Mining for Enrichment

Integrated Report 2017

URALKALI®

ABOUT THIS REPORT

In an effort to keep our Integrated Report relevant and succinct, we have included links to further information and to our website within the report.

This Integrated Report was prepared with application of the GRI Sustainability Reporting Standards, the Mining and Metals Sector Disclosures, and the separate regulations of the International Integrated Reporting Standard (concepts of funds and value creation).

The report covers the entire Uralkali Group, including PJSC Uralkali and companies that are included in the consolidation perimeter.

For more information about Uralkali please visit our corporate website: www.uralkali.com

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ABOUT URALKALI

>11 thousand people

WORK IN THE COMPANY'S MAIN PRODUCTION UNIT

18 %

INCREASE IN NET REVENUE IN 2017

PJSC Uralkali is a **leading producer and exporter of potash**, which is an essential component for the growth and development of all living organisms.

The Company accounts for a significant share of global potassium chloride sales and effectively manages its entire production chain — from potash ore mining to supply of potassium chloride to consumers worldwide.

Our Mission

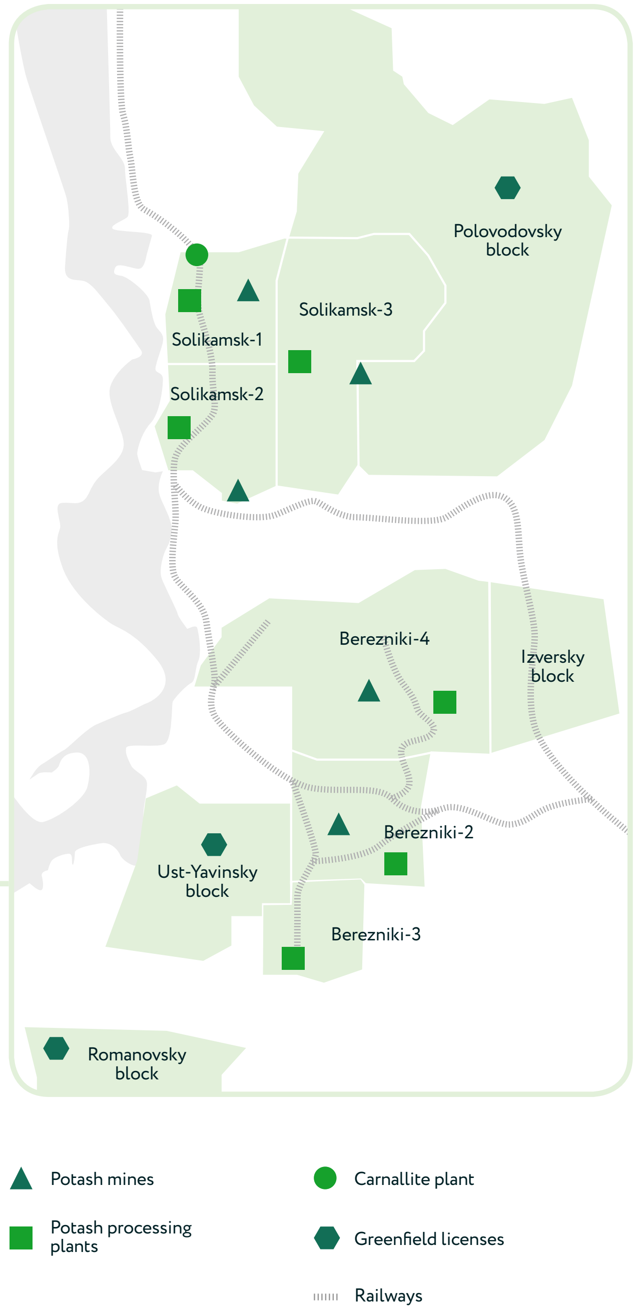
We produce potash fertilisers to ensure that people all over the world are provided with food, as well as to support the growth of our Company, the welfare of its employees, and development of the regions of the Company's activity, through the efficient and responsible development of unique potash deposits.

Our Vision

- Uralkali is one of the world's leading potash producers
- Our production priorities remain providing high-quality products, zero accidents, and the lowest possible environmental footprint
- Our work is based on principles of clear division of responsibilities, KPI-based management, and risk minimisation
- Uralkali is one of the most attractive employers both in the Perm Region and in the mining industry
- We attach a great importance to our people: we develop and promote our best employees
- We actively participate in the development of cities where the Company operates

Our Assets

The Verkhnekamskoye deposit of potassium and magnesium salts, being developed by the Company, is the world's second-largest deposit in terms of potash ore reserves. Uralkali's production facilities include five mines, six potash plants and one carnallite plant, all situated in the cities of Berezniki and Solikamsk in the Perm Region of Russia. More than 11,000 people work in Uralkali's main production unit.



