# PJSC “PhosAgro”

# International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor’s Report

# 31 December 2021

**Contents**

# Independent Auditors' Report

To the Shareholders and Board of Directors of PJSC "PhosAgro":

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC "PhosAgro" (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2021, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

**What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

## 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 Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

## 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.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Initial audit procedures as a result of changing the auditor<br><br>*Refer to Note 4 to the consolidated financial statements of the Group*<br><br>In December 2020, the Company appointed us as auditors of the consolidated financial statements of the Group for the year ended 31 December 2021. The consolidated financial statements of the Group for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 18 February 2021.<br><br>For the first-year audit, our objective with respect to the opening balances was to obtain sufficient appropriate audit evidence about whether:<br><br>(a) The opening balances contain misstatements that materially affect the current period's financial statements; and<br><br>(b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with IFRS.<br><br>We focus on this matter as the first-year audit inherently requires greater attention to the consistency of the application of accounting principles, critical estimates and significant management judgements. | As the newly appointed auditor we performed the following audit procedures to obtain sufficient appropriate audit evidence regarding the opening balances:<br><br>• We contacted the predecessor auditor and assessed the predecessor auditor's working papers to obtain evidence regarding the opening balances.<br><br>• We reviewed the accounting policies of the Group and ensured that the accounting policies have been consistently applied in the current period's financial statements.<br><br>• We assessed changes in the accounting policies implemented by the Group since 2020 to make sure they were appropriately applied and presented in the consolidated financial statements in accordance with IFRS.<br><br>• We identified complex accounting matters and transactions and assessed management's judgement, the accounting treatment and the disclosures made in the consolidated financial statements.<br><br>• We obtained an understanding of management's process in respect of the identification and measurement of the accounting estimates and related controls.<br><br>• We assessed critical estimates and judgements applied by management that had the most significant effect on the amounts recognised in the consolidated financial statements of the Group and ensured that these estimates and judgements are adequate and conform with IFRS requirements. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Recoverability of deferred tax assets<br><br>*Refer to Note 17 to the consolidated financial statements of the Group*<br><br>As at 31 December 2021, the Group's consolidated statement of financial position includes RUB 9,499 million of deferred tax assets, the main part of which relates to deferred tax assets recognised by the Company in respect of tax losses carried forward.<br><br>In terms of IFRS, a deferred tax asset shall be recognised for unused tax losses only to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.<br><br>Management of the Group performed the assessment of and concluded on the recoverability of the deferred tax assets. This analysis was based on the long-term plans of the Group and the financial projections of the future taxable profits of the Company.<br><br>We focus on this area because it involves significant management's judgement and is affected by the uncertainty over the amount of future taxable profit. | We performed the following audit procedures to address the key audit matter:<br><br>• We obtained an understanding of the Company's process in relation to the assessment of the recoverability of the deferred tax assets and long-term budget preparation.<br><br>• We obtained the long-term budget prepared by the Company's management and challenged the expected future profits and assumptions regarding future earnings as reflected therein, by comparing them to industry and market trends.<br><br>• We assessed the accuracy of the Company's calculations used in the model, including deferred tax calculations.<br><br>• We assessed the adequacy of the management's assumptions used in assessing the recoverability of the deferred tax assets arising from tax losses carried forward in the consolidated financial statements.<br><br>• We involved our tax specialists to assist in evaluating the management's plans and to consider any potential limitations to the amount and timing of the utilisation of the unused tax loss as established by Russian tax legislation.<br><br>• We have read the consolidated financial statements and assessed adequacy of the related note disclosures. |

## Other matter – Materiality and Group audit scope

**Overview**

| | |
|---|---|
| **Materiality** | Overall Group materiality: Russian Roubles ("RUB") 8,003 million, which represents 5% of profit before tax |
| **Group scoping** | • We conducted audit work at six reporting units located in three countries<br>• Our audit scope addressed 88% of the Group's revenues and 78% of the Group's absolute value of underlying profit before tax |

## Materiality

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

| | |
|---|---|
| **Overall Group materiality** | RUB 8,003 million |
| **How we determined it** | 5% of profit before tax |
| **Rationale for the materiality benchmark applied** | We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector |

## How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Our group audit was focused on the significant components in the Russian Federation and abroad. For components which are individually financially significant we performed an audit of their complete set of financial information. For components that are not individually financially significant, but that are important to achieve sufficient coverage on individual items, we performed an audit of a complete set of financial information or an audit of one or more account balances.

As a group auditor, we determined the nature and extent of the audit procedures to be performed for the components of the Group to ensure that we have performed enough work to be able to give an opinion on the Group's consolidated financial statements as a whole. For the component auditors involved from another PwC network firm, we issued specific instructions which included our risk analysis, materiality and audit approach for the key audit areas. The Group engagement team regularly communicated with the component auditor.

By performing the above procedures at the components, combined with additional procedures at the Group level, we have obtained sufficient and appropriate audit evidence regarding the consolidated financial statements of the Group as a whole that provides a basis for our opinion.

## Other information

Management is responsible for the other information. The other information comprises the Group's Annual report for 2021 and the Company's Securities issuer's report for the 12 months ended 31 December 2021 (but does not include the consolidated financial statements and our auditor's report thereon), which are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information 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 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.

When we read the Group's Annual report for 2021 and the Company's Securities issuer's report for the 12 months ended 31 December 2021, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## 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.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is A.Y. Fegetsyn.

AO PricewaterhouseCoopers Audit

9 February 2022
Moscow, Russian Federation

A. Y. Fegetsyn is authorised to sign on behalf of the general director of AO PricewaterhouseCoopers Audit (Principal Registration Number of the Record in the Register of Auditors and Audit Organizations (PRNR) – 12006020338), certified auditor (PRNR – 21906101957)

| *RUB million* | Note | 2021 | 2020 |
|---|---|---|---|
| Revenues | 7 | 420,488 | 253,879 |
| Cost of Group products sold | 8 | (206,082) | (157,370) |
| Cost of products for resale | | (12,725) | (9,333) |
| **Gross profit** | | **201,681** | **87,176** |
| Administrative and selling overhead expenses | 9 | (27,845) | (24,048) |
| Taxes, other than income tax, net | 10 | (5,946) | (2,962) |
| Other expenses, net | 11 | (3,449) | (2,512) |
| Foreign exchange (loss)/gain from operating activities, net | | (307) | 1,379 |
| **Operating profit** | | **164,134** | **59,033** |
| Gain from revaluation of financial assets measured at fair value | 18 | 1,193 | - |
| Finance income | 12 | 778 | 975 |
| Finance costs | 12 | (5,044) | (5,455) |
| Foreign exchange loss from financing activities, net | 29(b) | (531) | (26,449) |
| COVID-19 related expenses | | (475) | (1,434) |
| **Profit before tax** | | **160,055** | **26,670** |
| Income tax expense | 13 | (30,381) | (9,749) |
| **Profit for the year** | | **129,674** | **16,921** |
| Attributable to: | | | |
| Non-controlling interests* | | (23) | (11) |
| Shareholders of the Parent | | 129,697 | 16,932 |
| Basic and diluted earnings per share (in RUB) | 24 | 1,002 | 131 |
| ***Other comprehensive loss*** | | | |
| ***Items that will never be reclassified to profit or loss*** | | | |
| Actuarial losses | 27 | (36) | (28) |
| ***Items that may be reclassified subsequently to profit or loss*** | | | |
| Foreign currency translation difference | | (350) | 2,345 |
| **Other comprehensive (loss)/income for the year** | | **(386)** | **2,317** |
| **Total comprehensive income for the year** | | **129,288** | **19,238** |
| Attributable to: | | | |
| Non-controlling interests* | | (23) | (11) |
| Shareholders of the Parent | | 129,311 | 19,249 |

**Non-controlling interests are the minority shareholders of the subsidiaries of PJSC "PhosAgro"*

The consolidated financial statements were approved on 9 February 2022:

Chief executive officer
A.A. Guryev

Deputy CEO for Finance and International Projects
A.F. Sharabaiko

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 5 to 44.

| _RUB million_ | Note | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| ***Assets*** | | | |
| Property, plant and equipment | 14 | 237,444 | 220,031 |
| Advances issued for property, plant and equipment | | 13,237 | 7,835 |
| Deferred tax assets | 17 | 9,499 | 7,462 |
| Right-of-use assets | 15 | 6,955 | 7,335 |
| Non-current spare parts | | 4,698 | 4,308 |
| Other non-current assets | 18 | 2,058 | 948 |
| Catalysts | | 2,049 | 2,292 |
| Intangible assets | | 1,756 | 1,621 |
| Investments in associates | 16 | 569 | 556 |
| **Non-current assets** | | **278,265** | **252,388** |
| Trade and other receivables | 21 | 48,526 | 17,515 |
| Inventories | 20 | 41,177 | 30,580 |
| Cash and cash equivalents | 22 | 21,710 | 8,460 |
| VAT and other taxes receivable | | 15,013 | 10,285 |
| Income tax receivable | | 540 | 479 |
| Other financial assets | 19 | 216 | 311 |
| **Current assets** | | **127,182** | **67,630** |
| **Total assets** | | **405,447** | **320,018** |
| ***Equity*** | 23 | | |
| Share capital | | 372 | 372 |
| Share premium | | 7,494 | 7,494 |
| Retained earnings | | 148,193 | 90,757 |
| Actuarial losses | | (753) | (717) |
| Foreign currency translation reserve | | 9,231 | 9,581 |
| **Equity attributable to shareholders of the Parent** | | **164,537** | **107,487** |
| Equity attributable to non-controlling interests | | 106 | 129 |
| **Total equity** | | **164,643** | **107,616** |
| ***Liabilities*** | | | |
| Loans and borrowings | 25 | 157,081 | 103,824 |
| Deferred tax liabilities | 17 | 12,937 | 11,578 |
| Lease liabilities | 26 | 3,459 | 4,268 |
| Defined benefit obligations | 27 | 952 | 945 |
| **Non-current liabilities** | | **174,429** | **120,615** |
| Trade and other payables | 28 | 41,756 | 29,869 |
| Loans and borrowings | 25 | 12,710 | 55,316 |
| VAT and other taxes payable | | 6,397 | 3,675 |
| Income tax payable | | 3,334 | 1,000 |
| Lease liabilities | 26 | 2,178 | 1,927 |
| **Current liabilities** | | **66,375** | **91,787** |
| **Total equity and liabilities** | | **405,447** | **320,018** |

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 5 to 44.

