amounted to RUB 4,866 million.

Net Profit

In 2018, net profit was RUB 13,318 million (USD 212 million), against RUB 14,260 million (USD 244 million) in 2017.

Changes in Key Balance Sheet Indicators

Fixed Assets

As of 31 December 2018, the value of the Group's fixed assets was up 7% to RUB 93,532 million, against RUB 87,820 million in 2017, due to significant capital expansion and commissioning of production units. Fixed assets were 50% of the total book value of the Group's assets as of the end of 2018.

Subsoil Licences and Related Expenses

In the reporting period, this item increased 10% to RUB 36,557 million mainly due to capitalisation of interest in the amount of RUB 3,505 million and RUB 596 million of expenses related to implementation of the Talitsky potash project.

Additionally, in 2018 the Group sold two unpromising permits in Canada for RUB 905 million. Acron Group retains 11 promising mineral leases in Canada.

Investments Available for Sale

This item mainly consists of a 19.8% interest in Grupa Azoty S.A. In the reporting period, this item decreased 49% to RUB 11,670 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 up 12% to RUB 16,724 million due to a 24% increase in finished product inventories. At the end of 2018, sales were slower than usual, causing an increase in distribution network inventories. Cost of inventories was up due to higher prices and a weaker rouble.

Non-controlling Interest

The Group's equity held by minority shareholders in its subsidiaries is recorded in Non-Controlling Interest under Equity. This item mainly consists of the stakes of VPC minority shareholders. In the reporting period, this item slightly changed to RUB 20,572 million.

Cash Flows

Operating Activities

Net operating cash flow was up 71% in 2018 to RUB 28,406 million (against RUB 16,634 million in 2016) mainly due to an increase in operating profit. In the reporting period, RUB 1,025 million of working capital were released, while this figure increased RUB 4,009 million in 2017.

Investing Activities

In 2018, net cash flow from investing activities was up to RUB 14,439 million, against RUB 10,205 million in 2017. The Group's capital expenses increased 29% to RUB 14,542 million, against RUB 11,299 million in 2017. Dollar-denomimated capital expenses were up 20% to USD 232 million. The increase in this item was due to implementation of investment projects at Acron and Dorogobuzh under the updated Development Strategy and the start of active construction at the Talitsky mine.

Financing Activities

Net cash flow from financing activities in 2018 totalled RUB 19,643 million (against RUB 18,767 million in 2017). Dividends paid to shareholders stood at RUB 13,278, against RUB 13,047 in 2017 (less dividends paid on quasi-treasury shares). In the reporting period, the Group paid Sberbank Investments LLC accrued investment income of RUB 5,162 million by exercising a put option on 19.9% shares of VPC with a simultaneous sale of the same stake back to Sberbank Investments LLC. Net debt repaid was RUB 28 million, against the net debt raised in 2017 of RUB 2,906 million.

Segment Information

Acron Group defines a business segment as a component of its business that engages in commercial activity that may yield a return or result in losses and that maintains separate financial information. Each segment's results are inspected by the top managing body responsible for operations.

Segment financial information includes revenue and EBITDA. Detailed information on business segments is presented in Note 5 to Acron's IFRS financial statements.

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%
NWPC mining	9,543	(8,333)	1,210	3,352	35%
Mining, excl. NWPC	–	–	–	(65)	–
Other	1,582	(973)	609	(88)	-6%
Total	**205,468**	**(97,406)**	**108,062**	**37,053**	**34%**

INFORMATION ON REPORTABLE SEGMENTS FOR THE YEAR ENDED 31 DECEMBER 2017, RUB MN

	Segment Sales	Eliminable Intersegment Sales	External Sales	EBITDA	EBITDA Margin
Acron	54,783	(47,459)	7,324	17,764	32%
Dorogobuzh	24,002	(8,889)	15,113	7,063	29%
Logistics	3,771	(3,562)	209	705	19%
Trading	73,302	(3,551)	69,751	1,261	2%
NWPC mining	8,660	(7,122)	1,538	2,698	31%
Mining, excl. NWPC	–	–	–	(40)	–
Other	1,859	(1,452)	407	366	20%
Total	**166,377**	**(72,035)**	**94,342**	**29,817**	**32%**

Acron and Dorogobuzh (jointly "Chemical Production")

Commercial product output at the Group's chemical production facilities in 2018 was up 3% to a record high of 7,251,000 tonnes of commercial products due to the stable operation of the new ammonia unit commissioned in 2016 in Veliky Novgorod, ongoing modernisation of the main production facilities, and capacity upgrades at both production sites.

In the reporting period, the EBITDA margin at the Group's chemical facilities was 31-35%, against 29-32% in 2017.

Logistics

In the reporting year, turnover at the Group's seaport terminals was up 16% to 4.2 million tonnes. The Group's turnover of its own cargo was up year-on-year to 99%. The terminals' profit increased in 2018 due to a weaker rouble, since transshipment tariffs are fixed in foreign currency. The Logistics segment's EBITDA margin was 22%, against 19% in 2017.

Trading

The Group posted consolidated sales of 7,265,000 tonnes, with in-house commercial product output of 7,514,000 tonnes (including apatite concentrate for sale). In anticipation of the high season, Acron Group's trading companies built up their net volumes of finished goods in the distribution system towards the end of the year. The expansion of the Group's distribution network (with a larger number of sales including shipment and new warehouse facilities located in sales markets) positively affected this dynamic.

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 at NWPC

In 2018, NWPC's EBITDA increased 24% to RUB 3,352 million (against RUB 2,698 million in 2017). NWPC's EBITDA margin increased to 35%, against 31% year-on-year. This was mainly due to the increase in output and sales (4% and 5% correspondingly), as well as higher average sale prices and a weaker rouble.

Most of Acron Group's apatite concentrate is consumed internally. A surplus of 259,000 tonnes of apatite concentrate was sold to third parties in 2018.

Risks and Risk Mitigation Strategy

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 risk
- 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	RISK MITIGATION THROUGH DEVELOPMENT STRATEGY
— 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
INDUSTRY RISKS		
Risks related to changes in the global mineral fertiliser market	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 fluctuation for fertilisers and inputs and may have a material effect on the Group's performance.	— Pursuing a vertical integration strategy to increase 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.

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.

Risk	Description	Risk Mitigation
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 67 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.
Risks related to new restrictive measures on commercial products	In 2018, the European Commission considered the introduction of anti - dumping duties on UAN from Russia. In April 2019, the European Commission introduced the temporary import duties on UAN from Russia in the amount of 31.9% for Acron. This may limit access or reduce 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.
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.
	Natural gas Natural gas prices in Russia are regulated by the government instead of the market. In recent years, the government has been implementing a strategy of restraining higher gas tariffs. Risks related to changes in government priorities and greater increases in gas tariffs remain long-term risks. In October 2014, Russia started exchange trading of natural gas.	— The Russian government's decision to freeze in a long-term 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 natural gas under an agreement with Gazprom Mezhregiongaz Veliky Novgorod LLC (part of Gazprom Group), which is valid until the end of 2020. — Acron purchases part of its natural gas on the exchange. In 2018, the Group acquired 8% of its total natural gas on the exchange. — Dorogobuzh purchases natural gas under an agreement with NOVATEK, which is valid until the end of 2021.

Risk	Description	Risk Mitigation
	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 developing 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 would 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 have separate agreements (power (energy) purchase agreements and service agreements for power transfer) in order to mitigate the retail market risks of last-resort providers defaulting on payments for power transfer services. — Since 2012, Acron has purchased 100% of the power it needs on the wholesale market (trading platform for wholesale of power and energy). — In 2019, Dorogobuzh will start purchasing power and energy from the wholesale market independently. — 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 2018, the generating unit produced 53.7 million kWh, over 5% of the total power consumption at Acron for the same period. — Three power generating units with a total capacity of 11 MW have been put into operation at Dorogobuzh since September 2016. In 2018, they produced 44.6 GWh, which is 16% of the plant's total consumption in the reporting period. — Power-efficient solutions are being implemented as early as the design stage of projects. For example, the development project 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 production equipment drives.
	Potash Uralkali is 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 2019.

Risk	Description	Risk Mitigation
	Transportation services constitute 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 January 2018, Russian railway transportation tariffs were indexed 3.5% and the cost of empty runs for gondola cars increased another 6%. At the end of 2014, JSC Russian Railways unilaterally imposed a surcharge of 13.4% to the export tariff on all types of cargo (within the tariff range). The surcharge was reduced to 10% in 2017 and to 8% in 2018.	— The government will control further indexation of railway transportation tariffs, so the risk of higher rail charges is limited. — The Group is communicating with relevant ministries about the future status of the export surcharge, both independently and through an industry association. — The Group negotiates with Russian Railways to decrease the railway tariff for cargo transportation within the tariff corridor. — The Group works with a number of railway operators on a competitive basis in order to reduce the cost of leasing a railcar fleet. — In 2018, Acron Group purchased 200 new, innovative mineral wagons. The total railcar fleet is 1,500 units. — Acron Group's port logistics segment comprises three port terminals with warehouse facilities. — Freight expenses are offset by optimising shipment sizes and using the Group's warehouses, terminals and trading companies.
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 modern, safe 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 a hazardous production facility owner. — 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.
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 development project are optimal and include all recent changes in the regulatory framework for the development and operation of such facilities. The deposit development process was tested at similar facilities operating at the Verkhnekamsk potassium-magnesium salt deposit.

Risk	Description	Risk Mitigation
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 accommodation. — The career development programme includes advanced professional training courses and corporate training to ensure that Group 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 2018, 297 students from higher and secondary professional education institutions undertook industrial training at the Group's chemical facilities.
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.
FINANCIAL RISKS		
Risks related to changes to 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.
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.
Liquidity risks	The Group's development strategy requires ongoing financial costs, and unstable cash flow could lead to violation of the terms of 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

Risk	Description	Risk Mitigation
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.
Risks related to changes in standards for licensing the Group's core business	Acron Group operates under a variety of licences related to its core business. 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 licenses being withdrawn.	— The Group monitors performance of its licence agreements on an ongoing basis and makes every effort to prevent violations.

Investor and Shareholder Information

Share Capital

As of 31 December 2018, 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.

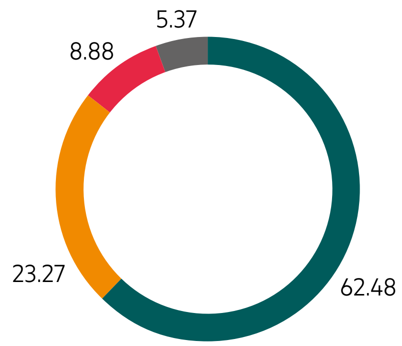
Acron management is not aware of any other shareholders with more than 5% of authorised capital.

As of 31 December 2018, 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 the 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, %



- Redbrick Investments S.à r.l.
- Acronagroservice
- National Settlement Depository (nominee holder)
- Other

ACRON'S SHAREHOLDERS

Full Name	Percentage in Equity Capital as of 31 December 2018	Percentage in Equity Capital as of 31 December 2017
Redbrick Investments S.à r.l.	62.48	62.19
Acronagroservice	23.27	23.27
National Settlement Depository (nominee holder)	8.88	9.43
Other*	5.37	5.11
Total	100	100

*Including 3.06% shares held by entities controlled by the issuer (Dorogobuzh, Agronova) as of 31 December 2018. As of 31 December 2017, Dorogobuzh and Agronova held 2.81% 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 2018

Members of the Board of Directors and the Managing Board	Date of Change	Number of Acron's Ordinary Shares as of 31 December 2017	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 2018, 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 (GDR) for Acron's ordinary shares (each ordinary share represents ten GDRs) have been listed at the main London Stock Exchange (AKRN). As of 31 December 2018, the number of Acron GDRs traded at the London Stock Exchange accounted for 0.31% of Acron's share capital.

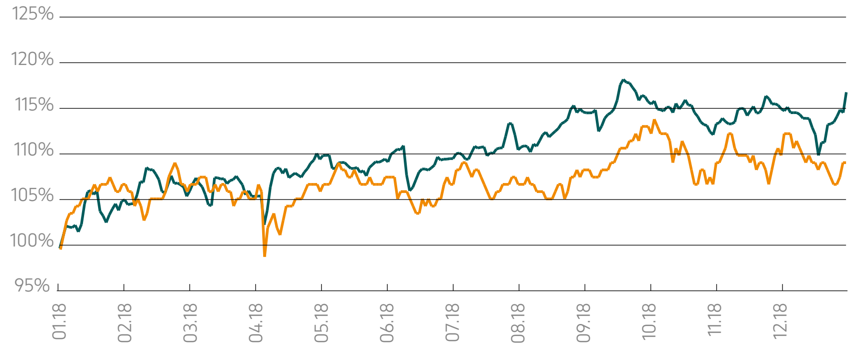
Acron's Share Price in 2018

In 2018, Acron's shares continued outperforming the market. Over the course of the year, the Company's share price increased by 21.7%, while the MOEX Index was up just 12.3%.

Higher stock prices were supported by Acron's improved financial performance due to higher production and recovering prices for the Group's products. These moves allowed the Group to pay dividends three times in 2018, with an aggregate dividend of RUB 337 per share. This visible commitment to increasing investors' return on their capital also supported stock prices

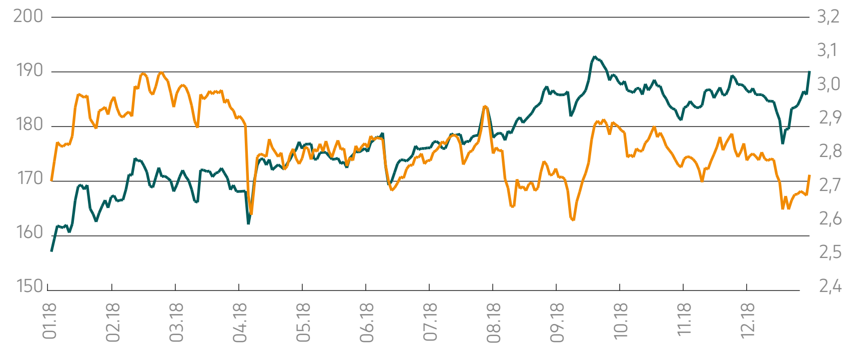
Read more: Mineral Fertiliser Market Overview, Financial Overview and Acron Board of Directors' Report on Priority Activities

CHANGES IN ACRON CAPITALISATION VS MOEX INDEX



- MOEX Exchange
- Acron Capitalisation

DYNAMICS OF ACRON CAPITALISATION (MOEX)



- USD, bn
- RUB, bn

TRADING IN ACRON'S ORDINARY SHARES (AKRN)

MOEX	2018	2017
Low price (RUB)	**3,715 (10 Apr 2018)**	2,464 (6 Mar 2017)
High price (RUB)	**4,817 (20 Sep 2018)**	4,000 (7 Dec 2017)
Price at year-end (RUB)	**4,710**	3,870
Number of transactions for the year	**111,796**	135,568
Annual trading volume (RUB, mn)	**4,652.4**	4,771.3
Average daily trading volume (RUB, mn)	**18.3**	18.9

TRADING IN ACRON'S GDRS

LSE	2018	2017
Low price (USD)	**6.00 (4 Sep 2018)**	4.94 (23 Jun 2017)
High price (USD)	**7.75 (26 Feb 2018)**	7.17 (8 Dec 2017)
Price at year-end (USD)	**6.80**	6.58
Annual trading volume (USD, mn)	**0.3**	5.0

Bonds

As of 31 December 2018, the Group had bonds worth a total of RUB 14,123 million (at nominal value) in circulation. Excluding bonds owned by the Group's subsidiaries, the Group's bonds were worth RUB 13,772 million.

On 20 November 2018, the Group redeemed in full its Series BO-2 and BO-3 bonds for RUB 10,000 million.

KEY DETAILS ON ACRON'S TRADED BONDS AS OF 31 DECEMBER 2018

Item	Series 04	Series 05	Series 001R Exchange-Traded Bonds Programme	
			Series BO-001R-01	Series BO-001R-02
Total par value of issue, RUB '000	3,750,000	3,750,000	5,000,000	5,000,000
Bonds in circulation, RUB '000	2,369,971	1,752,785	5,000,000	5,000,000
Original placement date	31 May 2011	31 May 2011	6 Oct 2016	6 Jun 2017
Offer date	21 May 2020	21 May 2020	6 Oct 2020	3 Dec 2021
Maturity date	18 May 2021	18 May 2021	24 Sept 2026	25 May 2027
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: 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: determined by the issuer	20 periods Rate: Coupons 1–8: 9.55% Coupons 9–20: determined by the issuer	20 periods Rate: Coupons 1–9: 8.60% Coupons 10–20: determined by the issuer

Credit Ratings

In the reporting period Moody's Investor Service and Fitch Ratings didn't revise their ratings.