In 2017, the Company received a license for conducting geological researches of the Verkhnekamskoye deposit's Izversky block.

5 POTASH MINES

6 POTASH PLANTS

3 LICENSES FOR THE DEVELOPMENT OF ADDITIONAL BLOCKS OF VERKHNEKAMSKOE DEPOSIT

1 LICENSE FOR CONDUCTING GEOLOGICAL RESEARCHES

1 CARNALLITE PLANT

What We Produce

Standard White MOP

White MOP is applied directly to the soil and used for producing compound NPK fertilisers, as well as for other industrial needs. We supply this product mainly to China, Russia, and Europe. Standard potassium chloride is presented in 95% and 98% specifications.

Standard Pink MOP

Pink MOP is applied directly to the soil and used for producing compound NPK fertilisers. It is supplied mainly to India and South East Asia.

Granular MOP

Granular MOP is a premium product bought in countries which use advanced soil fertilisation methods. Granulation slows down the absorption of fertiliser nutrients into the soil, thus prolonging their action. We export our granular MOP to Brazil, the USA, Europe, and the Central America, where it is applied directly to the soil or blended with nitrogen and phosphate fertilisers.

Our Values

Uralkali's values are the basis of our work. They unite all of the Company's employees, regardless of which department they belong to or what roles or responsibilities they have. Our values give us strength and support to drive further development. They are designed to help each and every one of us in our work. Our activities are guided by the following values:

SAFETY
We personally comply with the relevant rules and demonstrate zero tolerance towards violations of them

RESPONSIBILITY
We perform quality work in due time

EFFICIENCY
We strive for achieving the best results with minimum costs

TEAMWORK
We respect each other, which helps us to face challenges and address them more effectively

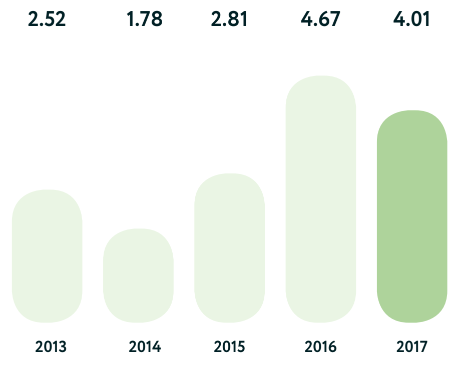
URALKALI IN FIGURES

Due to its own production capacities, Uralkali managed to fully satisfy the demand of both Russian and foreign consumers of potash fertilisers.

In 2017 the Company increased its revenue to USD 2,761 million due to the effective system of interaction between the production and logistics assets of Uralkali Group.

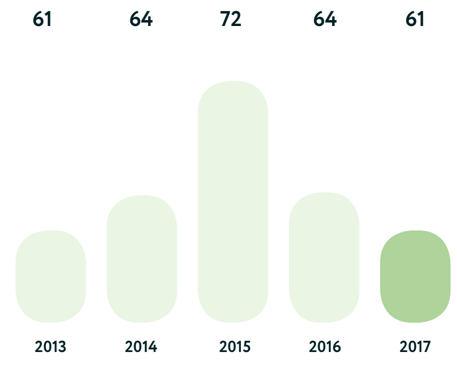
Net debt/EBITDA

4.01



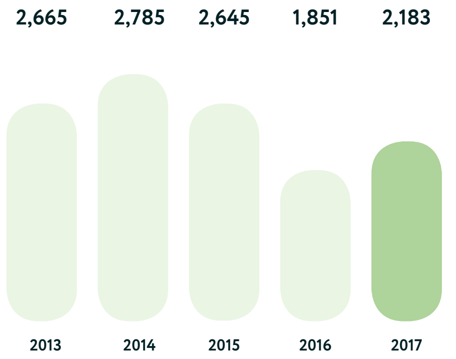
EBITDA margin

61 %



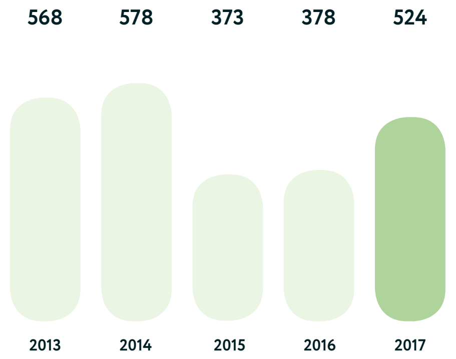
Net revenue[1]