| *RUB million* | Note | **2021** | **2020** |
|---|---|---|---|
| ***Cash flows from operating activities*** | | | |
| Operating profit | | 164,134 | 59,033 |
| *Adjustments for:* | | | |
| Depreciation and amortisation | 8, 9 | 27,676 | 26,626 |
| Loss on disposal of property, plant and equipment and intangible assets | 11 | 198 | 209 |
| Operating profit before changes in working capital and provisions | | 192,008 | 85,868 |
| Increase in inventories, catalysts and non-current spare parts | | (10,855) | (1,843) |
| Increase in trade and other receivables | | (38,667) | (2,316) |
| Increase in trade and other payables | | 17,490 | 12,612 |
| Cash flows from operations before income taxes and interest paid | | 159,976 | 94,321 |
| Income tax paid | | (28,806) | (6,462) |
| Finance costs paid | | (4,945) | (4,121) |
| **Cash flows from operating activities** | | **126,225** | **83,738** |
| ***Cash flows from investing activities*** | | | |
| Acquisition of property, plant and equipment and intangible assets | | (47,951) | (40,878) |
| Borrowing cost capitalised paid | | (1,141) | (1,220) |
| Other | | 724 | 879 |
| **Cash flows used in investing activities** | | **(48,368)** | **(41,219)** |
| ***Cash flows from financing activities*** | | | |
| Proceeds from borrowings, net of transaction costs | 25 | 61,622 | 63,520 |
| Repayment of borrowings | 25 | (50,081) | (66,182) |
| Early eurobond partial redemption fees | 12 | - | (292) |
| Dividends paid to shareholders of the Parent | 23 | (72,260) | (38,852) |
| Dividends paid to non-controlling interests | | - | (30) |
| Lease payments | 26 | (1,950) | (1,951) |
| Other payments | | - | (249) |
| **Cash flows used in financing activities** | | **(62,669)** | **(44,036)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **15,188** | **(1,517)** |
| Cash and cash equivalents at 1 January | | 8,460 | 8,236 |
| Effect of exchange rates fluctuations | | (1,938) | 1,741 |
| **Cash and cash equivalents at 31 December** | 22 | **21,710** | **8,460** |

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 5 to 44.

| *RUB million* | Share capital | Share premium | Retained earnings | Actuarial losses | Foreign currency translation reserve | Total | Attributable to non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | **Attributable to shareholders of the Parent** | | | | | | | |
| **Balance at 1 January 2020** | **372** | **7,494** | **111,054** | **(689)** | **7,236** | **125,467** | **170** | **125,637** |
| ***Total comprehensive income*** | | | | | | | | |
| Profit/(loss) for the year | - | - | 16,932 | - | - | **16,932** | (11) | **16,921** |
| Actuarial losses, note 27 | - | - | - | (28) | - | **(28)** | - | **(28)** |
| Foreign currency translation difference | - | - | - | - | 2,345 | **2,345** | - | **2,345** |
| ***Transactions with owners recognised directly in equity*** | | | | | | | | |
| Dividends to shareholders, note 23 | - | - | (38,850) | - | - | **(38,850)** | (30) | **(38,880)** |
| Other | - | - | (249) | - | - | **(249)** | - | **(249)** |
| **Balance at 31 December 2020** | **372** | **7,494** | **88,887** | **(717)** | **9,581** | **105,617** | **129** | **105,746** |
| Effect of change in accounting policy, note 4 | **-** | **-** | **1,870** | **-** | **-** | **1,870** | **-** | **1,870** |
| **Balance at 1 January 2021** | **372** | **7,494** | **90,757** | **(717)** | **9,581** | **107,487** | **129** | **107,616** |
| ***Total comprehensive income*** | | | | | | | | |
| Profit/(loss) for the year | - | - | 129,697 | - | - | **129,697** | (23) | **129,674** |
| Actuarial losses, note 27 | - | - | - | (36) | - | **(36)** | - | **(36)** |
| Foreign currency translation difference | - | - | - | - | (350) | **(350)** | - | **(350)** |
| ***Transactions with owners recognised directly in equity*** | | | | | | | | |
| Dividends to shareholders, note 23 | - | - | (72,261) | - | - | **(72,261)** | - | **(72,261)** |
| **Balance at 31 December 2021** | **372** | **7,494** | **148,193** | **(753)** | **9,231** | **164,537** | **106** | **164,643** |

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 5 to 44.

## 1 BACKGROUND

### (a) Organisation and operations

PJSC "PhosAgro" (the "Company" or the "Parent") is a public joint stock company registered in accordance with the Civil Code of the Russian Federation. PJSC "PhosAgro" and its subsidiaries (together referred to as the "Group") comprise Russian legal entities and foreign trading subsidiaries. The Company was registered in October 2001. The Company's location is Leninsky prospekt 55/1 building 1, Moscow, Russian Federation, 119333.

The Group's principal activity is production of apatite concentrate and mineral fertilisers at plants located in the cities of Kirovsk (Murmansk region), Cherepovets (Vologda region), Balakovo (Saratov region) and Volkhov (Leningrad region), and their distribution across the Russian Federation and abroad.

As at 31 December 2021, the Company's key shareholders are two entities registered in Switzerland (31 December 2020: the same two entities registered in Cyprus) that together hold approximately 44% of the Company's ordinary shares in total and Mr Vladimir S. Litvinenko holding approximately 21% of the Company's ordinary shares. The above mentioned companies' shares are ultimately owned by trusts, where the economic beneficiary is Mr. Andrey G. Guryev and his family members.

### (b) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial conditions of the Russian Federation, which display certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue development, and are subject to varying interpretations and frequent changes (note 31). The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

In March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Russian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. Some of the above measures were subsequently relieved, however, as of 31 December 2021, the global infection levels remain high, vaccination rate is relatively low, and there is a risk that additional restrictions may be imposed in subsequent periods, including due to emerging new variants of the virus.

In 2021 the Russian economy demonstrated positive dynamics in recovery from the pandemic. This trend was also supported by the global economic recovery and higher prices on global commodity markets. However, higher prices on certain markets in Russia and globally also contribute to the inflation in Russia.

Management of the Group has considered events and conditions that could give rise to material uncertainties and concluded that the range of possible outcomes does not cast significant doubt over the Group's ability to continue as a going concern.

The future effects of the current economic situation and the above measures are difficult to predict, and management's current expectations and estimates could differ from actual results.

## 2 BASIS OF PREPARATION

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Group additionally prepares IFRS consolidated financial statements in the Russian language in accordance with the Federal Law No. 208-FZ *On consolidated financial reporting*.

### (b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the financial assets measured at fair value.

## 2 BASIS OF PREPARATION (CONTINUED)

### (c) Functional currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Parent and its subsidiaries, except for foreign trading subsidiaries, where the functional currency is USD, EUR and other currencies.

### (d) Presentation currency

These consolidated financial statements are presented in RUB. All financial information presented in RUB has been rounded to the nearest million, except per share amounts.

The translation from USD and EUR into RUB, where applicable, was performed as follows:

Assets and liabilities in USD and EUR as at 31 December 2021 and 31 December 2020 were translated at the following closing exchange rates:

| Closing exchange rate | RUB to USD 1 | RUB to EUR 1 |
|---|---|---|
| 31 December 2021 | 74.2926 | 84.0695 |
| 31 December 2020 | 73.8757 | 90.6824 |

Profit and loss items for the year ended 31 December 2021 and 31 December 2020 were translated at the average exchange rate for the appropriate month:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| Average exchange rate for the month | RUB to USD 1 | RUB to EUR 1 | RUB to USD 1 | RUB to EUR 1 |
| January | 74.2291 | 90.5062 | 61.7823 | 68.7249 |
| February | 74.3842 | 89.9403 | 63.8836 | 69.7001 |
| March | 74.4151 | 88.6904 | 73.3183 | 81.0512 |
| April | 76.0977 | 90.8178 | 75.2321 | 81.9481 |
| May | 74.0438 | 89.8856 | 72.6187 | 79.0550 |
| June | 72.5106 | 87.4537 | 69.2239 | 77.9624 |
| July | 73.9194 | 87.3794 | 71.2853 | 81.3800 |
| August | 73.5942 | 86.6334 | 73.7998 | 87.3414 |
| September | 72.8914 | 85.9412 | 75.6621 | 89.2870 |
| October | 71.4981 | 82.9586 | 77.5924 | 91.2900 |
| November | 72.6024 | 82.9339 | 77.0462 | 91.0875 |
| December | 73.7172 | 83.3260 | 74.0563 | 90.0734 |

Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction. The resulting foreign exchange difference is recognised in other comprehensive income.

### (e) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical assumptions and estimation uncertainties that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 3 (c) (iii) – estimated useful lives of property, plant and equipment;
- Note 17 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;
- Note 3 (f) – derecognition of trade receivables under the securitisation arrangement.

## 2 BASIS OF PREPARATION (CONTINUED)

### (f) Adoption of new and revised standards and interpretations

The following amended standards became effective from 1 January 2021, but did not have any material impact on the Group:

- COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020).
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

### (g) New standards and interpretations not yet adopted

A number of new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2022 or later, and which the Group has not early adopted, but is in process of assessing the impact on the Group's consolidated financial statements.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).
- Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021).
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### (a) Basis of consolidation

#### *(i) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

#### *(ii) Loss of control*

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as measured at FVOCI financial asset depending on the level of influence retained.

#### *(iii) Acquisitions and disposals of non-controlling interests*

Any difference between the consideration paid to acquire a non-controlling interest, and the carrying amount of that non-controlling interest, is recognised in equity.

Any difference between the consideration received from disposal of a portion of a Group’s interest in the subsidiary and the carrying amount of that portion, including attributable goodwill, is recognised in equity.

#### *(iv) Associates*

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group’s share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. Dividends received from associates reduce the carrying value of the investment in associates. When the Group’s share of losses exceeds the Group’s interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

#### *(v) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group’s interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

### (b) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the profit or loss.

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Property, plant and equipment

#### *(i) Owned assets*

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at the date of transition to IFRS was determined by reference to its fair value at that date ("deemed cost") as determined by an independent appraiser.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

#### *(ii) Subsequent expenditure*

Expenses in connection with ordinary maintenance and repairs are recognised in the consolidated statement of profit or loss and other comprehensive income as they are incurred.

Expenses in connection with periodic maintenance on property, plant and equipment are recognised as assets and depreciated on a straight-line basis over the period until the next periodic maintenance, provided the criteria for capitalizing such items have been met.

Expenses incurred in connection with major replacements and renewals of property, plant and equipment are capitalised and depreciated on a systematic basis.

#### *(iii) Depreciation*

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the month of acquisition or, in respect of internally constructed assets, from the month when an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives as determined when adopting IFRS (1 January 2005) for the assets reflected on the statement of financial position at that date are as follows:

| | |
|---|---|
| Buildings | 12 to 17 years; |
| Plant and equipment | 4 to 15 years; |
| Fixtures and fittings | 3 to 6 years. |

Tangible fixed assets acquired after the date of adoption of IFRS, are depreciated over the following useful lives:

| | |
|---|---|
| Buildings | 10 to 60 years; |
| Plant and equipment | 5 to 35 years; |
| Fixtures and fittings | 2 to 25 years. |

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group.

#### *(iv) 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 capitalized 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.

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs are capitalised.

Borrowing costs capitalized are presented as part of cash flows from investing activities in the consolidated statement of cash flows.

#### *(v) Advances issued for property, plant and equipment*

A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition.

### (d) Intangible assets

#### *(i) Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit or loss as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit or loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

#### *(ii) Other intangible assets*

Other intangible assets acquired by the Group are represented by Oracle software, which has finite useful life and is stated at cost less accumulated amortisation and impairment losses.

#### *(iii) Amortisation*

Intangible assets, other than goodwill, are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful lives are 3 – 10 years.

### (e) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

The Group financial assets are classified in the following measurement categories based on the Group’s business model for managing the financial assets and the contractual terms of the cash flows: financial assets at amortised cost; financial assets at fair value (either through other comprehensive income or profit or loss).