On 28 December 2018, Expert RA Rating Agency assigned Acron Group a non-financial company creditworthiness rating of ruA+ with Stable Outlook.

FITCH RATINGS

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

MOODY'S INVESTOR SERVICE

Date of Assignment /Updating	Credit Rating/Outlook
13 October 2015	Long-term Foreign Currency Corporate Rating Ba3/Stable
13 October 2015	Probability of Default Foreign Currency Rating Ba3-PD/ Stable
13 October 2015	Foreign Currency Priority Unsecured Debt Rating Ba3/Stable

EXPERT RA

Date of Assignment /Updating	Credit Rating/Outlook
28 December 2018	Non-financial company creditworthiness rating ruA+/ Stable

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 in the form of dividends. The Group intends to pay dividends at least twice per fiscal year.

In the calendar year 2018, Acron Group paid dividends three times.

The extraordinary general meeting held on 12 January 2018 resolved to allocate a part of Acron's profit for previous years at the rate of RUB 112 per ordinary share. Distributed dividends totalled RUB 4.5 billion.

The annual general meeting held on 31 May 2018 resolved to allocate a part of Acron's profit for 2017 at the rate of RUB 185 per ordinary share. Thus, RUB 7.5 bn in total was distributed as dividends.

The extraordinary general meeting held on 19 October 2018 resolved to allocate a part of Acron's profit for previous years at the rate of RUB 40 per ordinary share. Distributed dividends totalled RUB 1.6 billion.

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 it or the registrar did not have the requisite address or bank details for some 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.

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
EGM 19 October 2018	Not applicable[1]	40	1,621	1,620
AGM 31 May 2018	2017	185	7,499	7,493
EGM 12 January 2018	Not applicable[1]	112	4,540	4,536
EGM 8 September 2017	Not applicable[1]	235	9,525	9,518
AGM 22 June 2017	2016	250 (incl. intermediate dividends)	10,134	10,126
EGM 9 September 2016	H1 2016	155	6,283	6,278
AGM 26 May 2016	2015	180	7,296	7,291
AGM 21 May 2015	2014[2]	139	5,634	5,630
AGM 29 May 2014	2013[3]	152	6,161	6,157
AGM 30 May 2013	2012	110 (incl. intermediate dividends)	4,456	4,453
EGM 19 December 2012	M9 2012	46	1,862	1,861
AGM 28 June 2012	2011	Acron annual general meeting on 28 June 2012 resolved not to pay (declare) dividends from 2011 profit.		
EGM 24 November 2011	M9 2011	129	6,152	6,148

1. Dividends were paid out from retained earnings of previous years.
2. On 21 May 2015, Acron annual general meeting resolved not to pay dividends on Acron ordinary shares from 2014 profit. It was resolved to pay (declare) dividends from Acron's retained earnings for previous years.
3. On 29 May 2014, Acron annual general meeting resolved not to pay dividends on Acron ordinary shares from 2013 profit. It was resolved to pay (declare) dividends from Acron's retained earnings for previous years.

Shareholder Relations and Information Disclosure

Acron is committed to a stringent transparency policy. The Group's 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 information 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 informs interested parties in a timely manner by releasing its news to news agencies and mass 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), as well as through the Group's responses to questions from journalists, professional security market participants and other parties.

Because its securities are exchange-traded, Acron has to comply with additional information disclosure requirements about its operations. 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 Services Authority (FCA) principles of openness and transparency.

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

Acron is one of the largest mineral fertiliser producers globally. Its securities are on the Level 1 quotation list of the Moscow Exchange and are traded at the London Stock Exchange.

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

As a public company, the Group is held to high standards for disclosing information about its activities and corporate governance system. Strict compliance with disclosure requirements is necessary to maintain a high level of trust between the Group and its shareholders, investors and business partners, which ultimately makes the Group's securities more attractive, increases its market value and lowers the cost of loans. 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.

Both potential buyers and existing holders of the Group securities want to be sure, primarily, that the Group is effectively managed and that revenue is transparently and fairly allocated. The Group's transparent and clear corporate governance system allows 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.

Under current corporate laws, legal entities acquire their rights and undertake their obligations through their bodies. For management bodies to be effective, it is essential that their authority and position in the corporate governance system be clearly formalised. A brief overview of the most important elements of the Group's corporate governance model and practice is available in the Corporate Governance System section. 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 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.

Results of the assessment of Acron Group's compliance with the corporate governance principles established by the Corporate Governance Code

The results of the assessment considered by the Board of Directors 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 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

The Group monitors changes in Russian and global corporate governance practices, including changes related to development of modern Internet technologies. The Group is considering the option of introducing electronic voting at general meetings, specifically by allowing persons entitled to attend general meetings to complete electronic ballots online. The Board of Directors believe e-voting will reduce the cost to shareholders of voting at a general meeting and increase the number of shareholders actively involved in the Group's corporate life.

The initial step to adopt this procedure in 2019 was a Board of Directors resolution to change the registrar to Independent Registrar Company R.O.S.T., which operates an IT platform capable of introducing e-voting.

A final decision on the feasibility of e-voting will be made in 2019 after a study of the system's advantages and related risks.

Acron's Board of Directors

Report on Corporate Governance

Ensuring the high quality of corporate governance at Acron Group ("the Group") remains one of our 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 2018, Acron's general meeting approved a Board recommendation to pay dividends three times: in January from the retained earnings of previous periods, in May based on 2017 results, and in October from the retained earnings of previous periods. 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 budget deficit, aligns with the interests of shareholders and of 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, and sole executive body, the Internal Audit Team, 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 applicable requirements of corporate legislation 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

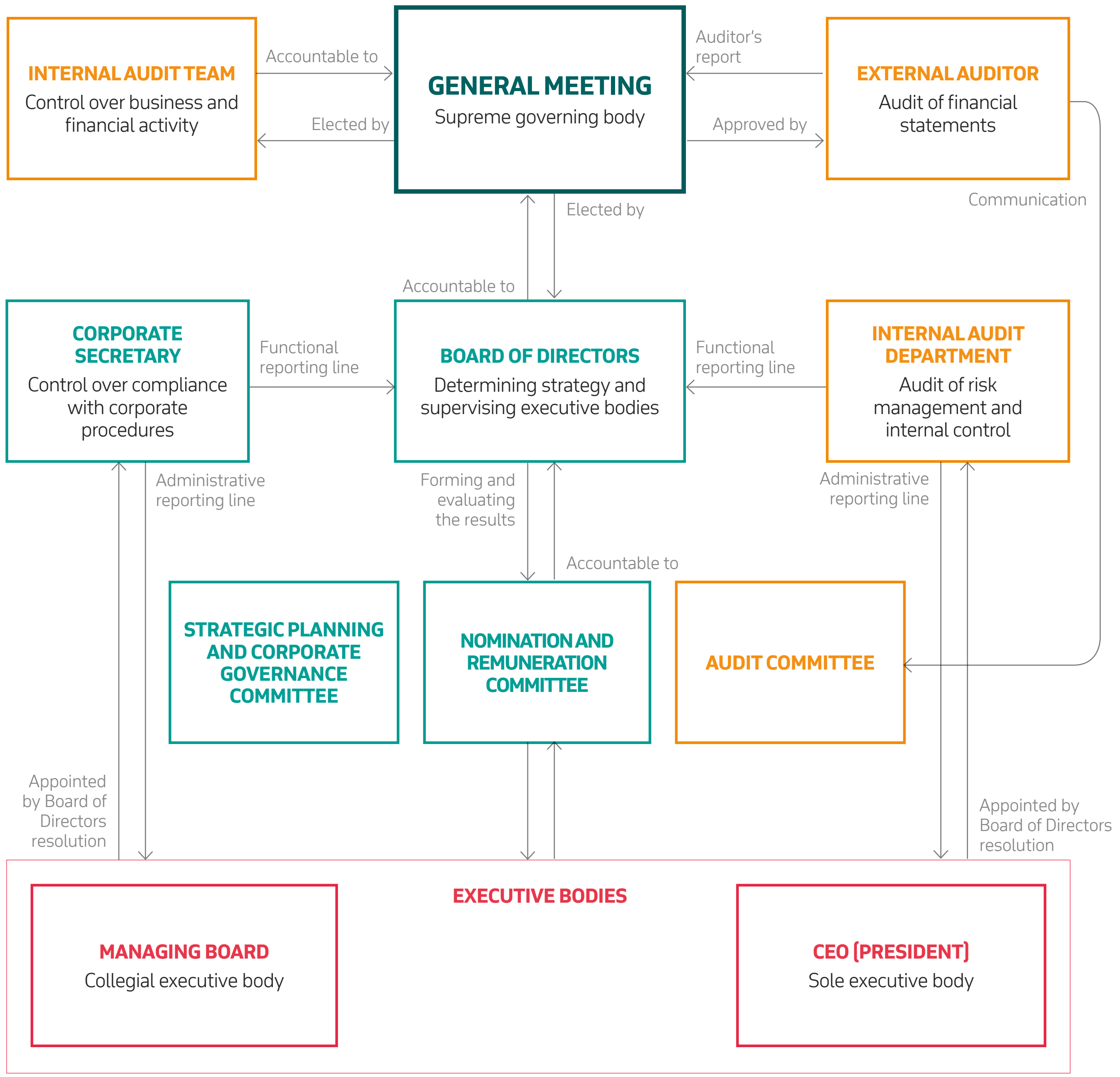
Following the guidance of the best practices in corporate governance and the recommendations of the national Corporate Governance Code, Acron Group always complies with the following key principles, which are intended to ensure that the interests of the Group's shareholders are respected and that a reasonable 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 2018, 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.

Corporate Governance Model



Management Bodies

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 inter alia the following key issues:

- Election of the Board of Directors and the Internal Audit Team
- 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 Charter as amended, 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.

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

INFORMATION ON ACRON GENERAL MEETINGS

Acron Extraordinary General Meeting held on 12 January 2018	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 31 May 2018	The annual general meeting approved the Group's 2017 Annual Report, financial statements, and profit and loss distribution, announced dividends on the Group's placed ordinary shares for 2017, elected the Board of Directors and the Internal Audit Team, approved auditors to confirm the RAS and IFRS financial statements, resolved to pay compensation and reimbursement to members of the Board of Directors, and approved Acron's participation in associations of business entities. 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 19 October 2018	The extraordinary general meeting resolved to pay dividends on the Group's placed ordinary shares from the retained earnings of the previous periods and established the record date for persons entitled to receive dividends. The Board of Directors proposed all agenda items and draft resolutions.

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

Higher Education

Finance Academy under the Government of the Russian Federation

Professional Experience

Alexander Popov was named Chairman of NWPC Board of Directors in 2013 and VPC Board of Directors in 2012. Mr Popov has served as Chairman 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

Higher Education

Novomoskovsk branch of the Mendeleev Institute of Chemical Technology

Professional Experience

Since 2008, Vladimir Gavrikov has been serving as the Chairman of the Novgorod Region Union of Industrialists and Entrepreneurs, a regional association of employers. He was appointed Acron's Executive Director in 2006 and became a member of the Novgorod Regional Duma in 2005. He joined the Group 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

Senior Independent Director

Member of Acron's Board of Directors since 2016

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

Higher Education

Lomonosov Moscow State University

Professional Experience

Nikolai Arutyunov served as advisor to the CEO of Hendel LLC in 2017 (through January 2018). In 2016-2017, he 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 of UBS Investment Bank. In 2011, he served as Director of Research at NCH Advisors Inc., an 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

Higher Education

Pirogov Second Moscow State Medical Institute

Professional Experience

Since 2016, Georgy Golukhov has served as advisor to the Chairman 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 a Minister in Moscow's municipal government and Head of the Moscow Health Department. Mr Golukhov has been a member of the Board of Directors of Pharmstandard since 2011. 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 Nomination and Remuneration Committee and the Audit Committee of the Board of Directors

Higher 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. 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

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

Higher Education

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

Professional Experience

Since 2018 Chairman of the Council for priority scientific and technical development of the Russian Federation coordinating Council for priority areas of scientific and technological development of the Russian Federation (RAS) under the President of the Russian Federation for science and education. 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. Since 2012, Mr Dynkin has been a member of the Russian Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security, a member of the Russian Presidential Economic Council, and Chairman of the Russian Pugwash Committee. In 2012-2016, he sat on the Expert Advisory Council under the Chairman of the Federation Council. He has been involved with the Non-profit Partnership "Russian International Affairs Council" since 2011, serving as a member of the Research Board, Chairman of the Research Board (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 Acron's Adviser to the CEO since 2009. He has been a member of the Presidium of the Russian Presidential Council on Science and Education since 2008. From 2006 to 2016, Mr Dynkin served as Director of the Institute of World Economy and International Relations at the Russian Academy of Sciences (IMEMO), and he has been its President since 2016. In 2001-2017 he chaired the Economy and Finance Department at the International University in Moscow.

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

Higher Education

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

Professional Experience

Since 2017, Yury Malyshev has served as a member of the JSC ROSGEO Board of Directors. In 2015, he was appointed President of the Vernadsky State Geological Museum of the Russian Academy of Sciences. In 2010-2015, he served as head of the foundation supporting the Vernadsky State Geological Museum. Mr Malyshev has been an independent member of the Board of Directors of Mechel since 2013. Since 2011, he has served as President of the Mining Science Academy, a transregional non-governmental organisation. In 2010-2017, he chaired the Board of Directors of the Integrated Shaft Constructing Company Soyuzspetsstroi, and was President of the Interregional Non-Governmental Organisation Academy of Mining Sciences. In 1999-2013, he served as President of the non-profit organisation Russia's Mining Industrialists.

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 Chairman and 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 Chairman 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 31 May 2018.

BOARD OF DIRECTORS SRUCTURE, NUMBER OF PEOPLE

Board of Directors Performance Report

The Board of Directors includes the following members: Alexander Popov (Chairman of the Board of Directors), Vladimir Gavrikov (Deputy Chairman of the Board of Directors), 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 seven members of the Board of Directors elected in May 2018 by the annual general meeting as Independent Directors. This means that in 2018, the number of Independent Directors on the Board of Directors remained at the record high level achieved in 2015 to 2017. 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 2018, Acron's Board of Directors included three Independent Directors and four non-executive directors who were not members of the Group's executive bodies.

In 2018, Acron's Board of Directors held 14 meetings (two meetings were held in person and the other 12 were absentee votes), addressed 39 matters, and passed 39 resolutions.

The Group's Board of Directors has **seven members.**

In 2018, the Board held **14 meetings** and addressed **39 matters.**

In 2018, 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 Chairman and Deputy Chairman 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
- Approving the Corporate Secretary and determining the amount, terms of and procedure for his/her remuneration
- 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 2017 annual financial statements (accounts)
- Considering recommendations on profit and loss distribution, including dividend distribution for 2017
- Considering recommendations on distribution of dividends from Acron's retained earnings of previous years
- Considering recommendations on payment of remuneration and reimbursements to the members of the Board of Directors
- Considering Acron's 2017 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 2017
- Considering Acron's potential participation or termination of its participation in other organisations
- Considering determination of the Group's auditor fee
- 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
- Considering early termination of the collegial executive body

Information on changes to Board 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		14/14		4/4	
Nikolai Arutyunov	☑	14/14	3/3		4/4
Vladimir Gavrikov		14/14		4/4	
Georgy Golukhov		12/14			
Alexander Dynkin		12/14		4/4	
Yury Malyshev	☑	14/14	3/3		4/4
Vladimir Sister	☑	14/14	3/3		4/4

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 him or her to lose independence. An independent director also must notify the Nomination and Remuneration Committee immediately about any circumstances that may affect his or her 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 2018, these committees reviewed the following management reports: on the Group's compliance with applicable laws and listing rules of Russian and foreign stock exchanges, on the Group's practice of incentives and professional development for key executive staff, and on 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 Chairman 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.

Corporate Secretary

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, enhancing the Group's investment potential, and increasing the price of its shares.