2,183 mln USD



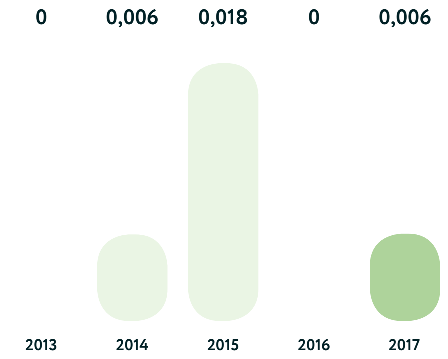
Cash COGS

524 mln USD



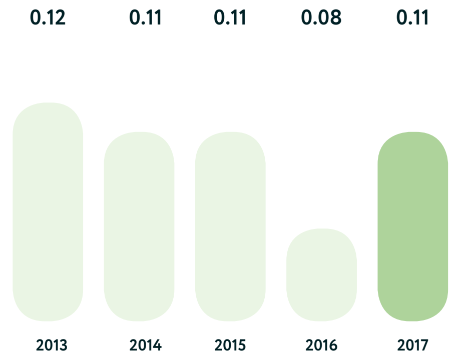
Fatal injury frequency rate (FIFR)

0.006 FIFR



Lost time injury frequency rate (LTIFR)

0.11



[1] Net revenue is the sales revenue net of variable distribution costs on freight, railway tariff, and transshipment.

2017 KEY CORPORATE EVENTS CALENDAR

March–April

Prolongation of PJSC Uralkali's licenses for the right to use subsurface mineral resources for the period of 2024–2054

April

PJSC Uralkali signs the agreement on opening the revolving credit line for 3 years to fund current operations in the amount of USD 750 million

May

Successful placement of the first PJSC Uralkali's Ruble bonds on the Moscow Exchange with nominal volume of USD 265 million. Total demand exceeded USD 672 million*

* at the exchange rate of 56.5168 as of the issuing date

June

Transfer of PJSC Uralkali's shares from Level 1 (quoted) to Level 3 of the securities list, accepted for trading on the Moscow Exchange

Holding PJSC Uralkali Annual General Meeting

July

Signing agreements for potassium chloride supplies to India and China

August

PJSC Uralkali signs a pre-export facility in the amount of USD 850 million for 5 years

November

Rewarding of PJSC Uralkali by the Moscow Exchange for years of leadership in the public reporting area

December

Holding PJSC Uralkali Extraordinary General Meeting, which decided to submit the application on delisting the Company's shares from the Moscow Exchange and to increase the capital stock through preferred shares issue

The Russian Union of Industrialists and Entrepreneurs included Uralkali in its list of domestic companies, leading in the field of sustainable development, corporate responsibility and reporting. The Company is ranked in the Responsibility and Transparency index as well as in the Vector of Sustainable Development index due to its relevant activities in 2017

GLOBAL SALES GEOGRAPHY

2,761 mln USD

THE COMPANY'S TOTAL REVENUE FROM SALES IN 2017

>60 countries worldwide

URALKALI'S SALES GEOGRAPHY

85%

EXPORT REVENUES IN 2017

Through a wide network of sales offices, developed logistics, and significant flexibility, Uralkali is able to sell products all over the world and meet our customers' needs efficiently and on time. We strive to be an attractive and reliable supplier on all key markets.

Uralkali's sales geography covers over 60 countries. The main markets are Russia, Brazil, South East Asia, China, India, the USA, and Europe. Traditionally, exports account for the majority of Uralkali's sales. In 2017, the share of export is 85% of the Uralkali's revenue.

6%	7%	12%	14%	15%	17%	27%	2%
INDIA	USA	EUROPE	CHINA	RUSSIA	SOUTH EAST ASIA	LATIN AMERICA (INCL. BRAZIL)	OTHER MARKETS *

* Middle East, Africa and the CIS countries

STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear shareholders,

Uralkali remains a leading global potash producer. The industry environment in 2017 allowed the Company to demonstrate positive operational and financial results.

Another important achievement was a 13% increase in the Company's EBITDA following its sharp decrease in 2016.

Uralkali is focused on maintaining and strengthening its leadership position both in the short and long run. To ensure operating continuity, the Company has extended its main permits with the Federal Agency for Subsurface Management, which allowed the Company to develop the Verkhnekamskoye potassium and magnesium salt deposit from 2024 to 2054.

As one of the largest taxpayers and employers in the Perm Region, Uralkali continues to be an active contributor to the social development of Berezniki and Solikamsk, where in 2017 the Company implemented a wide range of projects supporting education, sports, healthcare, environmental protection, and industrial safety.

I am sure that with the current strategy Uralkali will continue demonstrating consistent and stable growth.