*Financial assets at amortised cost.* Financial asset is measured at amortised cost if it meets both of the following conditions:

the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any gains or losses arising from derecognition are recognised directly in profit or loss.

*Financial assets at fair value through other comprehensive income (“FVOCI”).* Financial assets are classified and measured at fair value through other comprehensive income if they meet both of the following conditions:

they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial 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.

*Financial assets at fair value through profit or loss (“FVPL”).* Financial asset that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss.

### (f) Securitisation arrangements

The Group enters into non-recourse securitisation arrangements under which insured trade receivables can be sold to a bank for cash proceeds.

Trade receivables are derecognised from the statement of financial position as the Group does not retain substantially all risks and rewards of ownership, except for the amount of security deposit which represents insurance deductible amount for the receivables transferred to a bank. A deposit is recognised in trade receivables in the consolidated statement of financial position of the Group. The Group continues to collect and service the receivables and then transfers to the bank the collected amounts of the trade receivables sold.

The portfolio of trade receivables that can be sold to a bank meets the criteria for “held to collect and sell” business model and such trade receivables are classified and measured at fair value through other comprehensive income.

Cash collected from the customers and not yet transferred to the bank at the reporting date is presented within other payables in the consolidated statement of financial position of the Group. Securitisation fees are recognised as finance costs.

### (g) 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.

Bank deposits held for longer than three months that are repayable on demand within several working days without penalties or that can be redeemed/withdrawn, subject to the interest income forfeited, are classified as cash equivalents if the deposits are held to meet short-term cash needs and there is no significant risk of a change in value as a result of an early withdrawal.

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventory (finished goods and goods for resale) for distribution companies is determined on the first-in, first-out (FIFO) basis. The cost of inventories for production companies is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Spare parts to be used for construction and in repairs capitalised are classified as non-current spare parts.

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Catalysts to be used in production during the period of more than 1 year are classified as part of non-current assets and written-off to the production cost based on the volume of goods produced. Catalysts to be used in production within 1 year are classified as part of inventories

### (i) Impairment

Financial assets

The Group recognises loss allowances for expected credit loss (ECLs) on financial asset measured at amortised cost and debt investments measured at fair value through other comprehensive income *("FVOCI")*. The loss allowances are measured on either of the following bases: 12-month ECLs that result from default events that are possible within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument.

For trade receivables the Group estimated the expected credit losses for the entire period, applying a simplified approach to measuring expected credit losses, which uses lifetime expected loss allowance. In the terms of calculating the expected credit loss, the Group considers the credit rating for each counterparty, adjusted with forward-looking factors specific to the debtors, historical credit loss experience and economic environment in which they operate.

If, in a subsequent period, the fair value of an impaired financial assets increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

*Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, if any, and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (j) Leases

As a lessee

Applying IFRS 16 for all leases (except as noted below), the Group:

Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;

Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss and other comprehensive income; and

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and making certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

fixed payments;

variable lease payments that depend on the rate;

amounts expected to be payable under a residual value guarantee.

Lease liability is measured at amortised cost using the effective interest method. It is revalued when there is a change in future lease payments arising from adjusted interest rate, extension or termination option and other events.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets.

For short-term leases (lease term of 12 months or less) and leases of low-value assets the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within cost of sales, administrative expenses and selling expenses in the consolidated statement of profit or loss and other comprehensive income.

### (k) Share capital

#### *(i) Repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity.

#### *(ii) Dividends*

Dividends are recognised as a liability in the period in which they are declared.

### (l) Financial liabilities

The Group's financial liabilities comprise trade and other payables, borrowings and bonds which are measured at amortised cost. The Group derecognises a financial liability when its obligation specified in the contract is discharged or cancelled or expires.

### (m) Employee benefits

#### *(i) Pension plans*

The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets, if any, is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised immediately as an expense in the profit or loss. To the extent the benefits vest immediately, the expense is recognised immediately in the profit or loss.

All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *(ii) Long-term service benefits other than pensions*

The Group’s net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations. All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

### *(iii) State pension fund*

The Group makes contributions for the benefit of employees to Russia’s State pension fund. The contributions are expensed as incurred.

### (n) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### (o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (p) Revenues

Revenue from contracts with customers is recognised when control of the goods or services is transferred to a customer. The amount of revenue recognised reflects the consideration the Group expects to be entitled in exchange for goods or services, taking into account any trade, volume and other discounts. Advances received before the control passes to a customer are recognised as the contract liabilities. The amount of consideration does not contain a significant financial component as payment terms for the majority of contracts are less than one year. No information is provided about remaining performance obligations as at the reporting date that have an original expected duration of one year or less, as allowed by IFRS 15.

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contracts with customers for the supply of goods use a variety of delivery terms. The Group determined that under the terms of the majority contracts for the supply of mineral fertilizers the Group undertakes to provide delivery and the related delivery services after the transfer of control over the goods to the buyer at the loading port. Under IFRS 15, these services are a separate performance obligation, which revenue must be recognised during the period of delivery as revenue from logistics activities. The Group recognises revenue from these logistics services at the time of delivery, due to the fact that the potential difference is calculated and recognised as insignificant.

In the revenue disclosure the sales of certain product groups include the proceeds from logistics services. Costs related to rendering of logistics services are mainly represented by transportation costs and included in cost of group products sold.

### (q) Finance income and finance costs

Finance income comprises interest income, dividend income, gain arising from operations with foreign currency, unwinding of discount on financial assets and share of profit of associates and foreign exchange gains on financing activities. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group’s right to receive payment is established.

Finance costs comprise interest expense on borrowings, interest expense on lease liabilities, bank fees, securitisation fees, loss arising from operations with foreign currency, share of loss of associates, increase in provision for bad debts for financial investments, interest expense on defined benefit obligations and foreign exchange losses on financing activities. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses, gains and losses arising from operations with foreign currency, securitisation fees, share of profit and losses of associates are reported on a net basis.

### (r) Overburden removal expenditure

In open pit apatite rock mining operations, it is necessary to remove the overburden and other waste in order to access the economically recoverable resources.

Stripping costs incurred during the pre-production phase of the open pit mine are capitalised as the cost of the development of the mining property and amortised over the life of the mine.

According to the Group’s approach to stripping, the ore, which becomes accessible after the overburden removal, is extracted within no more than four months. Therefore, the stripping ratio (volume of overburden removed over the volume of resources extracted) is expected to stay relatively constant over the future periods and stripping costs incurred during the production phase of the open pit mine are recognised in the profit or loss as incurred.

### (s) 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.

If the number of ordinary shares outstanding increases/ (decreases) as a result of a share split/ (reverse share split), the calculation of the EPS for all periods presented is adjusted retrospectively.

### (t) 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 top management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Group’s top management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

## 4 CHANGE IN ACCOUNTING POLICY AND RECLASSIFICATIONS

Starting from 1 January 2021, the Group:

(a) Changed its accounting policy on the recognition of logistics expenses to the point of sale. The Group started to capitalise such logistics expenses in the cost of finished goods, while previously these expenses were recognised as part of selling expenses as they occurred. The Group also classified these expenses as part of the cost of products sold, while previously these expenses were recognised as part of selling expenses. The comparative figures were changed respectively to align them with the current year presentation. Balances at 1 January 2020 were not restated as having no material effect on the financial statements.

(b) Changed the presentation of administrative and fixed selling expenses. The Group started to present these expenses together as administrative and selling overhead expenses, while previously these expenses were presented separately as selling and as administrative expenses. The comparative figures were changed respectively to align them with the current year presentation.

(c) Netted-off trade accounts receivable against other payables under the arrangement with the bank for the sale of accounts receivable described in note 29 (c).

(d) Separately presented spare parts to be used as part of non-current assets and made other reclassifications.

Management believes that the new accounting policy and change in classification and presentation of certain expenses will provide more relevant and transparent information about the results of Group's operations.

The tables below reconcile the carrying amounts of assets, liabilities, equity, expenses and cash flows as presented in accordance with the previous accounting policy and the new amounts after the changes were adopted.

*Extract from the Consolidated Statement of Financial Position:*

| *RUB million* | **31 December 2020 (as previously reported)** | **Adjustment/ reclassification** | **31 December 2020 (as presented)** |
|---|---|---|---|
| ***Assets*** | | | |
| Non-current spare parts (d) | - | 4,308 | 4,308 |
| **Non-current assets** | **248,080** | **4,308** | **252,388** |
| Trade and other receivables (c), (d) | 32,887 | (15,372) | 17,515 |
| VAT and other taxes receivable (d) | - | 10,285 | 10,285 |
| Income tax receivable (d) | - | 479 | 479 |
| Inventories (a), (d) | 32,636 | (2,056) | 30,580 |
| **Current assets** | **74,294** | **(6,664)** | **67,630** |
| **Total assets** | **322,374** | **(2,356)** | **320,018** |

## 4 CHANGE IN ACCOUNTING POLICY AND RECLASSIFICATIONS (CONTINUED)

| _RUB million_ | 31 December 2020 (as previously reported) | Adjustment/ reclassification | 31 December 2020 (as presented) |
|---|---|---|---|
| _**Equity**_ | | | |
| Retained earnings (a) | 88,887 | 1,870 | 90,757 |
| Equity attributable to shareholders of the Parent (a) | 105,617 | 1,870 | 107,487 |
| **Total equity** | **105,746** | **1,870** | **107,616** |
| _**Liabilities**_ | | | |
| Deferred tax liabilities (a) | 11,196 | 382 | 11,578 |
| **Non-current liabilities** | **120,233** | **382** | **120,615** |
| Trade and other payables (c), (d) | 39,152 | (9,283) | 29,869 |
| Income tax payable (d) | - | 1,000 | 1,000 |
| VAT and other taxes payable (d) | - | 3,675 | 3,675 |
| **Current liabilities** | **96,395** | **(4,608)** | **91,787** |
| **Total equity and liabilities** | **322,374** | **(2,356)** | **320,018** |

_Extract from the Consolidated Statement of Profit or Loss and Other Comprehensive Income:_

| _RUB million_ | 2020 (as previously reported) | Reclassification | 2020 (as presented) |
|---|---|---|---|
| Cost of sales (d) | (133,335) | 133,335 | - |
| Cost of Group products sold (a), (d) | - | (157,370) | (157,370) |
| Cost of products for resale (a), (d) | - | (9,333) | (9,333) |
| **Gross profit** | **120,544** | **(33,368)** | **87,176** |
| Selling expenses (b) | (39,588) | 39,588 | - |
| Administrative expenses (b) | (17,828) | 17,828 | - |
| Administrative and selling overhead expenses (b) | - | (24,048) | (24,048) |
| Foreign exchange gain from operating activities, net (d) | - | 1,379 | 1,379 |
| **Operating profit** | **57,654** | **1,379** | **59,033** |
| Foreign exchange loss (d) | (25,070) | 25,070 | - |
| Foreign exchange loss from financing activities, net (d) | - | (26,449) | (26,449) |

## 4 CHANGE IN ACCOUNTING POLICY AND RECLASSIFICATIONS (CONTINUED)

_Extract from the Consolidated Statement of Changes in Equity:_

| _RUB million_ | **31 December 2020 (as previously reported)** | **Adjustment** | **31 December 2020 (as presented)** |
|---|---|---|---|
| Retained earnings (a) | 88,887 | 1,870 | 90,757 |
| **Total** | **105,746** | **1,870** | **107,616** |

_Extract from the Consolidated Statement of Cash Flows:_

| _RUB million_ | **2020 (as previously reported)** | **Reclassification** | **2020 (as presented)** |
|---|---|---|---|
| _**Cash flows from operating activities**_ | | | |
| Operating profit (d) | 57,654 | 1,379 | 59,033 |
| **Operating profit before changes in working capital and provisions** | **84,489** | **1,379** | **85,868** |
| Decrease in trade and other receivables (d) | (345) | (1,971) | (2,316) |
| Increase in trade and other payables (d) | 12,020 | 592 | 12,612 |

## 5 DETERMINATION OF FAIR VALUES

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

_Level 1_: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and / or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### (a) Financial assets and liabilities measured at amortised cost

The fair values of financial assets and liabilities presented by loans issued, trade and other receivables, cash and cash equivalents, trade and other payables approximate their carrying amounts as at the reporting date.