In order to meet these goals, the Corporate Secretary ensures that the Group cooperates efficiently with shareholders, state agencies regulating corporate relations, organisers of trade 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 his or her 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 (Chairman of the Board of Directors) and reports on his or her performance to the Board of Directors.

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.

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

Board of Directors Committees

Acron's Board of Directors includes the Audit Committee, the Nomination and Remuneration Committee, and the Strategic Planning and the 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 the reasons 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 Audit Committee held **four meetings** and addressed **four matters.**

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.

Audit Committee Elected on 31 May 2018

The Committee consists of three independent directors:

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

Audit Committee Track Record

In 2018, the Audit Committee held four meetings (including one meeting in person) and addressed four matters, including the following:

- Considering the results of an audit of Acron's 2017 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 2017 and other matters within the scope of authority of Acron's Internal Audit Team
- Assessing the reports on Acron's 2017 Annual Financial Statements (Accounts) and Annual Consolidated Financial Statements issued by external auditors.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee held **four meetings** and addressed **seven matters.**

The key tasks of the Nomination and Remuneration Committee are to give preliminary consideration to matters and to prepare recommendations for Acron 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 31 May 2018

The Committee consists of independent directors:

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

Nomination and Remuneration Committee Track Record

In the reporting year, the Nomination and Remuneration Committee held four meetings (all of which were absentee votes) and addressed five 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
- Preliminary assessment of compliance by nominees to the Board of Directors with independence criterion, taking into account the listing rules, and submission of an opinion
- Assessment of the effectiveness of Acron's executive bodies in 2017, analysis of the professional expertise of the members of Acron's executive bodies and recommendations on the structure of Acron's executive bodies
- Consideration of nominees for the Corporate Secretary position and determination of amount, terms of and procedure for his/her remuneration.

Strategic Planning and Corporate Governance Committee

Strategic Planning And Corporate Governance Committee held **four meetings** and addressed **nine matters.**

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 31 May 2018

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

Strategic Planning and Corporate Governance Committee Track Record

In 2018, the Strategic Planning and Corporate Governance Committee held four meetings (all of which were absentee votes) to address nine 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 2017
- 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 2017 and previous years
- Recommendations on dividend payment for 2017 and from Acron's retained earnings for previous years
- Recommendations on approval of Acron Group's 2017 Annual Report
- Preliminary consideration of the Report on related-party transactions executed by Acron in 2017

Managing Board

Vladimir Kunitsky

1948

Chairman of the Managing Board, Chief Executive Officer

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 Company 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 Company 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 was a member of Acron 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 Contribution to the Development of the Novgorod Land.

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 (Chairman 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 Chairman or by request of a Managing Board member.

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

The Regulation on Acron's Managing Board is available at https://www.acron.ru/en/investors/corporate-governance/corporate-documents-acron/the-current-edition/

The Managing Board consists of **six members**.

The Managing Board held **nine meetings** and addressed **14 matters**.

CEO (Chairman of the 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.

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

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, CEO implements the internal audit policy, risk management, 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, Internal Audit Team and the Group's shareholders.

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 31 May 2018, Acron's Board of Directors retained the same Managing Board based on the Group's performance. The six members are Vladimir Kunitsky, Oscar Valters, Ivan Antonov, Alexei Milenkov, Irina Raber, and Dmitry Khabrat.

On 7 December 2018, Acron's Board of Directors approved a new Managing Board. Dmitry Balandin and Alexander Lebedev were appointed to the Managing Board for the first time, and Oscar Valters and Ivan Antonov left the Board.

Information about Changes in Managing Board Members' Stakes in Acron's Share Capital and the Number of the Group's Ordinary Shares They Own

In 2018, Managing Board member Ivan Antonov increased his stake in Acron's share capital (the number of ordinary shares he holds) to 0.0876% from 0.087% by purchasing 269 registered ordinary shares under share purchase agreements.

During the reporting year, no other Managing Board members 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 2018, Acron's Managing Board held 19 meetings (15 in person and four as absentee votes). These meetings considered 31 matters and passed 52 resolutions.

In particular, in the reporting year the Managing Board:

- Reviewed and approved Acron Group's CAPEX budget
- Reviewed and approved expense budgets for repairs and servicing of fixed assets of the Group's companies
- Reviewed and approved measures to reduce/increase number of personnel
- Approved Acron's nominee for a Ministerial Award
- Approved donations and advisory services transactions

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

A total of RUB 1,097.9 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 2018, up 37% year-on-year. Remuneration of top management was increased because the Group achieved its scheduled objectives in 2018: new production facilities were commissioned, output hit a record high, and financial performance exceeded expectations.

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 ("Policy") 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 recommendations 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), due to the fact that they hold significant positions in the structure of the Group's executive management and have direct impact on its financial and economic performance.

The Policy on Remuneration and Reimbursement of Expenses to Members of the Board of Directors, Executive Bodies and Other Key Managing Officers is available at https://www.acron.ru/en/investors/corporate-governance/corporate-documents-acron/the-current-edition/

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 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 key managers of the Group, 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 Chairperson of the Board of Directors, member of a committee or chairperson 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	2017	2018
Acron Group*		
Remuneration paid for participation in a managing body	6,600	6,600
Salary	120,557	89,242
Bonuses	117,142	195,860
Fees	0	0
Compensation for expenses related to performing duties as members of managing bodies	0	0
Other types of remuneration	251	298
Acron Group total	**244,550**	**291,999**
Including Acron		
Remuneration paid for participation in a managing body	6,600	6,600
Salary	78,079	62,833
Bonuses	77,263	120,670
Fees	0	0
Compensation for expenses related to performing duties as members of managing bodies	0	0
Other types of remuneration	251	298
Acron total	**162,193**	**190,401**

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

REMUNERATION OF MANAGING BOARD MEMBERS AND THE CEO, RUB '000

Remuneration	2017	2018
Acron Group*		
Remuneration paid for participation in a managing body	0	0
Salary	194,582	207,344
Bonuses	132,264	268,374
Fees	0	0
Compensation for expenses related to performing duties as members of managing bodies	0	11,195
Other types of remuneration	781	3,853
Acron Group total	**327,628**	**490,766**
Including Acron		
Remuneration paid for participation in a managing body	0	0
Salary	100,594	107,826
Bonuses	66,447	139,526
Fees	0	0
Compensation for expenses related to performing duties as members of managing bodies	0	0
Other types of remuneration	781	2,591
Acron total	**167,822**	**249,943**

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

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.

REMUNERATION OF THE GROUP'S OTHER KEY MANAGEMENT, RUB '000

Remuneration	2017	2018
Remuneration paid for participation in a managing body	0	0
Salary	101,785	112,616
Bonuses	114,636	183,895
Fees	0	0
Compensation for expenses related to performing duties as members of managing bodies	0	4,916
Other types of remuneration	12,038	13,690
Acron Group total	**228,458**	**315,118**

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

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 establishing 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 his/her 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, e-mail, 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 assesses the effectiveness of the Remuneration Policy and the remuneration and reimbursement system stipulated by it taking into account the relevant recommendations of the Nomination and Remuneration Committee.

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 through 31 May 2018 under an insurance agreement for liability of directors, officers and entities with VTB Insurance Ltd. (VTB Insurance Ltd. was assigned one of the highest financial strength ratings among Russian insurance companies). After 1 June 2018, a new insurance agreement was made– with JSC SOGAZ. The insurance coverage under the agreement amounts to EUR 75 million. This agreement covers the liability risks of the Group, its controlled entities, their directors, and other officers if they are targeted by lawsuits or other disputes regarding wrong actions taken by such persons within the scope of their duties.

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 the 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 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.

The Regulation on the Internal Control System is available at https://www.acron.ru/en/investors/corporate-governance/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 managment 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 risk management and internal control policy, ensures creation and maintenance of an efficient risk management and internal control system at the Group and ensures application of and compliance with the rules (standards) of financial and business operations and with internal control procedures
Internal Audit Team	Monitors the Group's financial and business activity through scheduled and random audits regarding matters related to the Internal Audit Team's scope of authority and participates in implementation of the Group's risk management and internal control policy

Internal Audit Team

The Internal Audit Team is the Group's standing collegial body that exercises control over the Group's financial and business operations in order to ensure that the Group complies with applicable laws and its Charter and bylaws, and that it respects the rights and interests of its shareholders.

The Internal Audit Team consists of five members elected by the Group's general meeting. These members serve until the next annual general meeting.

In order to avoid any conflict of interests, members of the Internal Audit Team may not serve as members of Acron's Board of Directors or hold another office in the Group's managing bodies. Shares held by the members of the Board of Directors or other persons holding offices in the Group's managing bodies may not participate in voting to elect members of the Internal Audit Team.

The Internal Audit Team operates in compliance with the Regulation on Acron's Internal Audit Team approved by the Group's general meeting.

In particular, the following matters were included in the Internal Audit Team's scope of authority:

- Audit of the Group's financial and business operations, including audit of its compliance with applicable Russian laws
- Audit of the reliability of data contained in the Group's annual reports, annual financial statements (accounts) and other Acron Group reports and financial documents
- Audit of compliance with accounting procedures, preparation and disclosure of financial statements (accounts)
- Audit of the accrual and payment of any remuneration and compensation that is determined by resolution of the Group's general meeting; audit of the accrual and payment of remuneration and compensation to the Group's auditor
- Audit of compliance with the profit distribution approved by the Group's general meeting, including compliance with the procedure for accrual and payment of declared dividends
- Audit of the procedure for adopting resolutions regarding placement (issue) of the Group's equity securities and compliance of the terms and conditions of their placement (issue) with applicable laws, Acron's Charter and bylaws
- Audit of certain facts related to the Group's financial and business operations, including transactions, events and operations that have or may have a significant impact on the Group's financial standing and financial performance

The Internal Audit Team has an additional function: it participates in implementation of the Group's risk management and internal control policy and its anti-corruption policy.

The Regulation on Acron's Internal Audit Team is available at https://www.acron.ru/en/investors/corporate-governance/corporate-documents-acron/the-current-edition/

On 31 May 2018, Acron Group's general meeting elected the following members to the Internal Audit Team:

- Irina Dudicheva (Chair), Head of the Economic Analysis Team, Deputy Head of Acron's Planning and Economy Department
- Valentina Alexandrova, Leading expert for labour organisation and remuneration, Acron's HR Department
- Elena Zubrilova, Chief Economist of Acron's Securities Circulation Department
- Elena Potapova, Head of the Production Planning Team in Acron's Planning and Economy Department
- Tatyana Khrapova, Acron's Senior Deputy Chief Accountant

The Internal Audit Team's opinion on results of the audits of Acron Group's financial and business operations in 2018:

- Confirmed the reliability of the data in the 2018 Annual Report
- Confirmed the reliability of the data in the 2018 annual financial statements (accounts)
- Detected no instances of non-compliance with accounting rules and procedures for submission of financial statements (accounts) established by Russian legal acts and no instances of non-compliance with Russian legal acts regulating the Group's business and financial activity
- Confirmed that Acron's profit distribution as approved by the general meeting on 31 May 2018 complies with the procedure for accrual and payment of the declared 2017 dividends and with the procedure for accrual and payment of the declared dividends from retained earnings of the previous years, as stated in resolutions of the extraordinary general meetings dated 12 January and 19 October 2018
- Confirmed the reliability of the data contained in the Report on Related-party Transactions Executed by Acron Group in 2018

The Group's internal control system is based on separation of powers between the bodies that develop, approve, implement and assess the effectiveness of the internal control procedures.

Remuneration of Members of the Internal Audit Team

REMUNERATION PAID TO INTERNAL AUDIT TEAM MEMBERS IN 2018, RUB '000

Type of Remuneration	2017	2018
Remuneration paid for participation in the body controlling the Issuer's financial and business operations	0	0
Salary	2,687	3,001
Bonuses	3,607	3,473
Fees	0	0
Other types of remuneration	156	94
Total	**6,450**	**6,568**

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 his or her 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).

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 31 May 2018, 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 (2018): Crowe Russaudit – RUB 3.3 million without overheads and VAT, KPMG – RUB 19.7 million without overheads and VAT. The cost of all the Group's contracts with auditors was RUB 30.3 million without overheads and VAT.

The Regulation on Acron's Internal Audit is available at https://www.acron.ru/en/investors/corporate-governance/corporate-documents-acron/the-current-edition/

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 legislation. 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.

Acron's Code of Business Conduct and the Regulation on Ethics and Anti-Corruption Committee are available at https://www.acron.ru/en/investors/corporate-governance/corporate-documents-acron/the-current-edition/

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 for materials).

— 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.

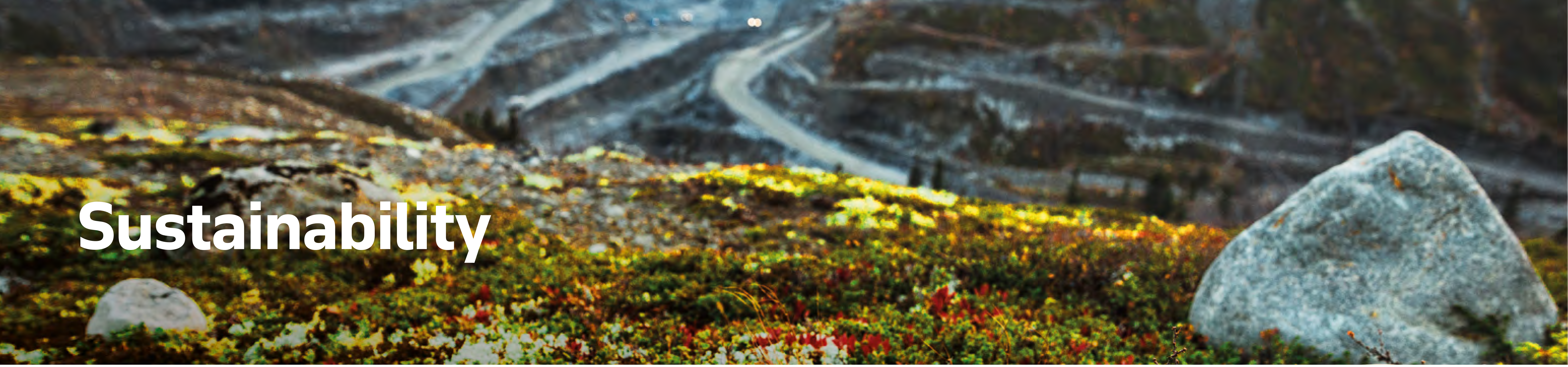
As a rule, procurement at the Group's facilities is governed by procedures described in the bylaws. The procurement process at Acron is supported by and operates under a quality management system that is certified by the international certification body DNV GL for compliance with ISO 9001. In the reporting year, 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, and commenced building a supplier relations management system that will introduce an e-commerce block.

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 2018, the Credit and Investment Committee reviewed approximately 3,500 matters verified by the Control and Analysis Department. As a part of the general IT strategy, the operations of the Credit and Investment Committee Directorate underwent a complete digital transformation.



Sustainability

Sustainability Approach

The Group's general approach to sustainability is based on the principle of responsible operations in all of our presence regions. 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.

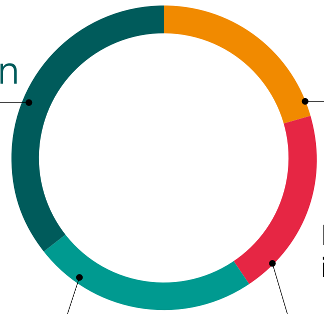
FUNDS ALLOCATED FOR KEY SUSTAINABILITY MEASURES

Responsibility for personnel

RUB **664** mn

Occupational and industrial safety

RUB **444** mn



Environmental measures

RUB **377** mn

Local community involvement

RUB **380** mn

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, cooperation with educational institutions

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

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 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. The staff turnover rate decreases each year, falling to 9% in 2018.