I would like to thank all employees of PJSC Uralkali for their productive and effective work. I also deeply appreciate the trust, understanding and support provided by the shareholders of the Company.

>6 %

GROWTH OF THE WORLD'S DEMAND FOR POTASH IN 2017

13 %

INCREASE IN EBITDA IN 2017

Sergey Chemezov, Chairman of the Board of Directors

CEO'S STATEMENT

Dmitry Osipov, CEO

Dear shareholders,

In the increasingly competitive environment Uralkali has managed to maintain its leading positions in the industry by producing and selling the highest quality products in the domestic and international markets.

Production and sales

2017 saw a gradual recovery of the global potash industry. The Company's production capacities enabled Uralkali to fully satisfy the needs of both Russian and foreign consumers of potash. The Company to a large extent contributed to the recovery of external markets by successfully negotiating a higher price in potash supply contracts with India and China, which traditionally play the role of the industry's pricing benchmarks.

Corporate governance and dividend policy

Given the current financial and economic situation and the existing dividend policy, the Company does not foresee any dividend pay-outs for 2017.

Financial performance

The Company continued to cooperate with leading Russian and international financial institutions during the reporting period, attracting long-term funding on favourable terms. In particular, the Company signed a USD 850 million credit facility agreement with 11 international banks, as well as an agreement on revolving credit line for up to USD 750 million with several other banks.

At the same time, Uralkali continues to optimise its credit portfolio, and maintains full financial compliance with lenders' requirements. As of 31 December 2016, the Company's Net Debt / EBITDA ratio exceeded 4.5x, which improved to around 4x by 31 December 2017. This confirms that the Company has returned to its normal credit metrics.

Corporate social responsibility

In 2017, Uralkali implemented a range of socio-economic measures in the cities where it operates through engagement of all stakeholders and active support to local authorities. More details on the Company's relevant activities in this area are available on page 74 (section "Social and Economic Development in the Region Where We Operate").

Outlook

Regardless of the current macroeconomic trends, the problem of global food security is still high on the world's agenda. In our opinion, it only increases the value of the potash industry and strengthens its fundamental properties, which is further supported by the ongoing integration of the key industry players. As an industry leader, Uralkali will continue pursuing its policy of supporting the agricultural sector both in Russia and abroad.

I would like to thank representatives of all stakeholders for their assistance and effective cooperation with Uralkali Group, and for their support of our operations.

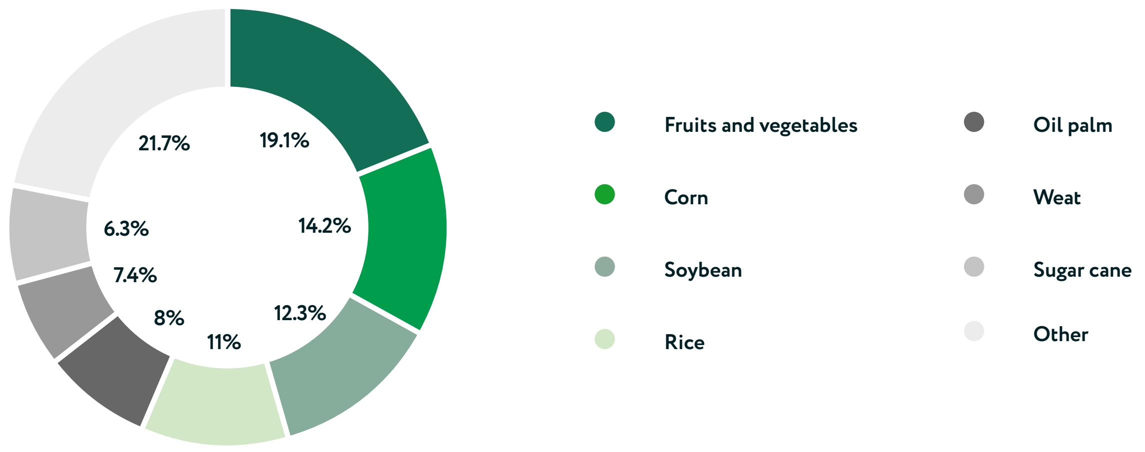
WHAT IS POTASSIUM AND WHY IS IT IMPORTANT

We Ensure Global Food Security

Potassium is a vitally important element for all living organisms. It is a natural component of soils and, along with phosphorus and nitrogen, an irreplaceable nutrient for plants.

A balanced agricultural crops nutrition can only be ensured by regular and timely application of these three main macronutrients.