## 5 DETERMINATION OF FAIR VALUES (CONTINUED)

The fair values of eurobonds are determined for disclosure purposes based on quoted market prices and included in level 1 of the fair value hierarchy. The fair values of loans and borrowings are categorised as Level 3 of the fair value hierarchy. The fair values are calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

### (b) Financial instruments measured at fair value

The fair value of financial assets measured at fair value through profit or loss is determined using valuation techniques and categorised as Level 3 of the fair value hierarchy.

## 6 SEGMENT INFORMATION

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM has been identified as the Group's top management.

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products, and they require different technology and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

*Phosphate-based products segment* includes mainly production and distribution of ammophos, diammonium phosphate, sodium tripolyphosphate and other phosphate-based and complex (NPK) fertilisers on the factories located in Cherepovets, Balakovo and Volkhov, and production and distribution of apatite concentrate extracted from the apatite-nepheline ore, which is mined and processed in Kirovsk;

*Nitrogen-based products segment* includes mainly production and distribution of ammonia, ammonium nitrate and urea on the factory located in Cherepovets.

Certain revenue and expenses are not allocated to any particular segment and are, therefore, included in the "other operations" column. None of these operations meet any of the quantitative thresholds for determining reportable segments.

The CODM assesses the performance of the reportable segments based on, among other factors, a measure of EBITDA (operating profit adjusted by depreciation and amortization). Since the EBITDA term is not a standard IFRS measure, its definition may differ from that of other companies.

Information regarding the results of each reportable segment is included below.

## 6 SEGMENT INFORMATION (CONTINUED)

Segment information for the year ended 31 December 2021 is as follows:

| *RUB million* | Phosphate-based products | Nitrogen-based products | Other operations | Total |
|---|---|---|---|---|
| *Segment revenue and profitability* | | | | |
| Segment external revenues, thereof: | 332,999 | 71,851 | 15,638 | 420,488 |
| Export | 238,033 | 64,722 | 7,276 | 310,031 |
| Domestic | 94,966 | 7,129 | 8,362 | 110,457 |
| Cost of Group products sold | (175,036) | (29,481) | (1,565) | (206,082) |
| Cost of products for resale | - | - | (12,725) | (12,725) |
| **Gross segment profit** | **157,963** | **42,370** | **1,348** | **201,681** |
| Administrative and selling overhead expenses | (23,001) | (4,378) | (466) | (27,845) |
| Taxes, other than income tax, net | (5,702) | (236) | (8) | (5,946) |
| Other expenses, net | (2,881) | (550) | (18) | (3,449) |
| Foreign exchange loss from operating activities, net | (200) | (97) | (10) | (307) |
| **Operating profit** | **126,179** | **37,109** | **846** | **164,134** |
| *Certain items of profit and loss* | | | | |
| Depreciation and amortisation | (22,188) | (4,966) | (522) | (27,676) |
| **EBITDA** | **148,367** | **42,075** | **1,368** | **191,810** |
| Gain from revaluation of financial assets measured at fair value | 978 | 205 | 10 | 1,193 |
| Finance income | 603 | 127 | 48 | 778 |
| Finance costs | (4,178) | (854) | (12) | (5,044) |
| Foreign exchange loss from financing activities, net | (276) | (245) | (10) | (531) |
| COVID-19 related expenses | (412) | (59) | (4) | (475) |
| **Profit before tax** | **122,894** | **36,283** | **878** | **160,055** |

## 6 SEGMENT INFORMATION (CONTINUED)

Segment information for the year ended 31 December 2020 is as follows:

| *RUB million* | **Phosphate-based products** | **Nitrogen-based products** | **Other operations** | **Total** |
|---|---|---|---|---|
| *Segment revenue and profitability* | | | | |
| Segment external revenues, thereof: | 203,561 | 38,701 | 11,617 | 253,879 |
| Export | 135,506 | 31,530 | 1,771 | 168,807 |
| Domestic | 68,055 | 7,171 | 9,846 | 85,072 |
| Cost of Group products sold | (131,937) | (23,654) | (1,779) | (157,370) |
| Cost of products for resale | - | - | (9,333) | (9,333) |
| **Gross segment profit** | **71,624** | **15,047** | **505** | **87,176** |
| Administrative and selling overhead expenses | (20,128) | (3,413) | (507) | (24,048) |
| Taxes, other than income tax, net | (2,773) | (179) | (10) | (2,962) |
| Other expenses, net | (2,239) | (273) | - | (2,512) |
| Foreign exchange gain from operating activities, net | 1,168 | 211 | - | 1,379 |
| **Operating profit** | **47,652** | **11,393** | **(12)** | **59,033** |
| *Certain items of profit and loss* | | | | |
| Amortisation and depreciation | (20,830) | (5,392) | (404) | (26,626) |
| **EBITDA** | **68,482** | **16,785** | **392** | **85,659** |
| Finance income | 798 | 149 | 28 | 975 |
| Finance costs | (4,544) | (897) | (14) | (5,455) |
| Foreign exchange loss from financing activities, net | (22,806) | (3,642) | (1) | (26,449) |
| COVID-19 related expenses | (1,299) | (131) | (4) | (1,434) |
| **Profit before tax** | **19,801** | **6,872** | **(3)** | **26,670** |

The analysis of export revenue by regions is as follows:

| *RUB million* | **2021** | **2020** |
|---|---|---|
| Europe | 116,771 | 66,516 |
| South America | 103,893 | 41,915 |
| North America | 31,780 | 12,287 |
| India | 19,765 | 21,623 |
| Africa | 17,916 | 12,336 |
| CIS | 12,171 | 10,512 |
| Asia | 7,735 | 3,618 |
| | **310,031** | **168,807** |

## 7 REVENUES

| _RUB million_ | **2021** | **2020** |
|---|---|---|
| Phosphate-based products | 332,999 | 203,561 |
| Sales of chemical fertilisers | 297,009 | 167,718 |
| Sales of apatite concentrate | 24,397 | 25,877 |
| Sales of nepheline concentrate | 1,382 | 1,090 |
| Sales of other phosphate-based products and services | 10,211 | 8,876 |
| Nitrogen-based products | 71,851 | 38,701 |
| Other | 15,638 | 11,617 |
| | **420,488** | **253,879** |

## 8 COST OF GROUP PRODUCTS SOLD

| _RUB million_ | **2021** | **2020** |
|---|---|---|
| ***Production expense for Group goods sold*** | ***(163,034)*** | ***(124,197)*** |
| Depreciation | (24,812) | (23,743) |
| Materials and services | (23,120) | (19,501) |
| Sulphur and sulphuric acid | (17,707) | (4,360) |
| Potash | (16,574) | (12,253) |
| Salaries and social contributions | (15,286) | (13,807) |
| Ammonia | (14,277) | (4,802) |
| Natural gas | (12,635) | (12,342) |
| Repair and maintenance expenses | (11,373) | (10,134) |
| Transportation of phosphate rock | (9,105) | (8,134) |
| Electricity | (6,740) | (6,311) |
| Fuel | (5,578) | (3,885) |
| Drilling and blasting operations expenses | (3,486) | (3,168) |
| Ammonium sulphate | (2,341) | (1,757) |
| ***Logistics expenses for Group goods sold*** | **(43,048)** | **(33,173)** |
| Freight, port and stevedoring expenses | (28,587) | (19,128) |
| Russian Railways infrastructure tariff and operators’ fees | (10,728) | (11,452) |
| Customs duties | (2,483) | (1,482) |
| Other services and materials | (1,250) | (1,111) |
| | **(206,082)** | **(157,370)** |

## 9 ADMINISTRATIVE AND SELLING OVERHEAD EXPENSES

| *RUB million* | **2021** | **2020** |
|---|---|---|
| ***Administrative overhead expenses:*** | ***(21,083)*** | ***(17,828)*** |
| Salaries and social contributions | (13,493) | (11,249) |
| Professional services | (1,971) | (1,929) |
| Depreciation and amortisation | (1,384) | (1,368) |
| Security and fire safety services | (1,053) | (886) |
| Other | (3,182) | (2,396) |
| ***Selling overhead expenses:*** | ***(6,762)*** | ***(6,220)*** |
| Salaries and social contributions | (4,002) | (3,484) |
| Depreciation and amortisation | (1,480) | (1,515) |
| Materials and services | (1,280) | (1,221) |
| | **(27,845)** | **(24,048)** |

## 10 TAXES, OTHER THAN INCOME TAX, NET

| *RUB million* | **2021** | **2020** |
|---|---|---|
| Mineral extraction tax | (3,605) | (919) |
| Property tax | (1,694) | (1,397) |
| Land tax | (222) | (258) |
| Environment pollution payment | (211) | (174) |
| VAT included in expenses | (113) | (129) |
| Using water objects payment | (53) | (44) |
| Other taxes | (48) | (41) |
| | **(5,946)** | **(2,962)** |

## 11 OTHER EXPENSES, NET

| *RUB million* | **2021** | **2020** |
|---|---|---|
| Social expenditures | (3,378) | (2,570) |
| Increase in provision for inventory obsolescence | (370) | (18) |
| Loss on disposal of property, plant and equipment and intangible assets | (198) | (209) |
| Increase in provision for bad debt and expected credit losses allowance | (125) | (114) |
| Gain/(loss) on disposal of inventories | 387 | (73) |
| Reversal/(accrual) of contingent liabilities | 2 | (119) |
| Other income, net | 233 | 591 |
| | **(3,449)** | **(2,512)** |

## 12 FINANCE INCOME AND FINANCE COSTS

| _RUB million_ | **2021** | **2020** |
|---|---|---|
| Interest income | 643 | 338 |
| Unwinding of discount on financial assets | 64 | 60 |
| Share of profit of associates | 13 | 37 |
| Dividend income | - | 242 |
| Other finance income | 58 | 298 |
| **Finance income** | **778** | **975** |
| Interest expense on borrowings | (3,910) | (3,647) |
| Interest expense on lease liabilities | (395) | (485) |
| Bank fees (incl. early eurobond partial redemption fees) | (221) | (517) |
| Securitisation fees | (146) | (141) |
| Increase in provision for bad debts for financial investments | (81) | (503) |
| Interest expense on defined benefit obligations | (48) | (53) |
| Other finance costs | (243) | (109) |
| **Finance costs** | **(5,044)** | **(5,455)** |