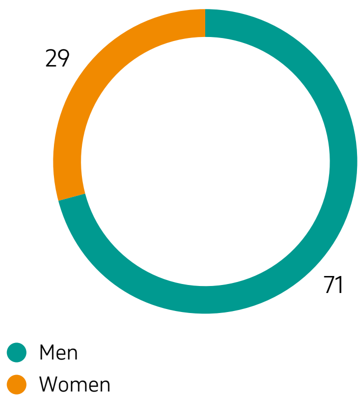
46%
of Acron Group employees have university degrees

In the reporting year, the Group's average payroll count was
10,696 people

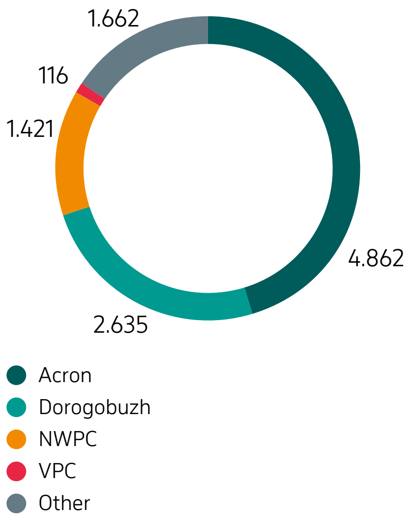
The average employee age was
42 years

NUMBER OF ACRON GROUP EMPLOYEES IN 2016–2018 (BASED ON IFRS DATA), NUMBER OF PEOPLE

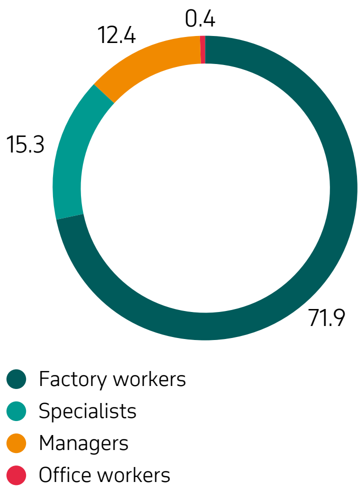
EMPLOYEES BY GENDER, %



NUMBER OF EMPLOYEES BY COMPANY, NUMBER OF PEOPLE



ACRON GROUP EMPLOYEES BY CATEGORY, %



Incentive Programme

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

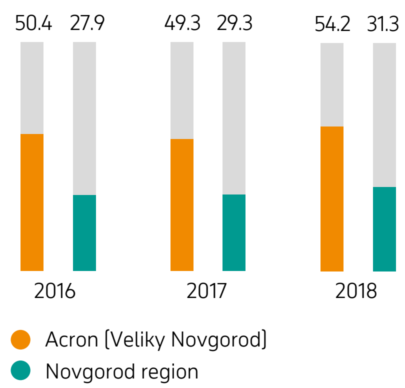
Employees' salaries include compensation, incentive payments and performance bonuses. In 2018, salaries at the Group were adjusted 3%. Acron Group continues to provide meal allowances to employees at all facilities.

Employees' salaries remain competitive in their footprint regions. The average monthly salary at the Group's facilities is higher than across the Russia's chemical industry, at RUB 49,500 in 2018.

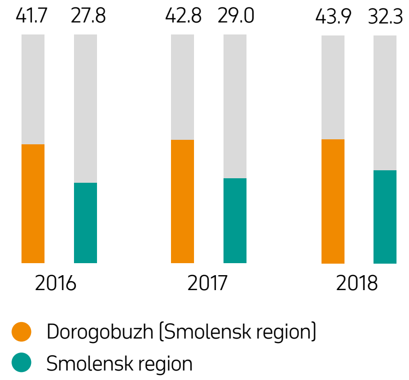
1,725 employees
of the Group received industy and corporate awards

2 Group employees
were awarded 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

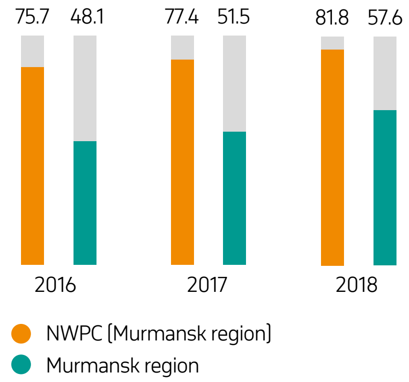
AVERAGE MONTHLY SALARY AT ACRON, RUB '000



AVERAGE MONTHLY SALARY AT DOROGOBUZH, RUB '000



AVERAGE MONTHLY SALARY AT NWPC, RUB '000



Social Benefits and Guarantees

Each Acron Group production facility has a collective agreement with employees, which includes an extended package of social benefits and guarantees, and is aimed at improving the quality of life for employees and their families.

In 2018, the Group's Russian facilities renewed their collective agreements and retained the social benefits and guarantees package. Employee benefits include additional vacation time and incentive payments, specifically occupational safety payments. Additionally, employees receive financial assistance of various types (cash grants for weddings, new babies, important anniversaries, death of a close relative).

Acron Group implements several social programmes:

Employee Healthcare Programme

Each year, Acron 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 the reporting year, the Group invested RUB 38.3 million in voluntary health insurance.

Acron Group provides employees and their children with the opportunity to receive treatment at health resorts and recreation camps on discounted terms and partially pays for the cost of attending recreation camps. The Group's costs for such programmes totalled RUB 48.7 million.

Promoting healthy lifestyles is an important component of the Group's human resources policy. The Group's facilities have athletics infrastructure: 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 various spartakiads. In 2018, approximately 7,000 employees and their children participated in sports competitions.

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' children to attend a summer health camp. In the reporting year, the Group spent RUB 23.2 million to send more than 1,500 children to summer camps in the Novgorod region, Dorogobuzh district and the city of Berezniki.

In 2018, Acron Group employees first time participated in a sports festival ChemFest and ranked third.

Young Specialist Support Programme

Acron Group provides young specialists with wedding bonuses and paid training leave. The Group also organises a variety of training programmes, sports and recreation events.

Over the years, the Group's chemical production facilities have run a housing programme for young specialists relocated from other regions. This programme includes lump-sum aid for rent, relocation allowance and partial compensation for mortgage interest. The Group rents housing for young specialists for up to five years.

In the reporting year, the Group allocated a total of RUB 23.2 million for the housing programme.

Retiree Support Programme

To take care of its retirees, Acron Group adopted the Veteran of Labour Programme at its chemical production facilities, which allows them to continue using outpatient clinics and athletic and cultural centres on the same terms as employees. Retirees also receive cash assistance and are invited to special events (receptions, guided tours, dance parties, concerts and sports events).

Personnel Training and Development

Acron Group's system of personnel training and development is based on the Group's needs and the specific requirements of its production facilities. The areas of training and development are adjusted and improved annually to meet the Group's strategic objectives and targets.

The system of personnel training and development is based on the following principles:

— **Proactive training**
Obtaining knowledge and skills useful in the future in line with the Group's strategy

— **Continuous education**
Continuously upgrading knowledge and developing employees' skills using a variety of methods, including self-paced education and on-the-job training

— **Targeting and an individual approach**
Creating courses and development programmes that meet the needs of targeted groups; individual employee development planning

— **Quality**
Stringent requirements for trainers, methods, technical equipment, organisational support and practical focus in the education process, active use of information technology in employee education and development

The Group's multi-stage system of personnel training and development includes professional training and re-training, advanced training, and occupational and industrial safety training. All types of training are offered at special training centres, in classes, and on-site, as well as at education institutions in a form of distance and in-person education with the opportunity to attend industry workshops and courses.

KEY OBJECTIVES OF PERSONNEL PROFESSIONAL TRAINING

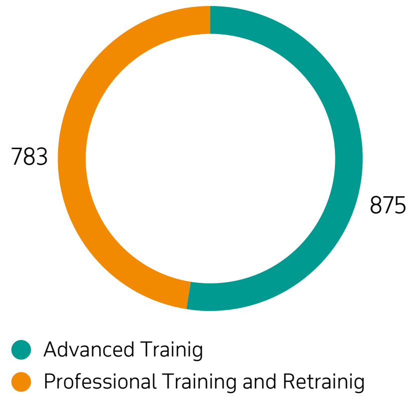
- Employing highly skilled personnel
- Providing authorisations for operations at hazardous facilities
- Creating favourable conditions for professional growth

In order to increase employees' productivity and personal efficiency in 2018, Acron, the Group's flagship, launched a pilot project called the Personal Performance Management System to assess each employee's contribution to the Group's results and performance. According to the project, employees must understand the vision and strategy of the Group, 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. The project participants were 34 managers of various Company's departments. They set the benchmarks for their activities, personal goals and objectives, filled out the Employee Objectives and Assessment Form for 2018, and evaluated their own results.

In 2018, more than 1,500 Group employees completed advanced training courses or professional retraining.

All employees at the production facilities complete occupational and industrial safety training programmes.

TYPES OF TRAINING PROVIDED BY ACRON GROUP, NUMBER OF PEOPLE



Acron Group's total investments in personnel training and development were

RUB 24.3 mn

Engaging and Retaining Highly Professional Personnel

Acron Group's investments in education, social benefits and guarantees, and social programmes totalled

RUB **664** mn

297 students
at post-secondary and vocational schools participated in apprenticeship programmes at the Group's chemical facilities

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 career guidance. The guidance programme includes in-depth studies of vocation-related subjects in specialised classrooms, as well as guided tours of the production facilities, city job fairs and school competitions, open-house days and workshops.

In 2018, Acron Group held the following events as part of its career guidance programme:

— University Hour for secondary students, which was attended by 132 students

— Annual official ceremony recognising the winners of Our Hopes school Olympiads in chemistry, physics, mathematics and computer science – 49 secondary students and 33 teachers of winners and runners-up received valuable prizes

— Education Fair: Where to Study was organised in cooperation with the Institute of Agriculture and Natural Resources of the Novgorod State University and Novgorod Chemical Industrial College

— Trip to NovHIT Country open days at Novgorod Chemical Industrial College and at Novgorod State University with a presentation about Acron's activity and the professions in demand

— A Week without Turnstiles nationwide campaign, In Search of a Valuable Employee: Companies' Experience with Graduates and Students panel session

— Commencement ceremony for graduates in fundamental and applied chemistry of the Institute of Agriculture and Natural Resources at Novgorod State University

In 2018, Acron together with Education Committee of Veliky Novgorod administration established a grant entitled Together with Acron to Success in Learning and Career for chemistry and physics teachers at all Veliky Novgorod secondary schools.

With Dorogobuzh support, professors from Ivanovo State University of Chemistry and Technology held the interregional Olympiad in physics and chemistry, entitled Fundamental Sciences for Regional Development, attended by 22 high-school graduates from the cities of Dorogobuzh and Verkhnedneprovsky settlement.

In the reporting year, NWPC executed a cooperation agreement with Kvantorium-51 children's science park to establish educational programming within the Company's area of expertise. NWPC was a key partner of the KvantoArktika scientific and engineering projects competition for children.

The Group has successfully worked with educational institutions to identify promising students for its talent pool prior to graduation, and later after the specialist's employment.

Attracting 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. It includes guided tours of production sites, introductory videos and brochures for students. 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. At the end of the apprenticeship, managers meet with students to sum up the results of the apprenticeship and discuss future prospects for employment with the Group.

The Group's longstanding partners in the professional training programme are Yaroslav-the-Wise Novgorod State University and the Novgorod Chemical Technical College for Acron, the Ivanovo State University, Verkhnedneprovsky Technology College, and the Safonovo Branch of Smolensk Academy of Professional Education for Dorogobuzh, and Apatity Engineering College and Murmansk Arctic State University (MASU) for NWPC.

In the reporting year, 297 students at post-secondary and vocational schools participated in apprenticeship programmes at the Group's chemical facilities; of those, 47 students signed employment contracts.

Competitions focusing on professional skills contribute to career guidance. In 2018, Acron recommenced organising such competitions and held a contest for synthesis and conversion operators at the ammonia unit, with 30 competitors participating in the event.

As a member of MASU's Strategic Partnership Board and the Board of Trustees, NWPC congratulated first - year students in September 2018 and presented photo equipment to active members of the Student Initiative Centre. Students with children received New Year presents.

Mentoring

Acron Group created its mentoring programme as an efficient way to develop the professional expertise and accelerate the adaptation of young specialists. The Regulation on Mentoring adopted at the Group's facilities stipulates that each young specialist should follow an individual professional development plan under the guidance of a mentor, adapt to their department, and explore their workplace.

Every year, business unit managers choose mentors based on their professional expertise, work experience, communication and organisation skills, and ability to pass on their knowledge. In 2018, 1,121 people were appointed as professional education instructors and more than 550 people were appointed as teachers.

In February 2018, Acron's representatives joined a Novgorod region delegation to present the region's best mentoring practices at the Mentor All-Russian Forum in Moscow.

Talent Pool School Project

Acron Group companies welcome the desire of employees to develop professionally and offers opportunities and favourable conditions for professional and career growth. Specialists with creative and leadership potential are invited to the talent pool, and that increases their chances of being promoted to managerial positions.

Talent Pool School is a key part of Acron's talent pool formation process. 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.

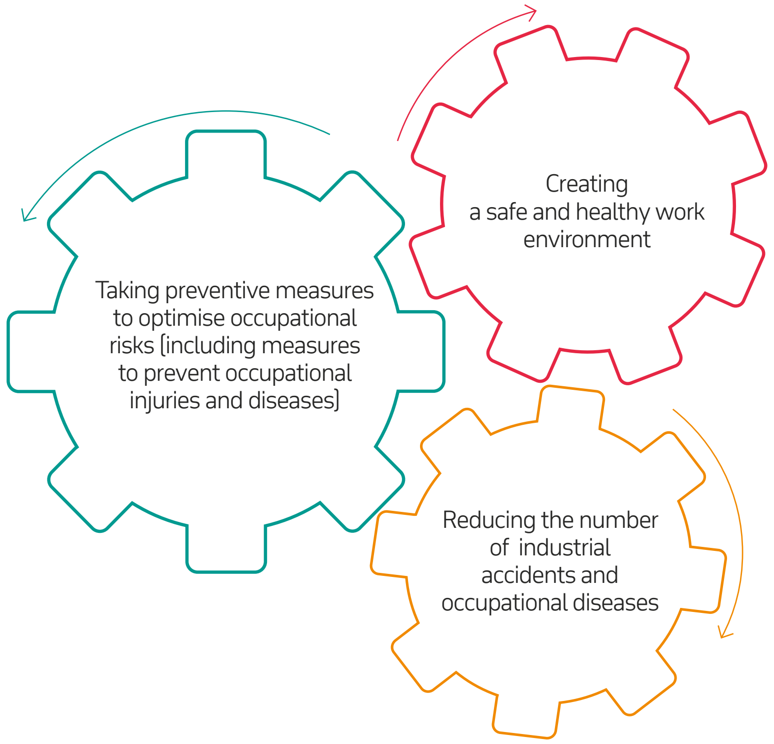
The training programme includes measures to select specialists and train their managing skills, plan and provide career development for trained employees, and form a customised talent pool for certain target positions. Invitation to the talent pool is based on recommendations by assessment committees, which assess the performance of the Group's managers, specialists and clerks in the Group's key business on a regular basis. In 2018, 143 candidates joined the talent pool.

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 and conducts training and tests for employees, as well as training and assessments for 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.

FUNDAMENTAL ELEMENTS OF ACRON GROUP'S POLICY FOR OCCUPATIONAL AND INDUSTRIAL SAFETY



Facility	Accident Frequency Index per 1,000 Employees	Accident Severity Index	Number of Occupational Diseases	Number of Accidents in 2018	Accident Increase/ Decrease YOY
Acron	0.22 (–72% YOY)	23 (–82.9% YOY)	None	1	–2 cases
Dorogobuzh	3.2 (+167% YOY)	58.2 (+56% YOY)	None	8	+5 cases
NWPC	5.7 (+7.5% YOY)	42.8 (–44% YOY)	One case recorded	8	Unchanged
VPC	None	None	None	None	-

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.

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 36.8 million in 2018.

In 2018, there were several accidents with no fatalities; remedial actions were taken for all incidents. The number of casualties and accident severity index significantly decreased at Acron. The accident severity index increased at Dorogobuzh because of the long-term disability of employees injured in industrial accidents. At NWPC, the accident severity index decreased. There were no accidents or occupational diseases registered at VPC.

In the reporting year, 8,408 Group employees completed occupational and industrial safety training, including 1,861 managers and specialists, and 6,547 workers. In 2018, the Group's investments in occupational and industrial safety totalled RUB 443.6 million.

Liability Insurance

Acron Group provides its Russian operations with liability insurance for hazardous production facilities. Sixteen hazardous production units at Acron, twelve at Dorogobuzh, eight at NWPC, and one at VPC 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.