Potassium consumption by agricultural crops



Source: International Fertilizer Industry Association (IFA)

Why plants need potassium

- Potassium increases the nutrient content, improves the taste, colour and structure of the fruits
- Potassium improves crop resistance to various diseases and pests
- Potassium increase resistance to droughts and frost
- Potassium contributes to the growth of nitrogen assimilation

Why people need potassium

- It improves supply of oxygen to the brain
- Potassium is involved in the transmission of neural impulses
- Potassium compounds activate enzymes
- It normalises heart rhythm
- It has a beneficial effect on kidneys
- Potassium regulates the water balance in cells and tissues
- It regulates metabolic processes
- It has a beneficial effect on skin
- Potassium regulates the acid-base balance of blood
- Potassium prevents accumulation of sodium in cells
- It helps to eliminate toxins from the body

Why farmers use potassium

- Ensure balanced nutrition of the plants in order to achieve high yield
- Increase product quality
- Prevent soil degradation and maintain nutrient balance of the soil.

Thereby, potash fertilisers don't pollute the environment when used in a proper way.

Why mankind cannot do without potash fertilisers

The world's population is growing, while the arable land per capita is declining, so people feel the need for higher crop yields to ensure food safety.

Scientific studies show that the maximum yield and consistently high quality of crops can only be achieved by providing plants with all necessary nutrients (including potassium) in the required amounts.

POTASH DEMAND IN 2017

2017 saw high level of global potash sales and a continuing recovery of potash prices, mainly driven by the growing demand in key markets and stock replenishments by buyers. Signing of supply contracts with China and India in H2 2017 gave an additional boost to demand, enabling the global market to reach a record level of 65 million tonnes.

As of H1 2017, global demand gained 18% year-on-year to around 33 million tonnes.

Similar to 2016, the Chinese and Indian contracts were signed later than usual. Nevertheless, the price under both groups of contracts increased from 2016. The contracts stimulated demand growth in key markets in H2 2017, and so already by mid-September most producers have sold out their capacity until the end of 2017.

Import of potassium chloride to China increased by 10% compared to 2016 and comprised 7.5 million tonnes.

Following the results of the year, import of potassium chloride to India increased by more than 18% to 4.5 million tonnes in comparison with 3.8 million tonnes in 2016. Good weather conditions played the positive role, as well as higher minimal purchasing prices for key crops and relatively stable Rupee rate.

South East Asia enjoyed more favourable conditions for production of palm oil following a number of consecutive draught periods. Local currencies strengthened against the US dollar, which gave a significant boost to potash demand in 2017. As of the end of 2017, the region's imports have grown by around 14% to approximately 10.3 million tonnes.

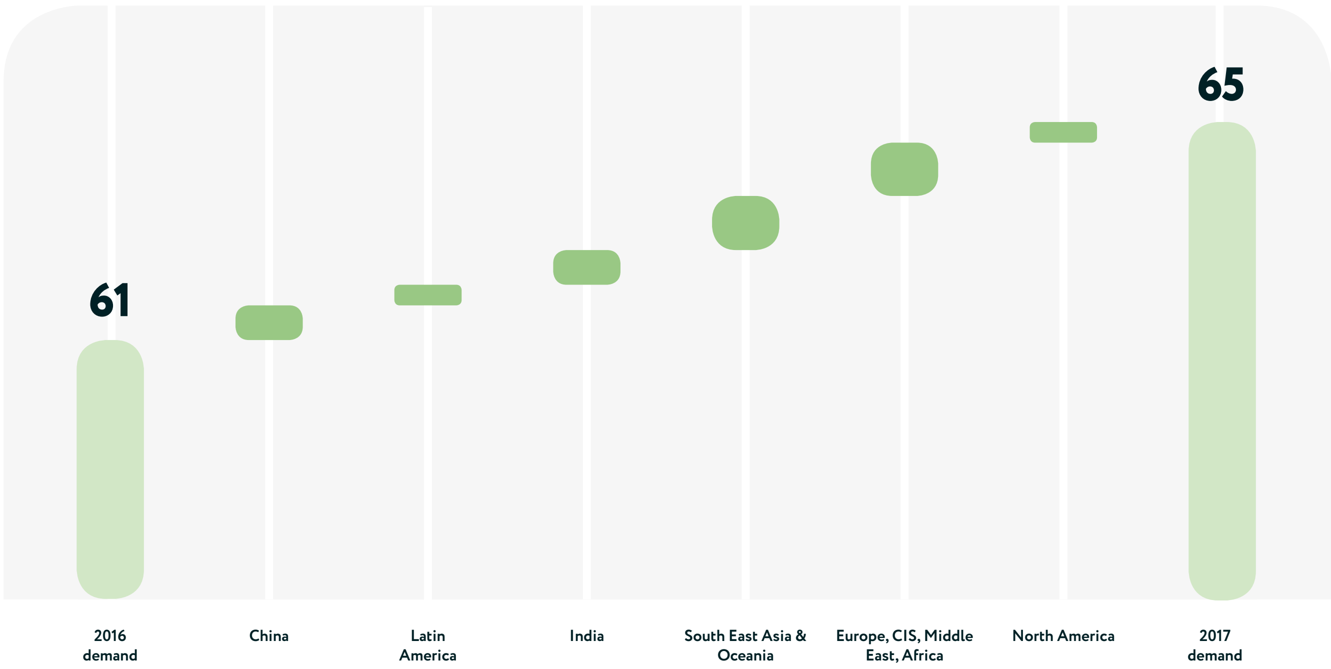
In Europe, demand grew considerably year-on-year. In particular, demand from NPK producers grew faster than expected.