## 13 INCOME TAX EXPENSE

The Company's applicable corporate income tax rate is 20% (2020: 20%).

| _RUB million_ | **2021** | **2020** |
|---|---|---|
| Current tax expense | (31,073) | (8,045) |
| Deferred income tax - origination and reversal of temporary differences, including change in unrecognised assets | 692 | (1,704) |
| **Income tax expense** | **(30,381)** | **(9,749)** |

Reconciliation of effective tax rate:

| | **2021** | | **2020** | |
|---|---|---|---|---|
| | RUB million | % | RUB million | % |
| Profit before tax | 160,055 | 100 | 26,670 | 100 |
| Income tax at applicable tax rate | (32,011) | (20) | (5,334) | (20) |
| Deferred tax assets decrease | - | - | (4,800) | (18) |
| Over/(under) provided in respect of prior years | 78 | - | (9) | - |
| Tax effect of items which are not deductible or assessable for taxation purposes | (1,017) | (1) | (864) | (3) |
| Effect of tax rates in foreign jurisdictions | 431 | 1 | 317 | 1 |
| Effect of reduction in tax rate | 2,163 | 1 | 716 | 2 |
| Change in tax incentive | (25) | - | 225 | 1 |
| | **(30,381)** | **(19)** | **(9,749)** | **(37)** |

## 14 PROPERTY, PLANT AND EQUIPMENT

| *RUB Million* | Land and buildings | Plant and equipment | Fixtures and fittings | Construction in progress | Total |
|---|---|---|---|---|---|
| *Cost* | | | | | |
| At 1 January 2020 | 94,482 | 164,929 | 15,649 | 36,995 | **312,055** |
| Additions | 1,757 | 4,013 | 2,477 | 37,590 | **45,837** |
| Transfers from right-of-use assets (note 15) | - | 16 | - | - | **16** |
| Transfers | 10,653 | 25,253 | - | (35,906) | **-** |
| Disposals | (2,425) | (6,425) | (242) | (79) | **(9,171)** |
| Other movements | 138 | 175 | 16 | - | **329** |
| At 1 January 2021 | 104,605 | 187,961 | 17,900 | 38,600 | **349,066** |
| Additions | 1,529 | 4,406 | 3,031 | 34,866 | **43,832** |
| Transfers to right-of-use assets (note 15) | - | (15) | - | - | **(15)** |
| Transfers | 11,760 | 18,110 | - | (29,870) | **-** |
| Disposals | (1,450) | (6,655) | (192) | (102) | **(8,399)** |
| Other movements | (44) | (7) | (2) | - | **(53)** |
| **At 31 December 2021** | **116,400** | **203,800** | **20,737** | **43,494** | **384,431** |
| *Accumulated depreciation* | | | | | |
| At 1 January 2020 | (21,774) | (81,164) | (9,658) | - | **(112,596)** |
| Transfers from right-of-use assets (note 15) | - | (8) | - | - | **(8)** |
| Depreciation charge | (5,945) | (17,552) | (1,862) | - | **(25,359)** |
| Disposals | 2,289 | 6,343 | 234 | - | **8,866** |
| Other movements | (25) | 97 | (10) | - | **62** |
| At 1 January 2021 | (25,455) | (92,284) | (11,296) | - | **(129,035)** |
| Transfers to right-of-use assets (note 15) | - | 7 | - | - | **7** |
| Depreciation charge | (6,425) | (17,703) | (1,852) | - | **(25,980)** |
| Disposals | 1,263 | 6,560 | 179 | - | **8,002** |
| Other movements | 8 | 10 | 1 | - | **19** |
| **At 31 December 2021** | **(30,609)** | **(103,410)** | **(12,968)** | **-** | **(146,987)** |
| **Net book value at 1 January 2020** | **72,708** | **83,765** | **5,991** | **36,995** | **199,459** |
| **Net book value at 1 January 2021** | **79,150** | **95,677** | **6,604** | **38,600** | **220,031** |
| **Net book value at 31 December 2021** | **85,791** | **100,390** | **7,769** | **43,494** | **237,444** |

During the year ended 31 December 2021, the Group capitalised borrowing costs in the amount of RUB 1,141 million (2020: RUB 1,220 million) in the value of property, plant and equipment using the weighted average interest rate of 2.86% per year (2020: 3.20% per year).

As at 31 December 2021, the most significant balances of the construction in progress related to the following investment projects:

Kirovsk mine extension and modernization. As at 31 December 2021, the Group has capitalised expenses of RUB 14,045 million (as at 31 December 2020: RUB 10,758 million);

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

MAP facilities construction in Volkhov. As at 31 December 2021, the Group has capitalised expenses of RUB 13,362 million (as at 31 December 2020: RUB 7,939 million);

Granulated ammonium sulphate facilities construction in Balakovo. As at 31 December 2021, the Group has capitalised expenses of RUB 1,862 million (as at 31 December 2020: RUB 715 million);

Aluminium fluoride production facilities development in Cherepovets. As at 31 December 2021, the Group has capitalised expenses of RUB 1,090 million (as at 31 December 2020: RUB 2,180 million).

## 15 RIGHT-OF-USE ASSETS

The Group has the following types of right-of-use assets: railway wagons, production equipment, offices. The leases typically run for a period of 5 years, with an option to renew the lease after that date.

| *RUB million* | **Buildings** | **Plant and equipment** | **Total** |
|---|---|---|---|
| **Net book value at 1 January 2020** | **109** | **6,782** | **6,891** |
| New lease contracts and modification on existing lease contracts | 146 | 1,934 | **2,080** |
| Transfers to property, plant and equipment (note 14) | - | (8) | **(8)** |
| Depreciation | (79) | (1,545) | **(1,624)** |
| Disposals | (6) | (15) | **(21)** |
| Effect of foreign currency translation reserve | 15 | 2 | **17** |
| **Net book value at 31 December 2020** | **185** | **7,150** | **7,335** |
| **Net book value at 1 January 2021** | **185** | **7,150** | **7,335** |
| New lease contracts and modification on existing lease contracts | 395 | 1,087 | **1,482** |
| Transfers from property, plant and equipment (note 14) | - | 8 | **8** |
| Depreciation | (100) | (1,673) | **(1,773)** |
| Disposals | (20) | (68) | **(88)** |
| Effect of foreign currency translation reserve | (8) | (1) | **(9)** |
| **Net book value at 31 December 2021** | **452** | **6,503** | **6,955** |

Amounts recognised in the consolidated statement of profit or loss and other comprehensive income:

| *RUB million* | **2021** | **2020** |
|---|---|---|
| Depreciation expense on right-of-use assets | 1,773 | 1,624 |
| Interest expense on lease liabilities | 395 | 485 |
| Expenses relating to short-term leases | 481 | 618 |
| Expenses relating to leases with variable payments | 524 | 476 |

## 15 RIGHT-OF-USE ASSETS (CONTINUED)

Amounts recognised in the consolidated statement of cash flows:

| _RUB million_ | 2021 | 2020 |
|---|---|---|
| Principal lease payments (note 26) | (1,949) | (1,951) |
| Interest lease payments (note 26) | (395) | (485) |
| Expenses relating to short-term leases | (481) | (618) |
| Expenses relating to leases with variable payments | (524) | (476) |
| **Total payments** | **(3,349)** | **(3,530)** |

## 16 INVESTMENTS IN ASSOCIATES

Carrying values of the Group's investments in associates are as follows:

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| _RUB million_ | Carrying value | Share of ownership | Carrying value | Share of ownership |
| JSC Khibinskaya Teplovaya Kompaniya (Russia) | 484 | 50% | 463 | 50% |
| JSC Giproruda (Russia) | 59 | 25% | 62 | 25% |
| JSC Soligalichskiy izvestkovyi kombinat (Russia) | 26 | 26% | 31 | 26% |
| **Total** | **569** | | **556** | |

## 17 DEFERRED TAX ASSETS AND LIABILITIES

### (a) Deferred tax assets and liabilities by type of temporary difference

Deferred tax assets and liabilities are attributable to the following items:

| _RUB Million_ | Assets 2021 | Liabilities 2021 | Net 2021 | Assets 2020 | Liabilities 2020 | Net 2020 |
|---|---|---|---|---|---|---|
| Property, plant and equipment and intangible assets | 375 | (13,714) | (13,339) | 383 | (12,390) | (12,007) |
| Other long-term assets | 71 | (256) | (185) | 115 | (51) | 64 |
| Current assets | 2,449 | (809) | 1,640 | 1,322 | (1,012) | 310 |
| Liabilities | 1,825 | (205) | 1,620 | 1,921 | (311) | 1,610 |
| Tax loss carry-forwards | 6,881 | - | 6,881 | 5,962 | - | 5,962 |
| Unrecognised deferred tax assets | (55) | - | (55) | (55) | - | (55) |
| Tax assets/(liabilities) | 11,546 | (14,984) | (3,438) | 9,648 | (13,764) | (4,116) |
| Set off of tax | (2,047) | 2,047 | - | (2,186) | 2,186 | - |
| **Net tax assets/(liabilities)** | **9,499** | **(12,937)** | **(3,438)** | **7,462** | **(11,578)** | **(4,116)** |

The deferred tax assets on tax loss carry-forwards relate to the Russian entities. Due to amendments to the Russian tax legislation, starting from 1 January 2017, tax losses for Russian tax purposes carried forward existing as at 31 December 2021 do not expire.

Management has developed a tax strategy to utilise the tax losses above. In assessing the recoverability of the tax losses, management considers a forecast of future taxable profits of the Group and the Group's tax position. The forecast is reviewed at each reporting date to ensure that the related tax benefit will be realised.

## 17 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2021, no deferred tax liability for taxable temporary differences of RUB 714 million associated with investments in subsidiaries has been recognised (31 December 2020: RUB 19,984 million), either because the Parent can control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future, or because the applicable tax rate is expected to be 0%.