RUB **443.6** mn

Total expenditures for occupational health and safety

Environmental Efforts

RUB **377** mn

invested by Acron Group in reducing environmental impact

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 2018, the Group's Russian facilities paid RUB 10.8 million for negative 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 2018, the Group's chemical facilities upgraded equipment in their main shops in order to improve the environmental safety of processes and products.

Acron and Dorogobuzh conducted technical upgrades at the AN, NPK, and nitric acid units aimed at ensuring sustainable and efficient operations of the gas treatment units and compliance with emission standards.

At the Oleniy Ruchey mine (Murmansk region) and the Talitsky mine (Perm Krai), 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.

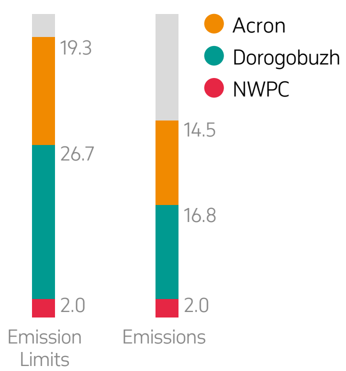
As part of a set of measures to reduce its negative environmental impact, NWPC developed additional dust and gas treatment and suction units to reduce the human impact on the atmospheric air from the company's existing facilities. The investments in these measures totalled approximately RUB 27 million.

In 2018, gross atmospheric pollutant emissions from NWPC facilities remained unchanged year-on-year at about 2,000 tonnes.

Gross atmospheric pollutant emissions at VPC increased to 22.5 tonnes due to reactivation of shaft sinking.

In 2018, gross atmospheric pollutant emissions from all of Acron Group's Russian production facilities totalled 33,400 tonnes, up 7.7% year-on-year. Despite the increase, emissions did not exceed the permitted value

AIR POLLUTANT EMISSIONS AND LIMITS, '000 T



Acron Group's environmental strategy is aimed at reduction of its environmental impact, natural resource management, and introduction of new equipment and cutting-edge technology.

Water Resources Protection

RUB **309** 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 using its own and certified third-party laboratories. Wastewater is treated and decontaminated at all of the Group's facilities.

In 2018, Acron conducted repairs at the biological treatment facility, the urea 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 down 35% because process optimisation at new facilities significantly reduced water consumption.

Dorogobuzh implemented a range of measures to protect surface water, conducted comprehensive facilities repairs, and replaced and old equipment and piping. Dorogobuzh's water discharge fell 30% due to lower chalk sales and a resulting decrease in the volume of calcium carbonate washed out of AN.

In the reporting year, NWPC employees took part in the Water of Russia national campaign by cleaning a section of the Umba River's shoreline near Oktyabrsky settlement. More than 15 cubic meters of a mix of garbage was collected and removed during the event.

NWPC 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 the wastewater discharge. The morphometric parameters are monitored at Komarinoye Lake. No wastewater from the treatment facility for open-pit and shaft water was discharged into Komarinoye Lake in 2018.

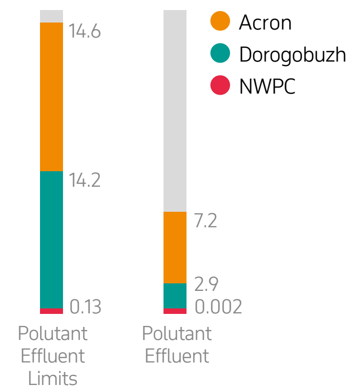
As part of a series of significant environmental measures related to the production process, NWPC upgraded its sewage network to discharge domestic wastewater from the treatment facilities to a closed process water circulation system and further to the tailing dam. With this measure, no more wastewater was discharged to Vuonnemyok Creek. NWPC invested RUB 2.1 million in measures that cut total wastewater discharge by 40,000 cubic metres year-on-year to 16,400 cubic metres.

NWPC also continued to pay compensation for damages caused to aquatic biological resources by development of NWPC facilities. In the reporting year, 23,000 fish fry were released into a tributary of the Umba River (White Sea basin); investments totalled RUB 5 million.

VPC monitors the condition of surface and underground water within the licence area of the deposit. The Company collected and treated wastewater. The wastewater volume increased by a factor of six to 2,300 cubic metres due to reactivation of shaft sinking. The results of monitoring at the Group's mining facilities showed no significant changes in environmental conditions in the reporting period.

In 2018, Acron Group's Russian facilities discharged a total of 24 million cubic metres, down 17% year-on-year. Pollutant effluents to open water decreased 32% year-on-year to 10,100 tonnes.

POLLUTANT EFFLUENTS TO OPEN WATER AND LIMITS, '000 T



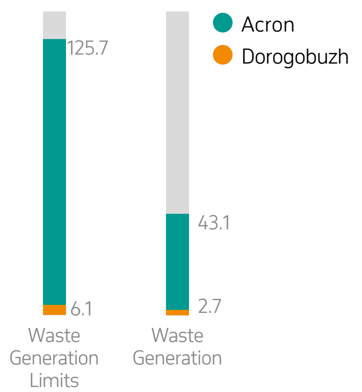
Waste Management

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 2018, the volume of waste generated by Acron decreased 2.2% year-on-year to 43,100 tonnes. The decrease in hazard class 4-5 waste was due to decontamination of tar water and disposal of ferrous scrap. Hazard class 1-2 waste at Acron remained flat at 0.01%.

In the reporting year, Dorogobuzh reduced its waste by a factor of 3.2 year-on-year to 2,700 tonnes (mainly hazard class 4-5 waste).

WASTE GENERATION, '000 T



Acron Group's Russian facilities invested a total of

RUB **8** mn

in waste management efforts

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 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 2018, a total of 104.4 tonnes of oily waste were treated.

In the reporting year, NWPC also joined the Zero Negative Environmental Impact campaign, which is held annually with the support of the government of Murmansk region.

NWPC generated a total of 28.3 million tonnes of waste, mainly low-hazard and non-hazardous waste (overburden rocks and tailings).

The Group's asset in Perm Krai provides for separate collection of waste and timely waste removal for disposal, decontamination and/or recycling. The total volume of VPC waste increased 24% year-on-year to 93,700 tonnes due to reactivation of shaft sinking.

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 developed design documentation to expand the existing landfill for consumer solid waste and similar industrial waste; the Company also created data sheets for hazard class 1 - 4 waste.

In 2018, Dorogobuzh started the operation of a new landfill for disposal of industrial waste in order to keep production operations in compliance with waste handling laws.

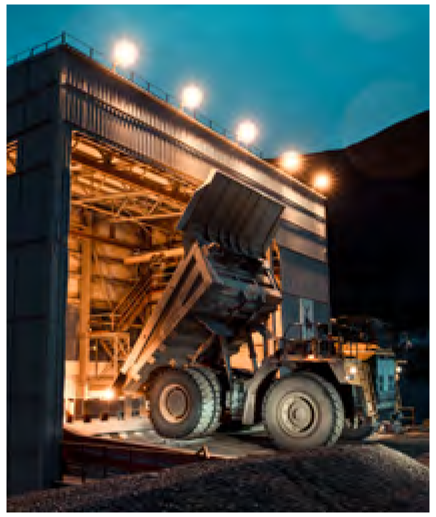
Energy Efficiency

Energy conservation and improvements in energy efficiency are an important part of Acron Group's general strategy. All of the Group's production facilities implement programmes for cost-effective use of resources, which includes maximum use of in-house thermal energy sources, reduced consumption and use of secondary energy resources.

The Group's production facilities constantly monitor their thermal and electric power consumption for resource planning purposes; they also perform ongoing analysis of changes in consumption of key resources, taking measures to optimise the use of these resources.

In the reporting year, Acron implemented energy-saving measures to reduce the consumption of thermal energy for non-production purposes, which cut the volume of outsourced thermal energy and saved RUB 14 million.

In the reporting year, Dorogobuzh did not see a significant change in total power consumption year-on-year. Consumption was down 0.1% due to stable operations. Outsourced electric energy consumption decreased 0.6%. The Company's own turbine-generator unit produced 45 million kWh in 2018.



In 2018, NWPC implemented the Operational Efficiency Management project in order to reduce electric power consumption, which helped to offset increased thermal consumption caused by the commissioning of new facilities and to keep heat generation flat year-on-year.

In 2018, VPC increased its electric power consumption by 15.1 million kWh (764%) against 2017 due to the start of shaft construction carried out by FGUP US-30 at the Talitsky mine site.

In 2018, VPC posted a 5,200 m^3 (271%) increase year-on-year in consumption of process water from temporary water intakes located within the site due to flushing works, hydraulic testing of the fire pumping station, and filling of fire tanks to ensure fire safety during shaft sinking.

RUB **14** mn

Economic benefits from energy – saving initiatives aimed at reducing non – production heat energy consumption

Social Involvement

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 involved in the life of local communities, Acron Group is committed to creating and maintaining a favourable social environment and values and to developing the Group's footprint regions.

RUB **80** mn

allocated by Acron Group to charity

RUB **300** mn

total social investments in Acron Group's footprint regions

The Group's production facilities actively sponsor social and economic projects in the Group's footprint regions. In the reporting year, Acron and the local 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.

Acron Group supports local communities in compliance with the following principles:

- Projects must have great social significance.
- Assistance must be targeted.
- The interests of the majority of residents must take priority.
- Recipients must be transparent and accountable and use funds as intended.

In the reporting year, Acron allocated a total of over RUB 18 million to charity. The Company funded repairs to the Cathedral of the Intercession of the Theotokos, the Nikolo-Vyazhishchsky Convent, and nine schools in Malovishersky and Batetsky districts. Approximately RUB 10 million were invested in repairs to 23 educational institutions in Veliky Novgorod, and RUB 2.5 million were allocated to purchasing laboratory equipment and hosting the WorldSkills Russia competition in Novgorod Chemical Industrial College (NovHIT) supported by Acron. For many years, Acron has supported the Christmas Gift marathon for charity, which supports families with children with disabilities.

In 2018, Dorogobuzh and the administration of Dorogobuzh district (Smolensk region) signed a new social partnership agreement. Dorogobuzh allocated a total of RUB 2 million for repairs to several local schools and kindergartens, as well as to the Recreation Centre of Dorogobuzh district, and allocated funds to landscaping and reconstruction of the graves of World War II veterans.

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.

Additionally, the Company invested in local infrastructure projects (events for children and teenagers, improvements to educational equipment at Verkhnedneprovsky Engineering College, support for Disabled and Veterans Association, Saint Demetrios of Thessaloniki Convent, Smolensk Music Society, and other local organisations).

Dorogobuzh won the regional phase of Socially Conscious Russian Business contest. The Company was recognised in two categories: Finding Solutions to Local Social Issues and Corporate Charity and Best Industrial Employer for Employees with Families. In the reporting year, Dorogobuzh invested a total of RUB 48.7 million in social and economic development of its footprint region and in charity.

In the reporting year, NWPC renewed its social and economic cooperation agreement with Kirovsk urban district and transferred a total of RUB 98 million to the city budget. Most of these funds were allocated to support educational institutions and to repair and maintain public roads, street and courtyard lighting, repair apartments for orphans, and maintain a playground and a garden square in Koashva.

NWPC allocated RUB 500,000 to the international sports competition Festival of the North in Murmansk region. Additionally, the Company was a partner of the 7th Murmansk International Business Week and a sponsor of the 8th annual conference Mining Industry in the Barents Euro-Arctic Region: View to the Future. In the reporting year, NWPC provided a total of RUB 11 million as charitable support for NGOs.

In the Year of Volunteer announced in Russia in 2018, NWPC and the Apatity Youth Social Centre jointly held the "I am a Volunteer" contest for volunteer initiatives aimed at solving acute social issues that are relevant to various groups of Apatity residents (children, people with disabilities, retirees, students and others). The winners were awarded a cash grant to organise socially significant events.

In the reporting year, mining company JSC Partomchorr (a subsidiary of Acron Group) and the Apatity city administration concluded an agreement on social and economic partnership and cooperation in order to develop and maintain the social environment and public infrastructure. Under this agreement, Acron transferred RUB 99 million to the city budget.

As part of the aid provided to the Berezniki administration, VPC allocated money to fund special events in Berezniki and Zheleznodorozhny settlement, support the local medical facility, and landscape playgrounds at the local kindergarten.

In the reporting year, Acron Group's production facilities allocated a total of

RUB **380** mn

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 2018, Sokol celebrated its 50th anniversary. During this time, Acron employees from Sokol recovered the remains of at least 8,000 soldiers, identified 1,018 names, inspected sites of airplane crashes and discovered dozens of unique wartime artefacts. Members of the club are always searching for information about relatives of the fallen soldiers, data from the archive of the Defence Ministry, and military aerial photography.

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	Events, Results in 2018
SHAREHOLDERS AND INVESTORS		
— Ensure the Group's value growth over the long run — Provide information about the Group's development strategy — Improve 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 required disclosure — Regular contact with analysts — Annual general meetings and mandatory reports — Corporate website — Visits to production facilities for analysts and investors	— One AGM and two EGM were conducted — Acron's share grew by 21.7% in Russian currency — Regular cooperation with investment bank analysts — 114 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 environmental 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 300 mn. — Acron Group facilities invested RUB 80 mn in charitable projects.
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	— Online newsletters at the Group's production facilities — 74 press releases

Goals of Cooperation	Cooperation Tools	Events, Results in 2018
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 and participation of 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, children 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. — Approximately 300 students from vocational schools and universities participated in the apprenticeship programme at the Group's chemical production facilities, and 47 of them were subsequently hired.
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 — Efficiently use human resources — 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 health care 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	— 143 employees graduated from talent pool school. — 7,000 employees participated in athletic events. — 1,725 employees were awarded for contributions to the Group's development. — Over 1 500 employees took various training classes. — The annual conferences of the primary trade unions and scheduled meetings between trade union leaders and management of the Group's facilities were held.

Goals of Cooperation	Cooperation Tools	Events, Results in 2018
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 specialised exhibitions and industry conferences — Membership and involvement in industry organisations [Association of Russian Fertiliser Producers, International Fertilizer Association, Fertilizers Europe]	— Participation in industrial conferences — Centralisation of the Group's procurement — Execution of 15 mineral fertiliser supply agreements with regional departments of agriculture — Participation in Golden Autumn Agro-Industry Trade Show — Taking part in the international logistic forum "PRO//DVIZHENIE"
RATING AGENCIES		
— Improve the Group's credit rating	— Annual meetings with analysts	— Fitch Ratings didn't revise Acron Group's BB- rating with a Stable outlook. — Moody's Investors Service didn't revise the Group's Ba3 rating from the previous year with a Stable outlook. — In December 2018, Expert RA agency assigned Acron Group a ruA+ rating with Stable outlook.
BANKS		
— Provide required credit resources to the Group's companies	— Obtaining / repaying loans	— Amount of debt refinancing was RUB 36 bn

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

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 2018, 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 2018, 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

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-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

Fair value of derivative financial instruments	
Please refer to the Notes 11, 13, 27 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 CJSC 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 CJSC 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 CJSC 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:

Ilya O. Belyatski
JSC "KPMG"

Moscow, Russia
25 March 2019

Consolidated Financial Statements

PUBLIC JOINT STOCK COMPANY "ACRON"
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018
(IN MILLIONS OF RUSSIAN ROUBLES)

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	10	93,532	87,820
Subsoil licences and related costs	11	36,557	33,134
Investment in equity instruments measured at fair value through other comprehensive income	12	11,670	22,698
Long-term derivative financial instruments	13	2,844	-
Deferred tax assets	24	164	172
Other non-current assets		3,092	2,971
Total non-current assets		**147,859**	**146,795**
Current assets			
Inventories	9	16,724	14,950
Accounts receivable	8	10,815	9,940
Cash and cash equivalents	7	10,460	14,302
Other current assets		926	907
Total current assets		**38,925**	**40,099**
TOTAL ASSETS		**186,784**	**186,894**
EQUITY			
Share capital	16	3,046	3,046
Treasury shares		(6)	(6)
Retained earnings		65,253	68,035
Revaluation reserve		(14,137)	(2,902)
Other reserves		(3,963)	(3,416)
Cumulative currency translation difference		7,400	5,543
Equity attributable to the Company's owners		**57,593**	**70,300**
Non-controlling interests	17	20,572	20,656
TOTAL EQUITY		**78,165**	**90,956**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	15	66,946	55,593
Long-term derivative financial instruments	13	1,875	-
Deferred tax liabilities	24	6,951	5,446
Other non-current liabilities		641	750
Total non-current liabilities		**76,413**	**61,789**
Current liabilities			
Accounts payable	14	7,226	5,695
Short-term derivative financial instruments	13	-	3,359
Short-term borrowings	15	17,539	18,930
Advances received		5,737	4,041
Other current liabilities		1,704	2,124
Total current liabilities		**32,206**	**34,149**
TOTAL LIABILITIES		**108,619**	**95,938**
TOTAL LIABILITIES AND EQUITY		**186,784**	**186,894**

The Consolidated Financial Statements were approved for issue on 25 March 2019.