The volume of imported potassium chloride to Brazil exceeded the last year level by 4% and comprised 9.2 million tonnes on the background of high soya bean prices and stable rate of Real to the US dollar. Other Latin America countries also experienced high demand due to positive dynamics in the agriculture production.

North America also demonstrated positive demand dynamics. The region's demand in 2017 totalled around 13 million tonnes, up from 9.5 million tonnes recorded in 2016.

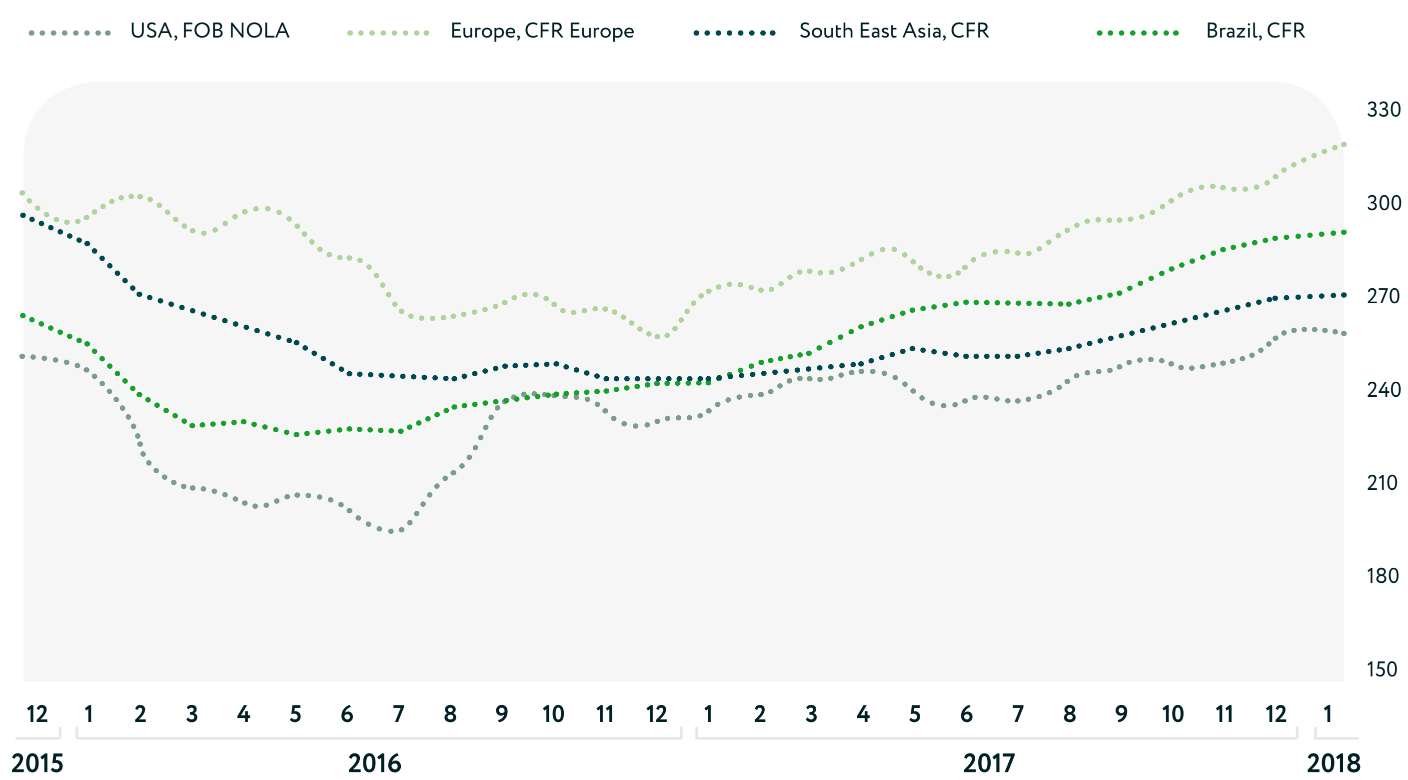
According to Uralkali estimates, the global demand for potassium chloride in 2017 increased, compared to the last year, and comprised about 65 million tonnes.