### (b) Movement in temporary differences during the year

| *RUB million* | 31 December 2021 | Recognised in profit or loss | Recognised in other comprehensive income | Reclassification | 1 January 2021 (as presented) | Effect of change in accounting policy | 31 December 2020 (as previously reported) |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment, right-of-use assets and intangible assets | (13,339) | (1,331) | 1 | (2) | (12,007) | - | (12,007) |
| Other long-term assets | (185) | (243) | (6) | - | 64 | - | 64 |
| Current assets | 1,640 | 1,337 | (7) | - | 310 | (382) | 692 |
| Liabilities | 1,620 | 10 | (2) | 2 | 1,610 | - | 1,610 |
| Tax loss carry-forwards | 6,881 | 919 | - | - | 5,962 | - | 5,962 |
| Unrecognised deferred tax assets | (55) | - | - | - | (55) | - | (55) |
| **Net tax (liabilities)/assets** | **(3,438)** | **692** | **(14)** | **-** | **(4,116)** | **(382)** | **(3,734)** |

| *RUB million* | 31 December 2020 | Recognised in profit or loss | Recognised in other comprehensive income | Reclassification | 1 January 2020 |
|---|---|---|---|---|---|
| Property, plant and equipment, right-of-use assets and intangible assets | (12,007) | (78) | (2) | - | (11,927) |
| Other long-term assets | 64 | 63 | 9 | - | (8) |
| Current assets | 692 | (9) | 24 | - | 677 |
| Liabilities | 1,610 | (215) | 3 | - | 1,822 |
| Tax loss carry-forwards | 5,962 | (1,465) | - | - | 7,427 |
| Unrecognised deferred tax assets | (55) | - | - | - | (55) |
| **Net tax (liabilities)/assets** | **(3,734)** | **(1,704)** | **34** | **-** | **(2,064)** |

## 18 OTHER NON-CURRENT ASSETS

| *RUB million* | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Loans issued to third parties, at amortised cost | 637 | 716 |
| Provision for loans issued to third parties | (561) | (605) |
| Loans issued to third parties, at amortised cost, net | 76 | 111 |
| Long-term accounts receivable | 677 | 732 |
| Provision for long-term accounts receivable | (589) | (635) |
| Long-term accounts receivable, net | 88 | 97 |
| Financial assets, at fair value through profit or loss | 1,790 | 592 |
| Loans issued to employees, at amortised cost | 104 | 148 |
| **Total other non-current assets** | **2,058** | **948** |

## 18 OTHER NON-CURRENT ASSETS (CONTINUED)

The movements in provision for loans issued and long-term accounts receivable are as follows:

| *RUB million* | 2021 | 2020 |
|---|---|---|
| **Loans issued to third parties** | | |
| **Balance at 1 January** | **(605)** | **(510)** |
| Provision for loans issued accrued | (1) | - |
| Use of provision | - | 2 |
| Reversal of provision | - | 59 |
| Effect of foreign currency translation reserve | 45 | (156) |
| **Balance at 31 December** | **(561)** | **(605)** |
| **Long-term accounts receivable** | | |
| **Balance at 1 January** | **(635)** | **-** |
| Provision for Long-term accounts receivable accrued | (1) | (584) |
| Use of provision | - | - |
| Reversal of provision | - | - |
| Effect of foreign currency translation reserve | 47 | (51) |
| **Balance at 31 December** | **(589)** | **(635)** |

As at 31 December 2021 and 31 December 2020, financial assets measured at fair value through profit or loss include 9.27% share in a related party JSC “AgroGuard-Finance”. The company is not publicly traded and the fair value of the investment was estimated using valuation techniques. As at 31 December 2021, a fair value of operating subsidiaries of JSC “AgroGuard-Finance” was estimated by reference to the projected cash flows discounted at the post-tax RUB-nominated rate of 13.7% based on the weighted average cost of capital, a fair value of other subsidiaries was estimated using adjusted net assets method.

During the year ended 31 December 2021, the Group recognized fair value gain of RUB 1,193 million in profit or loss (no fair value gain or loss has been recognized during the year ended 31 December 2020).

## 19 OTHER FINANCIAL ASSETS

| *RUB million* | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Interest receivable | 140 | 134 |
| Loans issued to employees, at amortised cost | 104 | 125 |
| Loans issued to third parties, at amortised cost | 60 | 48 |
| Loans issued to related parties, at amortised cost | 25 | - |
| Dividend receivable | - | 41 |
| Provision for doubtful accounts | (113) | (37) |
| **Total other financial assets** | **216** | **311** |

## 20 INVENTORIES

| *RUB million* | **31 December 2021** | **31 December 2020** |
|---|---|---|
| Raw materials and spare parts | 10,535 | 8,086 |
| *Finished goods:* | | |
| Chemical fertilisers | 22,110 | 14,254 |
| Apatite concentrate | 607 | 717 |
| Other products | 291 | 378 |
| *Work-in-progress:* | | |
| Chemical fertilisers and other products | 6,375 | 4,902 |
| Chemical fertilisers and other products for resale, purchased from third parties | 1,662 | 2,292 |
| Other goods | 197 | 172 |
| Provision for obsolescence | (600) | (221) |
| **Total inventories** | **41,177** | **30,580** |

## 21 TRADE AND OTHER RECEIVABLES

| *RUB million* | **31 December 2021** | **31 December 2020** |
|---|---|---|
| ***Financial assets*** | | |
| Trade accounts receivable | 33,013 | 11,212 |
| Other receivables | 822 | 996 |
| Provision for doubtful accounts and expected credit losses allowance | (339) | (349) |
| ***Non-financial assets*** | | |
| Advances issued | 14,819 | 5,537 |
| Deferred expenses | 199 | 117 |
| Receivables from employees | 28 | 22 |
| Provision for doubtful accounts and expected credit losses allowance | (16) | (20) |
| **Total trade and other receivables** | **48,526** | **17,515** |

As at 31 December 2021, amount of trade accounts receivable includes RUB 3,166 million of trade receivables measured at fair value through other comprehensive income (31 December 2020: RUB 1,874 million) and RUB 4,885 million measured at fair value through profit or loss (31 December 2020: RUB 93 million). The fair values of these receivables approximate their carrying amounts.

The movements in bad debt and expected credit losses allowance are as follows:

| *RUB million* | **2021** | **2020** |
|---|---|---|
| **Balance at 1 January** | **(369)** | **(258)** |
| Use of allowance | 140 | 78 |
| Reversal of allowance | 10 | 5 |
| Reclassification from non-current assets | - | (37) |
| Effect of foreign currency translation reserve | (3) | (29) |
| Increase in provision for doubtful accounts and expected credit losses allowance | (133) | (128) |
| **Balance at 31 December** | **(355)** | **(369)** |

See note 29 (c) for the analysis of overdue trade accounts receivable.

## 22 CASH AND CASH EQUIVALENTS

| *RUB million* | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Cash in bank | 13,298 | 4,023 |
| Call deposits | 8,405 | 4,432 |
| Petty cash | 7 | 5 |
| **Total cash and cash equivalents** | **21,710** | **8,460** |

The most significant balances of cash and cash equivalents were held in banks with credit rating from an AA to BBB.

## 23 EQUITY

### (a) Share capital

As at 31 December 2021 and 31 December 2020, the Company’s share capital consists of 129,500,000 ordinary shares with par value of RUB 2.5 per share. All issued ordinary shares are fully paid. Each ordinary share carries one vote.

As at 31 December 2021 and 31 December 2020, the number of ordinary shares authorised for additional issue is 994,977,080, with a par value of RUB 2.5 per share.

### (b) Dividend policy

The Group’s dividend policy is based on the following principles:

striking an effective and reasonable balance between the payment of dividends and reinvestment of profit in further development;

ensuring transparency and predictability of dividend payments as a way to boost the Company’s investment case.

Amount of such payment is subject to approval of the General Shareholders’ Meeting, based on recommendations provided by the PhosAgro Board of Directors. The Board of Directors’ recommendations depend on such factors as the Company’s earnings for the reporting period and its financial position. To calculate the amount of dividend payments, the Board of Directors considers the Company’s consolidated free cash flow for the reporting period (quarter, six months, first nine months or year) under IFRS. Free cash flow is defined as cash flows from operating activities less cash flows from investing activities based on the consolidated statement of cash flows. A decision on the payment of an interim dividend is made at the General Shareholders’ Meeting within three months of the end of the relevant reporting period. The payment period for dividends payable to a nominal holder or a trustee, which is a professional participant of the securities market, who are registered in the share register, shall be not more than 10 business days. The payment period for dividends payable to other parties registered in the shareholders register shall not exceed 25 business days after the date on which the parties entitled to receive dividends are determined. Holders of PhosAgro GDRs are also entitled to receive dividends in respect of the underlying shares, subject to the terms of their Depositary Agreements. In accordance with the dividend policy, the Board of Directors shall seek to make sure that the amount of distributed dividends ranges from 50% to over 75% (subject to the Company’s leverage ratio) of the Company’s consolidated free cash flow for the respective period under IFRS. At the same time, the amount of declared dividends shall not be lower than 50% of net profit for the relevant period under IFRS adjusted by the amount of unrealized exchange rate difference.

### (c) Dividends

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Standards. As at 31 December 2021, the Company had cumulative retained earnings of RUB 59,337 million (31 December 2020: RUB 18,057 million).

## 23 EQUITY (CONTINUED)

| Proposed by the Board of Directors in | Approved by shareholders in | Amount per share *RUB* | Amount of dividends *RUB million* |
|---|---|---|---|
| **Total dividends approved during the reporting period** | | | |
| April 2021 | May 2021 | 63 | 8,158.5 |
| May 2021 | June 2021 | 105 | 13,597.5 |
| August 2021 | September 2021 | 156 | 20,202.0 |
| November 2021 | December 2021 | 234 | 30,303.0 |
| **Total dividends approved subsequent to the reporting date** | | | |
| February 2022 | April 2022 | 390 | 50,505.0 |
| **Total dividends** | | | **122,766.0** |

## 24 EARNINGS PER SHARE

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the year. Basic and diluted earnings per share are the same, as there is no effect of dilution.

| *RUB million* | **2021** | **2020** |
|---|---|---|
| Weighted average number of ordinary shares in issue | 129,500,000 | 129,500,000 |
| Profit for the year attributable to shareholders of the Parent, RUB million | 129,697 | 16,932 |
| Basic and diluted earnings per share, RUB | 1,002 | 131 |

## 25 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group’s loans and borrowings. For more information about the leases, see note 26. For more information about the Group’s exposure to foreign currency risk, interest rate risk and liquidity risk, see note 29.

| *RUB million* | **31 December 2021** | **31 December 2020** |
|---|---|---|
| ***Current loans and borrowings*** | | |
| Unsecured bank loans | 11,492 | 28,326 |
| Eurobonds | - | 25,857 |
| Interest payable | 1,220 | 1,137 |
| Bank commission (short-term) | (2) | (4) |
| **Total current loans and borrowings** | **12,710** | **55,316** |
| ***Non-current loans and borrowings*** | | |
| Eurobonds | 111,439 | 73,876 |
| Unsecured bank loans | 45,957 | 30,159 |
| Bank commission (long-term) | (315) | (211) |
| **Total non-current loans and borrowings** | **157,081** | **103,824** |
| **Total loans and borrowings** | **169,791** | **159,140** |

## 25 LOANS AND BORROWINGS (CONTINUED)

In May 2017, the Company's SPV issued a USD 500 million 4.5-year Eurobond with a coupon rate of 3.95%, which was listed on the Irish Stock Exchange. In 2020, the Company's SPV redeemed USD 150 million of the Eurobond ahead of schedule. The fair value of the Eurobond at 31 December 2020 was RUB 26,514 million. In November 2021, the Company's SPV redeemed USD 350 million. The redemption was financed through the proceeds from Eurobonds issued in September 2021.

In January 2018 the Company's SPV issued a USD 500 million 5,25-year Eurobond with a coupon rate of 3.949%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB 37,940 million (31 December 2020: RUB 38,763 million).

In January 2020 the Company's SPV issued a USD 500 million 5-year Eurobond with a coupon rate of 3.05%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB 37,726 million (31 December 2020: RUB 38,534 million).

In September 2021, the Company's SPV issued a USD 500 million 7-year Eurobond with a coupon rate of 2.6%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB 36,140 million.

Management believes that the fair value of the Group's other loans and borrowings approximates their carrying amounts.