V.Y. Kunitskiy
President

A.V. Milenkov
Finance Director

PUBLIC JOINT STOCK COMPANY "ACRON"
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018
(IN MILLIONS OF RUSSIAN ROUBLES, EXCEPT FOR PER SHARE AMOUNTS)

	Note	2018	2017*
Revenue	5	108,062	94,342
Cost of sales	18	(54,444)	(51,909)
Gross profit		**53,618**	**42,433**
Transportation expenses	20	(17,715)	(13,728)
Selling, general and administrative expenses	19	(8,115)	(7,162)
Other operating expenses, net	22	(349)	(366)
Operating profit		**27,439**	**21,177**
Finance (expense) / income, net	21	(8,422)	358
Interest expense		(1,607)	(4,110)
Loss on disposal of investments		-	(7)
Gain on derivatives, net		896	342
Profit before taxation		**18,306**	**17,760**
Income tax expense	24	(4,988)	(3,500)
Profit for the year		**13,318**	**14,260**
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	(11,235)	-
Other comprehensive income on items that are or may be reclassified to profit or loss:			
Available-for-sale investments::			
— Gains arising during the period	12	-	4,733
Currency translation differences		1,931	602
Other comprehensive (loss) / income for the year		**(9,304)**	**5,335**
Total comprehensive income for the year		**4,014**	**19,595**
Profit is attributable to:			
Owners of the Company		12,768	13,432
Non-controlling interests		550	828
Profit for the year		**13,318**	**14,260**
Total comprehensive income is attributable to:			
Owners of the Company		3,390	18,748
Non-controlling interests		624	847
Total comprehensive income for the year		**4,014**	**19,595**
Earnings per share			
Basic (expressed in Russian Roubles)	23	324.63	339.43
Diluted (expressed in Russian Roubles)	23	323.77	335.92

* The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (Note 4).

PUBLIC JOINT STOCK COMPANY "ACRON"
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018
(IN MILLIONS OF RUSSIAN ROUBLES)

	Note	2018	2017
Cash flows from operating activities			
Profit for the period		**13,318**	**14,260**
Adjustments for:			
Income tax expense	24	4,988	3,500
Depreciation and amortisation on property, plant and equipment and intangible assets	10	9,026	7,957
(Reversal of) / provision for inventory obsolescence		(28)	7
(Reversal of) / provision for impairment of accounts receivable		(44)	15
Loss on disposal of investments		-	7
Loss on disposal of property, plant and equipment	10	1,033	122
Interest expense		1,607	4,110
Interest income	21	(161)	(226)
Gain on derivatives, net		(896)	(342)
Dividend income	21	(402)	(224)
Loss on disposal of exploration licences		905	-
Other expense		-	80
Unrealised foreign exchange effect on non-operating balances		6,559	(945)
Operating cash flows before working capital changes		**35,905**	**28,321**
Increase in gross trade receivables		(1,238)	(827)
Decrease/(increase) in advances to suppliers		44	(1,029)
Decrease in other receivables		324	281
Increase in inventories		(1,761)	(306)
Increase in other current assets		(19)	(58)
Increase/(decrease) in trade payables		776	(1,088)
Increase/(decrease) in other payables		389	(729)
Increase/(decrease) in advances from customers		1,696	(159)
Increase/(decrease) in other current liabilities		814	(94)
Cash generated from operations		**36,930**	**24,312**
Income taxes paid		(3,658)	(2,743)
Interest paid		(4,866)	(4,935)
Net cash from operating activities		**28,406**	**16,634**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(14,542)	(11,299)
Interest received		126	215
Dividend received		402	224
Purchase of investment measured at fair value through other comprehensive income		(207)	-
Net change in other non-current assets and liabilities		(218)	655
Net cash used in investing activities		**(14,439)**	**(10,205)**

PUBLIC JOINT STOCK COMPANY "ACRON"
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018
(IN MILLIONS OF RUSSIAN ROUBLES)

	Note	2018	2017
Cash flows from financing activities			
Acquisition of non-controlling interest		(340)	(628)
Purchase of shares of subsidiary	13	(15,905)	-
Proceeds from sale of shares of subsidiary	13	10,743	-
Acquisition and redemption of treasury shares		(620)	(1,335)
Dividend paid to shareholders		(13,278)	(13,047)
Dividend paid to non-controlling shareholders		(215)	(118)
Proceeds from borrowings		35,633	53,420
Repayment of borrowings		(35,661)	(56,326)
Loan agreement costs		-	(733)
Security deposit made for auction		-	(1,060)
Repayment of security deposit made for auction		-	1,060
Net cash used in financing activities		**(19,643)**	**(18,767)**
Net decrease in cash and cash equivalents		**(5,676)**	**(12,338)**
Cash and cash equivalents at 1 January		14,302	27,168
Effect of movements in exchange rates on cash and cash equivalents		1,834	(528)
Cash and cash equivalents at 31 December	**7**	**10,460**	**14,302**

PUBLIC JOINT STOCK COMPANY "ACRON"
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018
(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 2017	**3,046**	**(4)**	**68,439**	**(7,635)**	**(1,650)**	**4,960**	**20,566**	**87,722**
Total comprehensive income								
Profit for the year	-	-	13,432	-	-	-	828	14,260
Other comprehensive income								
Fair value gains on available-for-sale investments (Note 12)	-	-	-	4,733	-	-	-	4,733
Currency translation differences	-	-	-	-	-	583	19	602
Total other comprehensive income	-	-	-	**4,733**	-	**583**	**19**	**5,335**
Total comprehensive income for the year	-	-	**13,432**	**4,733**	-	**583**	**847**	**19,595**
Acquisition of non-controlling interest PJSC Dorogobuzh	-	-	11	-	-	-	(639)	(628)
Loss at recognition of options for CJSC VPC shares	-	-	-	-	(433)	-	-	(433)
Dividend declared (Note 16)	-	-	(13,047)	-	-	-	(118)	(13,165)
Acquisition of treasury shares	-	(2)	-	-	(1,333)	-	-	(1,335)
Other	-	-	(800)	-	-	-	-	(800)
Total transactions with Company's owners	-	**(2)**	**(13,836)**	-	**(1,766)**	-	**(757)**	**(16,361)**
Balance at 31 December 2017	**3,046**	**(6)**	**68,035**	**(2,902)**	**(3,416)**	**5,543**	**20,656**	**90,956**

PUBLIC JOINT STOCK COMPANY "ACRON"
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018
(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) / income								
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) / income	-	-	-	**(11,235)**	-	**1,857**	**74**	**(9,304)**
Total comprehensive (loss) / 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 (Note 16)	-	-	(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**

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

(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 2018 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 2018, the Group`s immediate parent company is Redbrick Investments S.a.r.l. (Luxembourg). Effective 9 June 2017, the Group's ultimate parent is Terasta Enterprises Limited (The Republic of Cyprus). Until 9 June 2017, the Group's ultimate parent was Subero Associates Inc. (British Virgin Islands). In 2018 and 2017, 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 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 4.

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 (CJSC 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 CJSC 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 CJSC 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 CJSC 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 CJSC 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 2018. 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 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

In accordance with the transition methods chosen by the Group in applying these standards, the comparative information in these financial statements is not restated to reflect the requirements of the new standards.

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.

The impact of applying the new standard as at 31 December 2018:

31 December 2018	Note	Amounts according to IAS 18	Adjustments	Amounts with adoption of IFRS 15
Revenue	5	108,577	(515)	108,062
Cost of sales		(54,959)	515	(54,444)
Gross profit		**53,618**	-	**53,618**

In addition, according to the terms of a number of contracts, the final price for the delivered goods is determined after the transfer of control over the goods to the buyer. In accordance with current requirements, the Group recognises revenue based on an estimate of the expected price. At the time of determining the final price, the difference between expected and final price is recognised as other revenue. IFRS 15 application did not result in a significant change in the amount of recognised revenue. However IFRS 15 impacts the classification of the revenue recognised: only the revenue initially recognised at the moment of control transfer to the customer is recognised as revenue from contract with customers.

IFRS 9 Financial Instruments

IFRS 9 Financial instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new classification and measurement requirements, a single forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. This Standard does not have a significant impact on the Group's consolidated financial statements.

Classification and measurement of financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the most significant Group's financial assets as at 1 January 2018. The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Equity securities	Available-for-sale	FVOCI – equity instrument	22,698	22,698
Total financial assets			**22,698**	**22,698**

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 does not result in an additional allowance for impairment.

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, JSC Acron-Trans, 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 CJSC 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 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**

Information for the reportable segments for the year ended 31 December 2017 is set out below:

	Segment sales	Eliminable intersegment sales	External sales	EBITDA
Acron	54,783	(47,459)	7,324	17,764
Dorogobuzh	24,002	(8,889)	15,113	7,063
Logistics	3,771	(3,562)	209	705
Trading	73,302	(3,551)	69,751	1,261
Mining NWPC	8,660	(7,122)	1,538	2,698
Mining excluding NWPC	-	-	-	(40)
Other	1,859	(1,452)	407	366
Total	**166,377**	**(72,035)**	**94,342**	**29,817**

Reconciliation of EBITDA to Profit Before Tax:

	2018	2017
Operating Profit	**27,439**	**21,177**
Depreciation and amortisation of property, plant and equipment and intangible assets	9,026	7,957
Foreign currency (profit)/loss on operating transactions, net	(1,350)	561
Loss on disposal of exploration licences	905	-
Loss on disposal of property, plant and equipment	1,033	122
Total consolidated EBITDA	**37,053**	**29,817**

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.

	2018	2017
Revenue		
Russia	19,937	16,035
European Union	20,890	16,040
Commonwealth of Independent States	5,976	14,044
USA and Canada	13,598	9,296
Latin America	22,291	16,985
PRC	7,242	6,292
Asia (excluding PRC)	12,931	9,777
Other regions	5,197	5,873
Total	**108,062**	**94,342**

	2018	2017
Non-current assets		
Russia	122,879	113,731
Canada	4,686	4,895
Estonia	4,349	3,966
Total	**131,914**	**122,592**

Non-current assets represent non-current assets other than financial instruments and deferred tax assets.

For 2018, revenues from logistics activities representing a separate performance obligation under IFRS 15 amounted to RUB 5,155. Adjustment associated with price changes under IFRS 15 amounted to (349) RUB.

This revenue was accounted for as part of the Trading in Information for the reportable segments for the year ended 31 December 2018.

In the reporting period, there is one individual export customer contributing 17% to the total revenue (2017: 16%).

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 2018 or 2017 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	2018	2017
Trade receivables, gross	8	Companies under common control	4	5
Trade payables	14	Companies under common control	(5)	(4)

II. Transactions with related parties

	Note	Relationship	2018	2017
Sales of chemical fertilisers	5	Companies under common control	8	8
Purchases of raw materials	18	Companies under common control	(73)	(71)
Charity expenses	22	Companies under common control	(119)	(65)

III. Key management personnel compensation

Total key management personnel compensation in the amount of RUB 1,269 (2017: RUB 801) was recorded in general and administrative expenses. Related state social and pension costs included in this amount equalled to RUB 171 (2017: RUB 124).

7. Cash and Cash Equivalents

	2018	2017
Cash on hand and bank balances denominated in RUB	2,602	2,018
Bank balances denominated in USD	5,582	10,143
Bank balances denominated in EUR	1,952	1,680
Bank balances denominated in CNY	154	230
Bank balances denominated in other foreign currencies	170	231
Total cash and cash equivalents	**10,460**	**14,302**

Cash and cash equivalents include term deposits of RUB 2,391 (2017: RUB 3,679).

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:

	2018	2017
A to AAA* rated	3,884	1,943
BBB- to BBB+* rated	5,348	10,671
BB- to BB+* rated	418	661
Baa3 (2017: Ba2)**	747	748
Unrated	63	279
Total	**10,460**	**14,302**

* 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

	2018	2017
Trade accounts receivable	3,555	2,317
Notes receivable	85	91
Other accounts receivable	588	498
Impairment provision	(43)	(50)
Total financial assets	**4,185**	**2,856**
Advances to suppliers	2,471	2,515
Value-added tax recoverable	3,123	3,546
Income tax prepayments	383	457
Other taxes receivable	656	606
Impairment provision	(3)	(40)
Total accounts receivable	**10,815**	**9,940**

The fair value of accounts receivable does not differ significantly from their carrying amounts.

As at 31 December 2018, trade and other accounts receivable of RUB 43 (31 December 2017: RUB 50) 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 2018	Impairment 2018	Gross 2017	Impairment 2017
Not past due	4,086	-	2,750	-
Past due for less than 3 months	-	-	-	-
Past due from 3 to 9 months	11	(1)	14	(5)
Past due from 9 to 12 months	4	(4)	9	(8)
Past due over 12 months	42	(38)	42	(37)
Total	**4,143**	**(43)**	**2,815**	**(50)**

The movements in the provision for impairment of trade and other accounts receivable are as follows:

	2018	2017
Provision for impairment at 1 January	**(50)**	**(41)**
Provision for impairment	(1)	(11)
Provision used	8	2
Provision for impairment at 31 December	**(43)**	**(50)**

As at 31 December 2018, the Group hold no collateral as security for trade receivable (31 December 2017: the Group held collateral as security for trade receivable in the amount of RUB 685, included in advances received).

Besides trade accounts receivable and advances to suppliers, the other classes within accounts receivable do not contain impaired assets.

9. Inventories

	2018	2017
Raw materials and spare parts	8,079	8,056
Work in progress	460	314
Finished products	8,185	6,580
	16,724	**14,950**

Raw materials are shown net of obsolescence provision of RUB 99 (2017: RUB 127). No inventory was pledged as security at 31 December 2018 and 2017.

10. Property, Plant and Equipment

	Buildings and constructions	Plant and equipment	Transport	Other	Land	Mining and primary ore dressing assets	Mining assets under construction	Assets under construction	**Total**
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**

	Buildings and construc-tions	Plant and equipment	Transport	Other	Land	Mining and primary ore dressing assets	Mining assets under construction	Assets under construction	**Total**
Cost									
Balance at 1 January 2017	**37,430**	**38,023**	**5,000**	**2,794**	**2,594**	**23,505**	**15,318**	**6,713**	**131,377**
Additions	-	-	-	-	-	-	5,356	6,250	**11,606**
Reclassification	1,104	3,758	64	98	9	5,971	(5,971)	(5,033)	-
Disposals	(388)	(627)	(146)	(5)	-	(11)	-	-	**(1,177)**
Translation difference	355	206	15	7	-	-	-	6	**589**
Balance at 31 December 2017	**38,501**	**41,360**	**4,933**	**2,894**	**2,603**	**29,465**	**14,703**	**7,936**	**142,395**
Accumulated Depreciation									
Balance at 1 January 2017	**15,592**	**21,013**	**2,640**	**1,050**	-	**6,909**	-	-	**47,204**
Depreciation charge	2,335	3,290	162	273	-	2,083	-	-	**8,143**
Disposals	(286)	(625)	(135)	(5)	-	(4)	-	-	**(1,055)**
Translation difference	134	133	14	2	-	-	-	-	**283**
Balance at 31 December 2017	**17,775**	**23,811**	**2,681**	**1,320**	-	**8,988**	-	-	**54,575**
Net Book Value									
Balance at 1 January 2017	**21,838**	**17,010**	**2,360**	**1,744**	**2,594**	**16,596**	**15,318**	**6,713**	**84,173**
Balance at 31 December 2017	**20,726**	**17,549**	**2,252**	**1,574**	**2,603**	**20,477**	**14,703**	**7,936**	**87,820**

Included in the 2018 additions to assets under constructions and mining assets under construction, related to CJSC VPC and JSC NWPC, is approximately RUB 1,283 of capitalised borrowing costs in accordance with IAS 23, Borrowing costs (2017: RUB 793) at the borrowing rate from 6.17% to 10.2% (2017: from 6.19% to 9.05%).