2017 Demand for potash fertilisers
(million tonnes KCl)



Source: Uralkali estimates.

Spot prices for standard and granular KCl,
(USD/tonne)



Source: ICIS The Market, Argus FMB.

2018 Market Outlook

The positive trend in the potash fertilisers market observed in 2017 will continue in 2018 as well, according to the Company.

We expect that 2018 global demand for potash fertilisers will stay at a high level and may reach 67–68 million tonnes.

Major demand factors will be favourable economic situation for importers, as well as acceptable profitability and growing demand of the agricultural sector.

We extract potash from ore using two general methods ore using two general methods: chemical (known as halurgic) and flotation. The halurgic method has been used since the beginning of the potash industry in the second half of the 19th century. It produces chemically pure MOP which contains up to 98% of the useful component. This is used in agriculture and the chemical industry.

The flotation method has been used since the 1960s. It is based on different flotation of sylvite and halite minerals. After drying, moisture of pink MOP containing 95% of the useful component is only 0.1%.

Major crop price dynamics

3.54

Corn, USD/bu

29.12.2017 3.54
28.12.2016 3.78

9.56

Soybean, USD/bu

29.12.2017 9.56
28.12.2016 10.33

4.26

Wheat, USD/bu

29.12.2017 4.26
28.12.2016 4.33

We expect potash demand in China and India to exceed last year level partially due to lower inventories of potash fertilisers compared to early 2017.

In Latin America, demand for potassium chloride is expected to remain strong and exceed 2017 indicators due to favourable farmer economics and the optimal level of carry-over inventories of potash fertilisers.

We expect demand in South East Asia and Africa to exceed last year level in 2018, while demand in Europe and USA will generally stay on the 2017 level.

67–68

mln tonnes KCl

POTASH DEMAND FORECAST FOR 2018

EXPORT SALES

In 2017, the Company successfully reacted to recovery of the global potash market. Stable demand positively influenced the export revenue, which exceeded USD 2,348 million. The Company, first among potassium chloride producers, signed new long-term contracts with consumers in China and India, increased product supplies to Latin America, as well as opened a representative office in Turkey aimed to target African and the Middle East markets.

Alexander Terletsky,
CEO, Uralkali Trading SIA

>2,348

mln USD

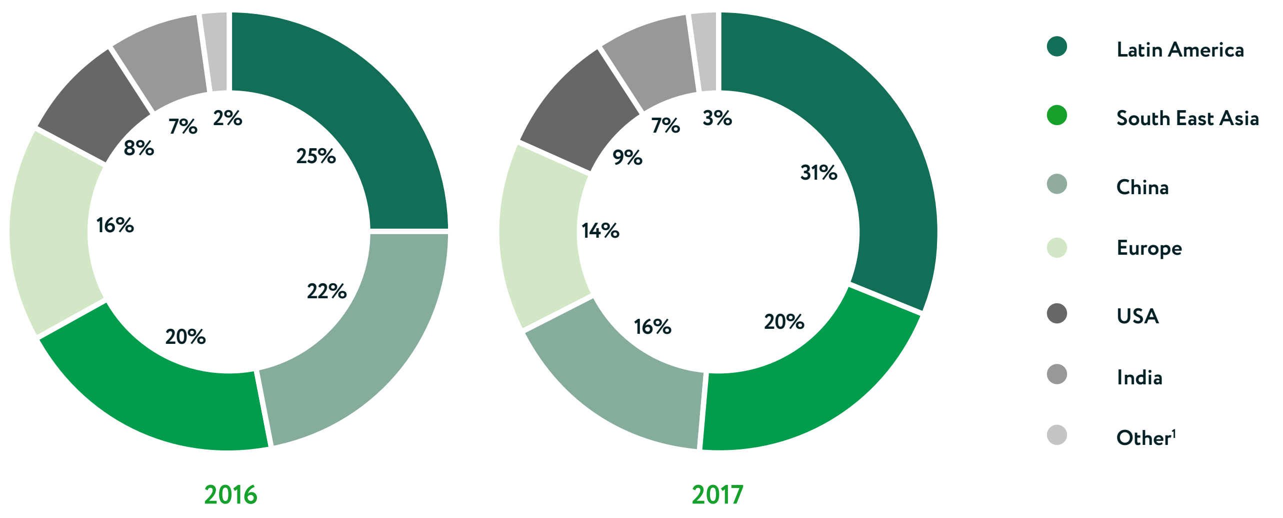
EXPORT REVENUE IN 2017

85 %

sales

SHARE OF EXPORT REVENUE IN 2017

Uralkali's export revenue structure



How Deep Can Potash Mines Be?