The breakdown of the loans and borrowings denominated in different currencies is as follows:

| *RUB million* | 31 December 2021 | 31 December 2020 |
|---|---|---|
| USD-denominated | 154,288 | 129,593 |
| EUR-denominated | 12,407 | 20,018 |
| RUB-denominated | 3,096 | 9,529 |
| **Total** | **169,791** | **159,140** |

The maturity of the loans and borrowings is as follows:

| *RUB million* | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Less than 1 year | 12,712 | 55,320 |
| 1-2 years | 48,760 | 12,182 |
| 2-3 years | 16,879 | 40,859 |
| 3-4 years | 41,037 | 3,921 |
| 4-5 years | 11,320 | 40,859 |
| More than 5 years | 39,400 | 6,214 |
| Bank commission | (317) | (215) |
| **Total** | **169,791** | **159,140** |

Reconciliation of loans and borrowings balances:

| *RUB million* | 2021 | 2020 |
|---|---|---|
| Balance as at 1 January | 159,140 | 133,576 |
| Cash inflows | 61,622 | 63,520 |
| Cash outflows | (50,081) | (66,182) |
| Interest accrued | 3,910 | 3,647 |
| Interest paid | (3,861) | (3,352) |
| Amortisation of bank commission | 83 | 83 |
| Foreign exchange (gain)/loss | (812) | 27,848 |
| Other turnovers | (210) | - |
| **Balance as at 31 December** | **169,791** | **159,140** |

## 26 LEASES

| *RUB million* | Lease liability without subsequent asset buyout | Lease liability with subsequent asset buyout | Total |
|---|---|---|---|
| **Balance as at 1 January 2020** | **4,757** | **1,487** | **6,244** |
| New lease contracts and modification of existing lease contracts | 94 | 1,793 | **1,887** |
| Interest expense on lease liabilities | 295 | 190 | **485** |
| Principal lease payments | (1,242) | (709) | **(1,951)** |
| Interest lease payments | (296) | (189) | **(485)** |
| Effect of foreign currency translation reserve | 14 | 1 | **15** |
| **Balance as at 1 January 2021** | **3,622** | **2,573** | **6,195** |
| New lease contracts and modification of existing lease contracts | 882 | 521 | **1,403** |
| Interest expense on lease liabilities | 223 | 172 | **395** |
| Principal lease payments | (1,345) | (604) | **(1,949)** |
| Interest lease payments | (223) | (172) | **(395)** |
| Effect of foreign currency translation reserve | (11) | (1) | **(12)** |
| **Balance as at 31 December 2021** | **3,148** | **2,489** | **5,637** |

## 27 DEFINED BENEFIT OBLIGATIONS

| *RUB million* | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Pension obligations, long-term | 307 | 323 |
| Post-retirement obligations other than pensions | 645 | 622 |
| **Total defined benefit obligations** | **952** | **945** |

The Group has defined benefit plans at JSC “Apatit”, including all the branches, and PhosAgro Trading SA which stipulate payment of a lump sum allowance to employees who have a specified period of service in these companies upon their retirement. All the defined benefit plans are unfunded. The movement in the present value of the defined benefit obligations is as follows:

| *RUB million* | 2021 | 2020 |
|---|---|---|
| **Defined benefit obligations at 1 January** | **945** | **857** |
| Benefits paid | (132) | (74) |
| Current service costs and interest | 123 | 98 |
| Past service costs | (15) | (1) |
| Actuarial loss in other comprehensive income | 36 | 28 |
| Effect of foreign currency translation reserve and foreign exchange differences | (5) | 37 |
| **Defined benefit obligations at 31 December** | **952** | **945** |

## 27 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

The key actuarial assumptions used in measurement of the defined benefit obligations are as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Discount rate | 7.5% | 6.4% |
| Future pension increases | 4.1% | 3.5% |

## 28 TRADE AND OTHER PAYABLES

| *RUB million* | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Trade accounts payable | 16,643 | 12,230 |
| including accounts payable for property, plant and equipment and intangible assets | 5,676 | 4,777 |
| Advances received (contract liabilities) | 16,379 | 12,406 |
| Payables to employees | 5,094 | 4,029 |
| Accruals and provisions | 209 | 210 |
| Dividends payable | 2 | - |
| Other payables | 3,429 | 994 |
| **Total trade and other payables** | **41,756** | **29,869** |

Contract liabilities balance at the beginning of the year was fully recognised in revenue during the reporting period.

## 29 FINANCIAL RISK MANAGEMENT

### (a) Overview

In the normal course of its operations, the Group has exposure to market, credit and liquidity risks.

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities.

### (b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group’s income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Foreign currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily USD and EUR.

## 29 FINANCIAL RISK MANAGEMENT (CONTINUED)

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group implemented a natural hedge approach (policy) aiming at reducing its exposure to foreign currency risk by means of borrowing in the same currencies in which sales agreements are denominated.

The Group has the following net monetary position on financial assets and liabilities denominated in foreign currencies:

| | **31 December 2021** | | **31 December 2020** | |
|---|---|---|---|---|
| _RUB million_ | **USD denominated** | **EUR denominated** | **USD denominated** | **EUR denominated** |
| Group companies in Russia: | | | | |
| _Current assets_ | _1,643_ | _70_ | _439_ | _28_ |
| Trade and other receivables | 654 | 3 | 366 | 5 |
| Cash and cash equivalents | 989 | 67 | 73 | 23 |
| Other financial assets | - | - | - | - |
| _Non-current liabilities_ | _(143,073)_ | _(11,786)_ | _(97,319)_ | _(6,716)_ |
| Non-current loans and borrowings | (142,510) | (11,786) | (97,319) | (6,716) |
| Non-current finance lease liabilities | (563) | - | - | - |
| _Current liabilities_ | _(13,563)_ | _(1,712)_ | _(33,457)_ | _(14,094)_ |
| Current loans and borrowings | (12,070) | (620) | (32,475) | (13,302) |
| Trade and other payables | (1,422) | (1,092) | (982) | (792) |
| Current finance lease liability | (71) | - | - | - |
| **Net position of the Group companies in Russia** | **(154,993)** | **(13,428)** | **(130,337)** | **(20,782)** |
| Foreign Group companies: | | | | |
| _Current assets_ | 2,831 | 2,977 | _1,596_ | _916_ |
| Trade and other receivables | 1,572 | 1,390 | 970 | 560 |
| Cash and cash equivalents | 1,182 | 1,587 | 543 | 356 |
| Other financial assets | 77 | - | 83 | - |
| _Non-current liabilities_ | - | (2) | - | - |
| Non-current finance lease liability | - | (2) | - | - |
| _Current liabilities_ | (137) | (199) | _(2)_ | _(171)_ |
| Trade and other payables | (121) | (197) | (2) | (171) |
| Current loans and borrowings | (16) | - | - | - |
| Current finance lease liability | - | (2) | - | - |
| **Net position of foreign Group companies** | **2,694** | **2,776** | **1,594** | **745** |

## 29 FINANCIAL RISK MANAGEMENT (CONTINUED)

| *RUB million* | **31 December 2021** USD denominated | **31 December 2021** EUR denominated | **31 December 2020** USD denominated | **31 December 2020** EUR denominated |
|---|---|---|---|---|
| Total: | | | | |
| *Current assets* | 4,474 | 3,047 | *2,035* | *944* |
| Trade and other receivables | 2,226 | 1,393 | 1,336 | 565 |
| Cash and cash equivalents | 2,171 | 1,654 | 616 | 379 |
| Other financial assets | 77 | - | 83 | - |
| *Non-current liabilities* | (143,073) | (11,788) | *(97,319)* | *(6,716)* |
| Non-current loans and borrowings | (142,510) | (11,786) | (97,319) | (6,716) |
| Non-current finance lease liabilities | (563) | (2) | - | - |
| *Current liabilities* | (13,700) | (1,911) | *(33,459)* | *(14,265)* |
| Current loans and borrowings | (12,086) | (620) | (32,475) | (13,302) |
| Trade and other payables | (1,543) | (1,289) | (984) | (963) |
| Current finance lease liabilities | (71) | (2) | - | - |
| **Total net position** | **(152,299)** | **(10,652)** | **(128,743)** | **(20,037)** |

Management estimates that a 10% strengthening/(weakening) of RUB against USD and EUR, based on the Group's total net position in USD and EUR as at the reporting date would have increased/(decreased) the Group's profit for the year by RUB 16,295 million, before any tax effect (2020: would have increased/(decreased) the Group's profit for the year by RUB 14,878 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2020.

The foreign exchange loss recognized in profit or loss of RUB 838 million (RUB 25,070 million for the comparative period) resulted from the depreciation of the Russian Rouble against major currencies during the reporting and comparative periods.

### Foreign currency translation differences

In addition, the net assets of the Group's foreign subsidiaries denominated in USD, EUR and other currencies amount to RUB 19,842 million as at the reporting date (31 December 2020: RUB 16,760 million).

### Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

## 29 FINANCIAL RISK MANAGEMENT (CONTINUED)

The interest rate profile of the Group's interest-bearing financial instruments at their carrying values is as follows:

| _RUB million_ | 31 December 2021 | 31 December 2020 |
|---|---|---|
| _Fixed rate instruments_ | | |
| Other non-current assets | 181 | 259 |
| Call deposits and other financial assets | 8,594 | 4,605 |
| Long-term borrowings | (154,309) | (94,498) |
| Short-term borrowings | (6,523) | (53,027) |
| Lease liabilities | (5,637) | (6,195) |
| **Total fixed rate instruments** | **(157,694)** | **(148,856)** |
| _Variable rate instruments_ | | |
| Long-term borrowings | (3,087) | (9,537) |
| Short-term borrowings | (6,189) | (2,293) |
| **Total variable rate instruments** | **(9,276)** | **(11,830)** |

At 31 December 2021, a 1 percentage point increase/(decrease) in LIBOR/EURIBOR, with all other variables held constant, would have decreased/(increased) the Group's profit for the year and equity by RUB 93 million (31 December 2020: RUB 118 million).

### (c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises from the Group's receivables from customers, loans issued to related parties, current and non-current financial assets and cash and cash equivalents.

As at 31 December 2021, the Group's maximum exposure to credit risk is represented by the carrying amount of its financial assets and amounted to RUB 57,489 million (31 December 2020: RUB 21,580 million). There are no significant concentrations of credit risk, whether through exposure to individual customers and/or regions.

As at 31 December 2021, the Group's financial assets measured at amortised cost amounted to RUB 47,648 million (31 December 2020: RUB 19,021 million).

As at 31 December 2021, the Group's financial assets measured at fair value through profit or loss amounted to RUB 6,675 million (31 December 2020: RUB 685 million).

As at 31 December 2021, the Group's financial assets measured at fair value through other comprehensive income amounted to RUB 3,166 million (31 December 2020: RUB 1,874 million).

### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual specific characteristics of each customer. The general characteristics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum amount of outstanding receivables; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis. In response to the COVID-19 pandemic, the risk management committee has also been performing more frequent reviews of sales limits for customers in regions and industries that are severely impacted.

## 29 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group is monitoring the economic environment in response to the COVID-19 pandemic and is taking actions to limit its exposure to customers that are severely impacted. The majority of the Group's customers have been transacting with the Group for several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics. Trade and other receivables relate mainly to the Group's wholesale customers.