At 31 December 2018 and 2017, no pledges over property, plant and equipment.

No impairment loss in respect of individual assets was recognised in 2018 and 2017.

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 2018, except for CJSC VPC (Note 11), where development phase determines the necessity to perform impairment testing.

11. Subsoil Licences and Related Costs

Licence of CJSC Verkhnekamsk potash company (CJSC VPC)

In May 2008, the Group's subsidiary, CJSC 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 CJSC 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 CJSC 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 CJSC VPC. Therefore capitalised borrowing costs in amount of RUB 3,505 in the reporting period and applied borrowing rate of 10.2%. Mining assets under construction related to CJSC VPC also include capitalised borrowing costs in amount of RUB 596.

Exploration Licences in Canada

In 2018, 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 2018, the Group holds 11 exploration licences on potash deposits for RUB 4,685 (31 December 2017: RUB 4,894). In 2018, the Group considered unpromising the development of several deposits and returned back to the province licences in the amount of RUB 905. In 2018, the Group acquired a new permit for exploration in the amount of RUB 27. In 2018 the Group did not perform active development on the following deposits.

	2018	2017
Cost		
Balance at 1 January	**34,298**	**33,242**
Additions	3,897	978
Disposal	(905)	-
Currency translation difference	443	78
Balance at 31 December	**37,733**	**34,298**
Accumulated Amortisation and Impairment Loss		
Balance at 1 January	**(1,164)**	**(1,152)**
Amortisation charge	(12)	(12)
Balance at 31 December	**(1,176)**	**(1,164)**
Net Book Value		
Balance at 1 January	**33,134**	**32,090**
Balance at 31 December	**36,557**	**33,134**

Subsoil licences and related costs comprise of:

	2018	2017
Apatite-nepheline deposits (production / development stage)	812	824
Potash deposits (development stage)	29,716	26,211
Exploration licences	4,685	4,894
Licence and expenditure on deposit in exploration and evaluation stage	1,039	940
Asset related to the discharge of licence obligations	305	265
	36,557	**33,134**

Impairment test of CJSC VPC

Since the assets of CJSC VPC are under development, Management of the Group performed an annual testing of this cash-generating unit (CGU) for impairment as at 31 December 2018.

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 CJSC VPC shares as of 31 December 2018. 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 2018	30 September 2017
EBITDA margin range over the forecast period after reaching the designed capacity	80-83%	63-69%
Revenue growth rate beyond forecast period	2.75%	2%
Start of production	2023	2021
Discount rate	13.2-13.7%	12.0%

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 41,707. Management identified that the recoverable amount strongly depends on changes in export prices expressed in roubles and discount rates. Decrease of over 19.7% in the export prices or increase by 3.2 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

	2018	2017
Balance at 1 January	**22,698**	**17,965**
Fair value (loss)/gain recognised directly in OCI	(11,235)	4,733
Additions	207	-
Balance at 31 December	**11,670**	**22,698**

The Group has investments in the following companies:

Name	Activity	Country of registration	31 December 2018	31 December 2017
Non-current				
Grupa Azoty S.A.	Fertilisers manufacture	Poland	11,322	22,557
Other		Russia	348	141
Total non-current			**11,670**	**22,698**
Total			**11,670**	**22,698**

The fair value of investment in Grupa Azoty S.A. was determined by reference to their quoted market prices as at 31 December 2018. As at 31 December 2018, the share price of Grupa Azoty S.A. on Warsaw Stock Exchange was RUB 575.99 (31 December 2017: RUB 1,147.51).

13. Derivative Financial Assets and Liabilities

In June 2018, Sberbank Investments LLC, being a financial equity investor of CJSC 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 CJSC 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 CJSC VPC was recognised in equity.

The net assets as at 31 December 2018 are represented by one call option, which gives the Group the right to purchase from non-controlling shareholders the 19.9% stake in CJSC 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 CJSC VPC correspondingly in June and August 2020.

	31 December 2018			
	Assets		Liabilities	
	Non-Current	Current	Non-Current	Current
Put/call options on CJSC VPC shares	2,844	-	(1,875)	-
	2,844	-	**(1,875)**	-

	31 December 2017			
	Assets		Liabilities	
	Non-Current	Current	Non-Current	Current
Put/call options on CJSC VPC shares	-	-	-	(3,359)
	-	-	-	**(3,359)**

14. Accounts Payable

	2018	2017
Trade accounts payable	4,023	3,247
Dividend payable	71	40
Notes payable	8	21
Total financial payables	**4,102**	**3,308**
Payables to employees	1,411	1,263
Accrued liabilities and other creditors	774	717
Other taxes payable	939	407
Total accounts payable and accrued expenses	**7,226**	**5,695**

15. Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2018	2017
Bonds issued	13,772	23,767
Credit lines	7,160	5,890
Term loans	63,553	44,866
	84,485	**74,523**

The Group's borrowings mature as follows:

	2018	2017
Borrowings due:		
— within 1 year	17,539	18,930
— between 1 and 5 years	66,671	55,382
— after 5 years	275	211
	84,485	**74,523**

The Group's borrowings are denominated in currencies as follows:

	2018	2017
Borrowings denominated in:		
— RUB	21,813	30,422
— EUR	4,930	3,551
— USD	57,742	40,550
	84,485	**74,523**

The Group did not enter into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

At 31 December 2018, unused credit lines available under the long-term loan facilities were RUB 41,818 (31 December 2017: RUB 18,614). 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:

	2018	2017
Short-term borrowings		
RUB		
Bonds with fixed interest rate of 9.1% per annum	-	9,995
Loans with fixed interest rate of 9.75% per annum	-	115
Loans with floating interest rates from the key rate of the Bank of Russia+0.55% to the key rate of the Bank of Russia+1.5% per annum	6,813	5,811
EUR		
Loans with floating interest rates from 6M EURIBOR+0.65% to 6M EURIBOR+1.9% (2017: from 6M EURIBOR+0.75% to 6M EURIBOR+2.85%) per annum	414	371
Loans with floating interest rate from 3M EURIBOR+1.35% to 3M EURIBOR+1.7% per annum	248	243
Loans with fixed interest rate of 5.27% per annum	125	217
USD		
Loans with fixed interest rates from 2.48% to 5.61% per annum	82	1,015
Loans with floating interest rate of 1M LIBOR+2.25% (2017: from LIBOR O/N+1.56% to LIBOR O/N+2.05%) per annum	9,857	1,163
Total short-term borrowings	**17,539**	**18,930**

The details of the significant long-term loan balances are summarised below:

	2018	2017
Long-term borrowings		
RUB		
Bonds with fixed interest rates from 8.6% to 10.2% per annum	13,772	13,772
Loans with floating interest rate: the key rate of the Bank of Russia +2% per annum	1,228	729
EUR		
Loans with floating interest rates from 6M EURIBOR+0.65% to 6M EURIBOR+1.9% per annum	1,531	1,379
Loans with floating interest rates from 3M EURIBOR+1.25% to 3M EURIBOR+1.7% per annum	2,612	1,233
Loans with fixed interest rate of 5.27% per annum	-	108
USD		
Loans with fixed interest rates from 5.11% to 5.61% per annum	-	68
Loans with floating interest rate of 3M LIBOR+3.65% per annum	-	2,016
Loans with floating interest rates from 1M LIBOR+2.1% to 1M LIBOR+2.25% (2017: 1M LIBOR+2.8%) per annum	47,803	36,288
Total long-term borrowings	**66,946**	**55,593**

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 2018, the Group's subsidiary PJSC Dorogobuzh held bonds in the amount of RUB 351.

In November 2015, the Group placed non-convertible interest-bearing documentary bonds in the amount of RUB 10,000 to be redeemed in November 2018. The bonds were placed at 9.1%. In May 2017, partial redemption took place during buyback option period for RUB 5. In November 2018, the Group redeemed bonds in amount of RUB 9,995.

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% 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% with the option of early redemption in December 2021.

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 2018 was RUB 14,001 with reference to Moscow Stock Exchange quotations as of this date (31 December 2017: RUB 24,450).

In 2018 the Group borrowed funds under a 5-year syndicated pre-export loan agreement concluded in May 2017 in the amount of USD 120 million (RUB 7,442) at 1M LIBOR+2.25% rate per annum, as at 31 December 2018, with the purpose to satisfy general corporate finance requirements (2017: The Group borrowed USD 630 million (RUB 35,831) at 1M LIBOR+2.8% rate per annum, with the purpose to refinance previous syndicated pre-export loan as well as to satisfy general corporate finance requirements).

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 2018	**50,756**	**23,767**	**74,523**
Changes from financing cash flows			
Proceeds from borrowings	35,633	-	35,633
Repayment of borrowings	(25,666)	(9,995)	(35,661)
Total changes from financing cash flows	**60,723**	**13,772**	**74,495**
The effect of changes in foreign exchange rates	**9,932**	-	**9,932**
Other changes			
Capitalised borrowing costs (Notes 10 and 11)	1,894	1,423	3,317
Interest expense	883	724	1,607
Interest paid	(2,719)	(2,147)	(4,866)
Total liability-related other changes	**58**	-	**58**
Balance at 31 December 2018	**70,713**	**13,772**	**84,485**

16. Capital and Reserves

The total authorised number of ordinary shares is 40,534,000 shares (31 December 2017: 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 2017	**40,534,000**	**(726,208)**	**3,046**	**(4)**	**3,042**
Acquisition	-	(420,244)	-	(2)	(2)
At 31 December 2017	**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**

In January 2018, dividend for previous years was declared and paid in amount of RUB 112 per ordinary share. In May 2018, dividend for 2017 was declared and paid in amount of RUB 185 per ordinary share. In October 2018, dividend for 2017 was declared and paid in amount of RUB 40 per ordinary share. In March 2019, subsequent to reporting period, dividend for previous years was declared in amount of RUB 130 per ordinary 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 2018, related financing received by the Group was recorded in the Group's equity as non-controlling interest in amount of RUB 18,376 (31 December 2017: RUB 17,869).

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 2018

	CJSC 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			

As at 31 December 2017

	CJSC VPC	PJSC Dorogobuzh	Other individually immaterial subsidiaries	Intra-group elimination	Total
Non-controlling interest percentage	**39.9%**	**4.08%**			
Non-current assets	23,267	19,427			
Current assets	23,162	31,733			
Long-term liabilities	(1,499)	(416)			
Current liabilities	(145)	(3,658)			
Net assets	**44,785**	**47,086**			
Carrying amount of non-control interests	17,869	1,921	866	-	**20,656**
Revenue	-	24,002			
Profit and total comprehensive income	1,176	7,469			
Profit attributed to non-controlling interest	469	305	54	-	**828**
Other comprehensive income attributed to non-control interest	-	-	19	-	**19**
Cash flows from operating activities	-	3,596			
Cash flows (used in)/ from investment activities	(14)	10,017			
Cash flows used in financing activities (dividend to non-controlling interests PJSC Dorogobuzh: 118)	-	(14,587)			
Net decrease in cash and cash equivalents	(14)	(974)			
Effect of exchange rate changes	(1)	(453)			

18. Cost of Sales

	2018	2017
Natural gas	15,550	15,406
Depreciation and amortisation of property, plant and equipment and intangible assets	9,026	7,957
Fuel and energy	7,630	7,219
Potash used in production	6,721	5,192
Staff costs	6,331	6,062
Repairs and maintenance	3,214	3,057
Other materials and components	3,437	4,736
Services	901	886
Social expenditure	717	670
Drilling and blasting	471	398
Production overheads	446	300
Impairment loss	-	26
	54,444	**51,909**

19. Selling, General and Administrative Expenses

	2018	2017
Staff costs	4,059	3,624
Buildings maintenance and rent	718	580
Taxes other than income tax	640	452
Representation expenses	582	516
Audit, legal and consulting services	443	315
Security	388	391
Commission fees	340	195
Business trip expenses	284	197
Marketing services	168	129
Telecommunication costs	79	63
Bank services	71	177
Insurance	64	64
Change in provision for bad debts	(23)	15
Other expenses	302	444
	8,115	**7,162**

20. Transportation Expenses

	2018	2017
Railway tariff	4,418	3,822
Ocean freight	4,505	2,747
Handling of goods	4,262	3,722
Container transportation	1,795	1,553
Railcar lease	1,115	635
Maintenance of rolling stock	1,086	932
Other	534	317
	17,715	**13,728**

21. Finance (Expenses) / Income, net

	2018	2017
Foreign exchange (loss)/gain on financial transactions, net	(8,393)	856
Other finance costs	(309)	(376)
Commission expense	(283)	(572)
Dividend income	402	224
Interest income from loans provided and term deposits	161	226
	(8,422)	**358**

22. Other Operating Expenses, net

	2018	2017
Foreign exchange gain/(loss) on operating transactions, net	1,350	(561)
Loss on disposal of property, plant and equipment	(1,033)	(122)
Loss on disposal of exploration licences	(905)	-
Charity expenses	(242)	(277)
Other income	481	594
	(349)	**(366)**

23. 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 2018 and as at 31 December 2017, 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).

	2018	2017
Weighted average number of shares outstanding	40,534,000	40,534,000
Adjusted for weighted average number of treasury shares	(1,202,565)	(961,499)
Weighted average number of shares outstanding (basic)	**39,331,435**	**39,572,501**
Effect of right to settle in own ordinary shares	103,838	413,290
Weighted average number of shares outstanding (diluted)	**39,435,273**	**39,985,791**
Profit attributable to the equity holders of the Company	12,768	13,432
Basic (in Russian Roubles)	**324.63**	**339.43**
Diluted (in Russian Roubles)	**323.77**	**335.92**

24. Income Tax

	2018	2017
Income tax expense – current	4,095	3,195
Adjustment for prior years	-	95
Deferred tax charge – origination and reversal of temporary differences	893	210
Income tax charge	**4,988**	**3,500**

Profit before taxation for financial reporting purposes is reconciled to tax charge as follows:

	2018	2018	2017	2017
Profit before taxation	**18,304**	**100%**	**17,760**	**100%**
Theoretical tax charge at statutory rate of 20%	3,661	20%	3,552	20%
Effects of different tax rates	(144)	(1%)	(229)	(1%)
Tax effect of items which are not deductible or assessable for taxation purposes	1,152	6%	352	2%
Change in unrecognised deductible temporary differences	319	2%	(270)	(2%)
Adjustment for prior years	-	-	95	1%
Income tax charge	**4,988**	**27%**	**3,500**	**20%**

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% (2017: 20%).

Unrecognised deferred tax liabilities

At 31 December 2018, a deferred tax liability of RUB 13,764 (31 December 2017: RUB 14,884) for temporary differences of RUB 68,821 (31 December 2017: RUB 74,420) 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 2017	Charged to profit or loss	**31 December 2017**	Charged to profit or loss	Charged to capital	**31 December 2018**
Property, plant and equipment	2,031	526	2,557	408	-	2,965
Investments	33	(28)	5	(5)	-	-
Subsoil Licences and Related Costs	4,148	(346)	3,802	939	-	4,741
Inventory	(157)	93	(64)	(612)	-	(676)
Financial instruments	(681)	69	(612)	181	620	189
Tax loss carry-forwards	(138)	1	(137)	(78)	-	(215)
Accounts receivable	(5)	33	28	15	-	43
Accounts payable	(109)	14	(95)	(8)	-	(103)
Staff costs payable	(29)	(1)	(30)	-	-	(30)
Other temporary differences	(124)	(56)	(180)	53	-	(127)
Net deferred tax (asset)/liability	**4,969**	**305**	**5,274**	**893**	**620**	**6,787**
Recognised deferred tax asset	(341)	169	(172)	8	-	(164)
Recognised deferred tax liability	5,310	136	5,446	885	620	6,951
Net deferred tax (asset)/liability	**4,969**	**305**	**5,274**	**893**	**620**	**6,787**

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.

25. Contingencies, Commitments and Operating Risks

I. Contractual commitments and guarantees

As at 31 December 2018, the Group had outstanding capital commitments in relation to property, plant and equipment for the amount of RUB 13,285 (31 December 2017: RUB 12,771).

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 2018 and 2017, 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 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.

26. Financial and Capital Risk Management

26.1. 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 2018:

	2018			
	Financial assets at amortised cost	Fair value through other comprehensive income – equity instruments	Mandatorily at fair value through profit or loss – others	**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**

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 2017 in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", which was applicable before 1 January 2018:

	2017			
	Loans and receivables	Available-for-sale assets	Trading Assets	**Total**
Assets				
Cash and cash equivalents (Note 7)				
— Cash on hand and bank balances	14,302	-	-	**14,302**
Trade and other receivables (Note 8)				
— Trade receivables, net of provision	2,267	-	-	**2,267**
— Notes receivable	91	-	-	**91**
— Other financial receivables	498	-	-	**498**
Loans receivable				
— Long term loans receivable	29	-	-	**29**
Trading Investments	-	-	**51**	**51**
Available-for-sale investments (Note 12)				
— Corporate shares	-	22,698	-	**22,698**
Total financial assets	**17,187**	**22,698**	**51**	**39,936**

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 73% 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 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**

At 31 December 2017	USD	EUR	CNY
Financial assets:			
Cash and cash equivalents	10,143	1,680	230
Accounts receivable	2,079	15	126
	12,222	**1,695**	**356**
Financial liabilities:			
Accounts payable and other liabilities	(651)	(269)	-
Borrowings and notes payable	(40,550)	(3,551)	-
Derivative financial instruments	(3,359)	-	-
	(44,560)	**(3,820)**	-
Net position	**(32,338)**	**(2,125)**	**356**

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.

	2018	2017
Impact on post-tax profit and on equity of:		
USD strengthening by 20%	(7,962)	(5,174)
USD weakening by 20%	7,962	5,174

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 2018 and 2017 borrowings at variable rates amounted to RUB 70,506 and RUB 49,233 respectively (Note 15).

At 31 December 2018, 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 3,286 (2017: RUB 2,811) 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 14,645 (2017: RUB 17,238) 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 26(i).

As at 31 December 2018, cash and cash equivalents in the amount RUB 5,259 were held in Russian bank with credit rating BBB- (2017: RUB 10,493) and RUB 747 was held in Russian bank with credit rating Baa3 (2017: RUB 748 with credit rating Ba2). 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 2018, the Group has 1 counterparty with aggregated receivables balances in excess of 10% of the Group's gross accounts receivable balances (2017: 2 counterparties).

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 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**

	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 2017							
Bonds issued*	23,767	-	12,191	1,289	15,083	-	**28,563**
Credit lines*	5,890	93	4,121	2,092	-	-	**6,306**
Term loans*	44,866	673	6,206	9,043	33,591	218	**49,731**
Notes payable	21	21	-	-	-	-	**21**
Trade payables	5,267	5,267	-	-	-	-	**5,267**
Derivatives	3,359	3,308	51	-	-	-	**3,359**
Total	**83,170**	**9,362**	**22,569**	**12,424**	**48,674**	**218**	**93,247**

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as at 31 December 2018 and 31 December 2017, respectively.

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 2018, unused credit lines available under long-term loan facilities were RUB 41,818 (2017: RUB 18,614).

26.2 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 2018, the Group's strategy, as in 2017, was to maintain the gearing ratio at the level not exceeding 150%.

The gearing ratio as at 31 December 2018 and 31 December 2017 is shown in the table below:

	2018	2017
Long-term borrowings	66,946	55,593
Short-term borrowings	17,539	18,930
Total debt	**84,485**	**74,523**
Shareholders' equity	**78,165**	**90,956**
Gearing ratio, %	**108%**	**82%**

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 2018, 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:

	2018	2017
EBITDA	37,053	29,817
Interest income (Note 21)	(161)	(226)
Interest expense	1,607	4,110
Interest expense capitalised (Notes 10 and 11)	3,317	793
Net interest expense	**4,763**	**4,677**
EBITDA/Net interest expense	**7.8:1**	**6.4:1**

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.

27. 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 11,322 (31 December 2017: RUB 22,749).

All liabilities on bonds issued were included in level 1 category in the amount of RUB 13,772 (31 December 2017: RUB 23,767)

The fair value of the call/put options on shares of CJSC 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 CJSC 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 CJSC 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: 2.75%. — Forecast EBITDA margin after reaching the designed capacity: 80%-83%. — Risk-adjusted discount rate: 13.2-13.7%. — Production start year: 2023. — Non-controlling discount: 15.97%.	The estimated fair value of the shares of CJSC 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 CJSC VPC (liability)	— The current fair value of the shares (calculated as above) — Volatility: 29.11%-29.53%. — Risk-free rate of return: (0.21)%. — 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 2018, the fair value of borrowings was RUB 558 higher than their carrying amounts. At 31 December 2017, the fair value of borrowings was RUB 539 higher than their carrying amounts.

The fair value of payables does not differ significantly from their carrying amounts.

28.Subsequent Events

No subsequent events.

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.

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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. Leasehold land

Leases of land are classified as operating leases. The pre-paid lease payments are amortised over the lease period of 30 years on a straight-line basis.

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 fertilizers 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.

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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 2018 the principal rate of exchange used for translating foreign currency balances was

USD 1 = RUB 69.4706 , USD 1 = CNY 6.8632, EUR 1 = RUB 79.4605 (31 December 2017: USD 1 = RUB 57.6002, USD 1 = CNY 6.5342, EUR 1 = RUB 68.8668). 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. From 1 January 2018, the Group changed its approach to the recognition of revenue under the contracts involving shipping after the transfer of risks and rewards to the customer. Information about the Group's accounting policies relating to contracts with customers is provided in Note 4.

Sales are shown net of VAT, custom duties and discounts, and after eliminating sales within the Group

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 capitalized. Capitalized 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 capitalized 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 10. 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, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

IFRS 16 Leases

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

RAS Financial Statement

PJSC Acron complete 2018 RAS Financial Statements including Independent Auditor's Report are attached as Appendix 5 (available in the Russian version of the Annual Report). Below is the Balance Sheet as of 31 December 2018 and the 2018 Profit and Loss Statement.

ACRON BALANCE SHEET, RUB '000

Notes	Item	Code	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
	ASSETS				
	I. NON-CURRENT ASSETS				
2.2	Intangible assets	1110	75,811	70,905	67,126
	Research and development costs	1120	-	-	-
	Intangible development assets	1130	-	-	-
	Tangible development assets	1140	-	-	-
2.1	Fixed assets	1150	39,341,253	37,484,285	38,921,064
	Income-bearing investment in tangible assets	1160	-	-	-
2.8	Financial investments	1170	90,559,047	90,929,656	88,672,738
2.18	Deferred tax assets	1180	264,118	253,651	258,183
2.4	Other non-current assets	1190	655,786	572,654	271,547
	Total under Section I	**1100**	**130,896,015**	**129,311,151**	**128,190,658**
	II. CURRENT ASSETS				
2.3	Inventory	1210	6,795,557	6,588,939	6,753,337
	VAT on purchased items	1220	78,461	1,145,102	570,530
2.5	Accounts receivable	1230	9,689,871	4,603,407	6,510,843
2.8	Financial investments (less cash equivalents)	1240	12,313	12,809	6,444,747
2.6	Cash and cash equivalents	1250	4,409,642	7,160,696	3,325,778
2.7	Other current assets	1260	31,670	28,969	72,539
	Total under Section II	**1200**	**21,017,514**	**19,539,922**	**23,677,774**
	GRAND TOTAL	**1600**	**151,913,529**	**148,851,073**	**151,868,432**

Notes	Item	Code	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
	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	938,268	946,893	969,280
	Capital surplus (less revaluation)	1350	6,846	6,846	6,561
2.11	Capital reserve	1360	30,401	30,401	30,401
	Retained profit (loss)	1370	18,389,603	21,226,467	26,947,922
	Total under Section III	**1300**	**19,567,788**	**22,413,277**	**28,156,834**
	IV. NON-CURRENT LIABILITIES				
2.10	Borrowings	1410	65,682,055	59,171,688	34,709,518
2.18	Deferred tax liabilities	1420	6,823,028	6,971,381	6,268,160
	Estimated liabilities	1430	-	-	-
	Other liabilities	1450	-	-	-
	Total under Section IV	**1400**	**72,505,083**	**66,143,069**	**40,977,678**
	V. CURRENT LIABILITIES				
2.10	Borrowings	1510	56,149,942	57,918,211	79,287,924
2.9	Accounts payable	1520	3,217,312	2,090,335	3,138,820
	Deferred revenue	1530	67,667	25	22
2.12	Estimated liabilities	1540	335,944	283,606	301,769
2.13	Other liabilities	1550	69,793	2,550	5,385
	Total under Section V	**1500**	**59,840,658**	**60,294,727**	**82,733,920**
	GRAND TOTAL	**1700**	**151,913,529**	**148,851,073**	**151,868,432**

Chief Executive Officer **Vladimir Kunitsky**

Chief Accountant **Nadezhda Pavlova**

27 March 2019

ACRON PROFIT AND LOSS STATEMENT, RUB '000

Notes	Item	Code	2018	2017
2.15	**Revenue**	**2110**	**67,753,913**	**54,783,409**
2.16	Cost of goods sold	2120	(36,629,423)	(34,525,862)
	Gross profit (loss)	**2100**	**31,124,490**	**20,257,547**
2.16	Selling expenses	2210	(4,600,071)	(3,855,839)
2.16	Administrative expenses	2220	(3,780,911)	(3,091,692)
	Sales profit (loss)	**2200**	**22,743,508**	**13,310,016**
	Profit from shareholdings in other companies	2310	9,104,742	3,643,194
	Interest income	2320	43,901	317,977
	Interest expense	2330	(7,729,472)	(8,880,577)
2.15	Other income	2340	706,231	3,639,768
2.16	Other expenses	2350	(13,312,913)	(3,021,670)
	Profit (loss) before tax	**2300**	**11,555,997**	**9,008,708**
2.18	Income tax	2410	(923,389)	(719,174)
2.18	incl. permanent tax liabilities (assets)	2421	(1,546,630)	(374,815)
2.18	Change in deferred tax liabilities	2430	148,353	(703,221)
2.18	Change in deferred tax assets	2450	10,467	(4,532)
	Other	2460	18,938	46,120
	Incl. income tax from previous periods	2461	18,938	46,120
	Net profit (loss)	**2400**	**10,810,366**	**7,627,901**
	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	-	285
	Total financial result of the period	2500	10,810,366	7,628,186
	FOR REFERENCE			
2.17	Basic earnings (loss) per share	2900	0.267	0.188
	Diluted earnings (loss) per share	2910	-	-

Chief Executive Officer **Vladimir Kunitsky**

Chief Accountant **Nadezhda Pavlova**

27 March 2019

Internal Audit Report

The Internal Audit Team, elected by Acron Group's annual general meeting on 31 May 2018 and acting under the Regulation on the Acron Internal Audit Team approved by Acron Group's annual general meeting (Minutes No. 49 dated 27 May 2016), which includes Valentina Alexandrova, Irina Dudicheva, Elena Zubrilova, Elena Potapova and Tatiana Khrapova, conducted the audit of Acron Group's financial and business activity in 2018, including the following matters:

1) Compliance with the accounting and reporting procedures established by Russian law

2) Compliance of the Group's business and financial activity with Russian law in ways that may materially affect Acron Group's financial performance

3) The accuracy of the data contained in Acron Group's reports

The Acron Internal Audit Team used the following documents:

— Acron Charter
— Regulation on Acron Internal Audit Team
— Acron Accounting Policy
— Minutes of Acron's general meetings and meetings of its Board of Directors for 2018
— Selected accounting source documents supporting the data in accounting and reporting, ledgers and forms of mandatory reporting
— Crowe Russaudit audit report dated 27 March 2019 on Acron Group's 2018 financial statements

The Acron Internal Audit Team reviewed and analysed the following documents:

1. Acron's 2018 annual accounting statements, including the following forms of reporting:

— Balance Sheet as of 31 December 2018
— 2018 Profit and Loss Statement
— Appendices to the Balance Sheet and Profit and Loss Statement, including
  — 2018 Statement on Changes in Equity
  — 2018 Cash Flow Statement
  — Explanatory note to the Balance Sheet and Profit and Loss Statement.

2. 2018 Acron Annual Report

3. Report on 2018 Acron Group's related-party transactions.

Crowe Russaudit audited Acron Group's annual accounting statements for 2018 in accordance with international accounting standards. In its report dated 27 March 2019, Crowe Russaudit states that Acron Group's accounting statements are executed in accordance with Russian accounting standards established by Russian law and accurately reflects Acron Group's financial standing as of 31 December 2018 in all material aspects.

Based on the results of its own audit, the Acron Internal Audit Team agrees with the opinion of the Group's auditor and confirms as follows:

— 2018 Acron Annual Report was prepared in compliance with applicable Russian laws.
— The data contained in 2018 Acron financial statements are reliable.
— The data contained in the report on 2018 Acron Group related-party transactions are reliable.
— No material violations of the accounting and reporting procedure established by Russian laws were identified; no material violations of Russian laws in the course of Acron Group's financial and business activity were identified.
— Acron's systems of corporate governance, risk management and internal control comply with the requirements established by Russian laws and Acron bylaws.
— Shareholders and the Board of Directors did not request that the Acron Internal Audit Team conduct any unscheduled audits.

Audit Conclusion:

Considering the opinion of the Company's independent auditor and a positive assessment of the Company's internal control system, the Internal Audit Team has sufficient grounds to confirm the accuracy of the data contained in Acron's 2018 annual accounting statements.

The Internal Audit Team confirms that Acron's 2018 accounting (financial) statements reliably reflect the Company's financial standing in all material aspects as of the date of its preparation, and the Company's financial and economic activity was carried out in accordance with regulations and Acron's bylaws.

The Internal Audit Team confirms the accuracy of the information in Acron's 2018 annual report, as well as the information contained in the report on the Company's related - party transactions in 2018.

Chairman of the Internal Audit Team

I.G. Dudicheva

29 March 2019

Appendices

Appendix 1
List of Major and Related-party Transactions

List of Acron Group's transactions in 2018 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 2018, 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 2018 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 2018 dated 24 April 2018 (confirmed by the Internal Audit Team on 24 April, and approved by the Board of Directors on 24 April 2018), in accordance with Paragraph 10, 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 2018 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: Investor and Shareholder Information → Acron Shareholder Information → General Meeting. The full web-page address is https://www.acron.ru/en/investors/acron-shareholders/info/).

Additionally, Acron's Report on Related-party Transactions Executed in 2018 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/, in the section: Investor and Shareholder Information → Financial Statements → Acron → Annual Reports → 2018. The full web-page address is https://www.acron.ru/en/investors/financial-statements/?brand=1988&type=202&year=2018);

— On the Group's corporate disclosure page in the Interfax Company Disclosure System at http://www.e-disclosure.ru/portal/company.aspx?id=357 (In the section: Reporting → Annual Reporting. The full web page address is http://www.e-disclosure.ru/portal/files.aspx?id=357&type=2.

Appendix 2
Group Structure

Chemical Production

ACRON — 96.7% → DOROGOBUZH

Mining

100%
NWPC
(phosphate raw material production)

60.1%
VPC
(potash mining project)

100%
NORTH ATLANTIC POTASH INC.
(potash mining leases)

Logistics

100%
AS DBT
(two port terminals)

100%
ANDREX
(port terminal)

100%
ACRON-TRANS
(logistics)

Distribution

100%
AGRONOVA
(Russian distribution network)

100%
ACRON USA INC.,
ACRON SWITZERLAND AG*
ACRON FRANCE SAS
(International traders and regional distributors)

100%
BEIJING YONG SHENG FENG AMPC, LTD.
(distribution network in China)

Portfolio Investments

19.8%
GRUPA AZOTY
(Polish fertiliser producer)

* Note: The data is shown as of 31 December 2018, as a percentage of the authorised capital held directly or through subsidiaries.

* On 3 January 2018, the companies' names were changed from Agronova International Inc. and Agronova Europe AG to Acron USA Inc. and Acron Switzerland AG, respectively.

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)

	2017		2018	
	Consumption Volume	Cost, RUB '000	Consumption Volume	Cost, RUB '000
Natural gas, mn m^3	2,463	11,444,766	2,510	11,549,324
Electricity, mn KWt*h	1,016	3,401,777	986	3,444,204
Thermal energy, '000 Gcal	1,262	1,362,620	1,406	1,444,475
Motor gasoline, '000 l	296	9,115	290	9,692
Diesel fuel, '000 l	1,625	44,494	1,630	52,735

Notes

Notes

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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 2018 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 2018.

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 2018. The Group neither represents nor warrants that its forecasted performance will be achieved or should be considered the most probable scenario.

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