The Group does not require collateral in respect of trade and other receivables, except for new customers who are required to work on a prepayment basis or present an acceptable bank guarantee or set up letter of credit with an acceptable bank.

In addition, a major part of trade receivables in the Group's foreign subsidiaries is insured.

The Group establishes an allowance for impairment that represents its estimate of the expected credit losses in respect of trade and other receivables and other financial assets. The Group estimated the expected credit losses for the entire period, applying a simplified approach to measuring expected credit losses, which uses lifetime expected loss allowance. In the terms of calculating the expected credit loss, the Group considers the credit rating for each counterparty, adjusted with forward-looking factors specific to the debtors, historical credit loss experience and economic environment in which they operate.

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies.

Exposures within each credit risk grade are segmented by geographic region and industry classification and an ECL rate is calculated for each segment based on delinquency status and actual credit loss experience over the past years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The Group uses an allowance matrix presented in the table below to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region, age of customer relationship.

The analysis of overdue trade and other receivables at the reporting date is as follows:

| | **31 December 2021** | | | | **31 December 2020** | | | |
|---|---|---|---|---|---|---|---|---|
| _RUB Million_ | **Loss Rate** | **Gross carrying amount** | **Lifetime ECL** | **Net carrying value** | **Loss Rate** | **Gross carrying amount** | **Lifetime ECL** | **Net carrying value** |
| Not past due | 0%-15% | 30,652 | (3) | 30,649 | 0%-15% | 10,252 | (4) | 10,248 |
| Past due 0-90 days | 1%-35% | 2,265 | (46) | 2,219 | 1%-35% | 951 | (4) | 947 |
| Past due 91-180 days | 5%-60% | 32 | (6) | 26 | 5%-60% | 391 | - | 391 |
| Past due 181-365 days | 15%-90% | 68 | (51) | 17 | 15%-90% | 32 | (8) | 24 |
| More than one year | 50%-100% | 812 | (232) | 580 | 50%-100% | 582 | (333) | 249 |
| | | **33,829** | **(338)** | **33,491** | | **12,208** | **(349)** | **11,859** |

## 29 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following information shows the movements in the Group's assets and liabilities under the securitisation arrangement for the reporting period:

| *RUB million* | 2021 | 2020 |
|---|---|---|
| Trade receivables transferred to the bank | 23,992 | 14,899 |
| Associated cash inflow | 8,684 | 2,350 |
| Associated cash outflow | (3,566) | (3,881) |
| Net-off with other payables | 15,308 | 12,549 |
| Other non-cash operations | 253 | 63 |

Payables to the bank as at 31 December 2021 amounted to RUB 3,229 million (31 December 2020: RUB 852 million) are presented within other payables. Receivables from the bank as at 31 December 2021 amounted to RUB 854 million (31 December 2020: RUB 537 million) are presented within trade receivables.

### Current and non-current financial assets

The Group lends money to related parties and to third parties, who have good credit standing. Based on the prior experience, management believes that there is no significant credit risk in respect of related party and third party loans.

Cash and cash equivalents are primarily held with banks with high credit rating.

### Guarantees

For financial guarantees issued the maximum exposure to credit risk is the amount of the commitment (note 32). The Group's policy is to provide financial guarantees only to the subsidiaries or related parties.

### (d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains several lines of credit in various Russian and international banks.

The table below illustrates the contractual maturities of financial liabilities, including interest payments, which are converted at the closing exchange rates, where applicable. The amounts disclosed in the maturity table are the contractual undiscounted cash flows:

| | 31 December 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *RUB Million* | Carrying value | Contractual cash flows | 0-1 year | 1-2 yrs | 2-3 yrs | 3-4 yrs | 4-5 yrs | Over 5 yrs |
| Loans and borrowings | 170,108 | 185,811 | 16,492 | 52,628 | 19,720 | 43,070 | 12,526 | 41,375 |
| Lease liabilities | 5,637 | 6,246 | 2,487 | 1,856 | 1,261 | 318 | 202 | 122 |
| Trade and other payables | 20,283 | 20,283 | 20,283 | - | - | - | - | - |
| Financial guarantees issued for associates and related parties | 75 | 75 | 75 | - | - | - | - | - |
| **Total** | **196,103** | **212,415** | **39,337** | **54,484** | **20,981** | **43,388** | **12,728** | **41,497** |

## 29 FINANCIAL RISK MANAGEMENT (CONTINUED)

| | 31 December 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *RUB Million* | Carrying value | Contractual cash flows | 0-1 year | 1-2 yrs | 2-3 yrs | 3-4 yrs | 4-5 yrs | Over 5 yrs |
| Loans and borrowings | 159,355 | 171,988 | 59,276 | 15,637 | 43,337 | 5,529 | 41,759 | 6,450 |
| Lease liabilities | 6,195 | 7,122 | 2,336 | 2,109 | 1,477 | 1,021 | 161 | 18 |
| Trade and other payables | 18,042 | 18,042 | 18,042 | - | - | - | - | - |
| Financial guarantees issued for associates and related parties | 340 | 360 | 283 | 77 | - | - | - | - |
| **Total** | **183,932** | **197,512** | **79,937** | **17,823** | **44,814** | **6,550** | **41,920** | **6,468** |

### (e) Capital management

The Group’s policy is to safeguard the Group’s ability to continue as a going concern, to maintain a strong capital base in order to provide investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital invested and the level of dividends paid to shareholders.

There were no changes in the Board’s approach to capital management during the year.

The Company and its subsidiaries are subject to externally imposed capital requirements including the statutory requirements of the country of their domicile and the bank covenants.

## 30 COMMITMENTS

As at 31 December 2021, the Group had contractual commitments for the purchase of property, plant and equipment for RUB 29,458 million (31 December 2020: RUB 31,197 million), including VAT where applicable.

## 31 CONTINGENCIES

### (a) Litigation

The Group has a number of small claims and litigations relating to regular business activities and small fiscal claims. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

### (b) Taxation contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing (TP) legislation is generally aligned with the international TP principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. The TP legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm’s-length basis. The management has implemented internal controls to comply with current TP legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of TP rules, that such prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the Group's operations.

## 31 CONTINGENCIES (CONTINUED)

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income is subject to a 20% tax rate. Management doesn't expect any significant payments in respect of its foreign subsidiaries profits due to new CFC legislation.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

### (c) Environmental contingencies

The environmental legislation, currently effective in the Russian Federation, is relatively new and characterised by frequent changes, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different authorities.

The Group is involved in chemical production, which is inherently exposed to significant environmental risks. The Group companies record environmental obligations as they become probable and reliably measurable. The Group companies are parties to different litigations with the Russian environmental authorities. The management believes that based on its interpretations of applicable Russian legislation, official pronouncements and court decisions no provision is required for environmental obligations. However, the interpretations of the relevant authorities could differ from management's position and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

### (d) Compliance with covenants

The Group is subject to certain covenants related primarily to its loans and borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

The Group was in compliance with covenants during the years ended 31 December 2021 and 31 December 2020.

## 32 RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party 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. Other related parties include entities controlled by the Company's key shareholders.

## 32 RELATED PARTY TRANSACTIONS (CONTINUED)

The balances and transactions with related parties are usually unsecured and denominated in RUB.

### a) Transactions with related parties

| *RUB million* | Nature of relationship | 2021 | 2020 |
|---|---|---|---|
| Sales of goods and services | Associates | 26 | 26 |
| Other income, net | Associates | - | 1 |
| Purchases of goods and services | Associates | (585) | (561) |
| Sales of goods and services | Other related parties | 968 | 686 |
| Dividend income | Other related parties | - | 203 |
| Other expenses, net | Other related parties | (60) | (53) |
| Purchases of goods and services | Other related parties | (224) | (115) |

In 2021, the Company declared dividends in total amount of RUB 46,824 million (2020: RUB 25,113 million) to its shareholders which have significant influence over the Group.

### b) Balances with related parties

| *RUB million* | Nature of relationship | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| Trade and other receivables | Associates | 20 | 16 |
| Trade and other payables | Associates | (17) | (12) |
| Trade and other receivables | Other related parties | 8 | 14 |
| Trade and other payables | Other related parties | (349) | (237) |
| Short-term loans issued, at amortised cost | Other related parties | 25 | - |

### c) Financial guarantees

The Group issued financial guarantees to the bank to secure associates' bank loans amounting to RUB 75 million (31 December 2020: RUB 340 million).

### d) Key management personnel remuneration

Remuneration of key management personnel consists of monthly compensation, annual performance bonus contingent on operating results and contributions to the Russian state pension and social funds. The remuneration of the Board of Directors and key management personnel recognised as part of administrative and selling overhead expenses amounted to RUB 4,147 million (2020: RUB 3,351 million).

## 33 SIGNIFICANT SUBSIDIARIES

| Subsidiary | Country of incorporation | Effective ownership (rounded) 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| Apatit, JSC (including Balakovo, Volkhov and Kirovsk branches) | Russia | 100% | 100% |
| Mekhanik, LLC | Russia | 100% | 100% |
| NIUIF, JSC | Russia | 94% | 94% |
| PhosAgro-Region, LLC | Russia | 100% | 100% |
| PhosAgro-Belgorod, LLC | Russia | 100% | 100% |
| PhosAgro-Don, LLC | Russia | 100% | 100% |
| PhosAgro-Kuban, LLC | Russia | 100% | 100% |
| PhosAgro-Kursk, LLC | Russia | 100% | 100% |
| PhosAgro-Lipetsk, LLC | Russia | 100% | 100% |
| PhosAgro-Oryol, LLC | Russia | 100% | 100% |
| PhosAgro-Stavropol, LLC | Russia | 100% | 100% |
| PhosAgro-Volga, LLC | Russia | 100% | 100% |
| PhosAgro-SeveroZapad, LLC | Russia | 100% | 100% |
| PhosAgro-Tambov, LLC | Russia | 100% | 100% |
| PhosAgro-Sibir, LLC | Russia | 100% | - |
| PhosAgro Trading SA | Switzerland | 100% | 100% |
| Phosint Limited | Cyprus | 100% | 100% |
| PhosAgro Logistics SA | Switzerland | 100% | 100% |
| PhosAgro Polska Sp.z o.o. | Poland | 100% | 100% |
| PhosAgro Deutschland GmbH | Germany | 100% | 100% |
| PhosAgro France SAS | France | 100% | 100% |
| PhosAgro Balkans DOO | Serbia | 100% | 100% |
| UAB PhosAgro Baltic | Lithuania | 100% | 100% |
| PhosAgro Balkans SRL | Romania | 100% | 100% |
| PhosAgro South Africa Proprietary Limited | South Africa | 100% | 100% |
| Logifert Oy | Finland | 100% | 100% |
| Bulk Terminal Kotka Oy | Finland | 100% | 100% |

## 34 SEASONALITY

The Group is subject to certain seasonal fluctuations in fertiliser demand due to the timing of fertiliser application and, as a result, fertiliser purchases by farmers. However, the effect of seasonality on the Group’s revenue is partially offset by the fact that the Group sells its fertilisers globally and fertiliser application and purchases vary by region.

The Group’s costs are generally stable throughout the year, however several maintenance activities undertaken at the Group’s production facilities may not be evenly spreaded.