The depth of formations containing potash varies from one deposit to another (from 300 to 1,000 metres).

Usually, salt mines consist of two or three beds with a total width of 10–15 metres and are located at a depth of around 400 metres below the surface.

Potash deposits are extremely beautiful: their network of underground tunnels echoes the contour of red carnallite's thin layer.

Uralkali carries out potash fertilisers export sales through its own subsidiary Uralkali Trading SIA. With representative offices in eight regions, Uralkali Trading SIA is one of the leading players on the global potash market, supplying potassium chloride to over 60 countries.

Historically, the majority of Uralkali's output is sold internationally. In 2017, exports accounted for 85% of Uralkali's revenue (85% in 2016).

During the entire 2017, all markets showed a higher demand for potassium chloride. Uralkali, first of producers, signed long-term contracts with China and India.

Increase of the contract price was an additional trigger for global price growth. On the other hand, the positive effect of price growth was partially offset by higher than last year cost of transportation.

The Company's export revenue in 2017 exceeded USD 2.3 billion, which is 22% higher than in 2016.

In 2017, the majority of export revenue came from Latin America (27%), South East Asia (17%), and China (14%).

Uralkali is expecting both growth of potassium chloride global consumption and further price increase in 2018.

REPRESENTATIVE OFFICES

8 regions

POTASSIUM CHLORIDE EXPORT

>60 countries worldwide

COMPANY'S EXPORT REVENUES GROWTH IN 2017

22 %

[1] Middle East, Africa, and former Soviet Union countries.

DOMESTIC SALES

The Company's major consumers on the domestic market are producers of compound mineral fertilisers. The revenue from supplied products showed an increase of 22% and amounted to USD 279 million.

322 mln USD

REVENUE FROM POTASH SALES ON THE RUSSIAN MARKET IN 2017

87 %

SHARE IN REVENUE ON THE DOMESTIC MARKET OF PRODUCERS OF COMPOUND FERTILISERS

Vladislav Lyan,
Director of Domestic Sales

How are Mines Built?

As a rule, one open-pit mine has several shafts which serve for transporting people and cargoes, including potash ore.

In the beginning, alongside the perimeter of a future shaft, freezing holes are drilled creating an ice wall in the surrounding massif. This prevents the groundwater from getting into the future shaft during shaft sinking. Drifting is done by drilling and blasting. When the shaft is sunk and necessary equipment is installed, it is time for construction of the mine's underground infrastructure. Then, along the rock salt bed, preparatory shafts are drifted in the mine to those parts of the mine field where the mining begins.

On the Russian market, potassium chloride (KCl) is mostly used as raw material for the production of compound (NPK) and mixed fertilisers and other chemical products, as well as a component for drilling fluids used at oil plants, and as a single-component fertiliser for direct soil application. In small amounts, potassium chloride is also used in the non-ferrous metals and food industries.

In 2017, the revenue from products supplied to the Russian market was USD 322 million, which was 10% higher than in 2016.

The Russian agricultural market has sufficient potential. 10% of all arable land around the world is in Russia, and more than half of these lands are used for cultivating agricultural crops demanding a large volume of potash fertilisers, such as wheat, sunflowers, corn, and sugar beets. The major consumption areas of PJSC Uralkali products are Bryansk, Nizhny Novgorod, Lipetsk, Voronezh, Kursk, Oryol, and Krasnodar regions.

Another group of traditional industrial consumers — petroleum, chemical and nuclear enterprises — in 2017, purchased potash for specific production processes 1.7% less than in the previous year.

In addition to potassium chloride, Uralkali also sold 0.39 million tonnes of enriched carnallite and 1.40 million tonnes of different types of industrial salts on the Russian market in 2017.

The main consumers of enriched carnallite are the Solikamsk Magnesium Plant and PSC VSMPO-AVISMA Corporation, which use it in the production of magnesium.

Domestic Pricing

The Company strictly complies with its obligations to ensure non-discriminatory access to potash fertilisers for consumers.

In November 2010, the Federal Antimonopoly Service (FAS) of the Russian Federation approved rules, according to which the potash price for domestic producers of compound fertilisers (NPK producers) shall be based on the weighted average price on the foreign market with the lowest price before transport and other logistics costs (minimum export price), starting from 2011. The principle of potash pricing on the basis of the minimum export price for Russian NPK producers is also stated in the FAS Recommendations for ensuring non-discriminatory access to potassium chloride. Since October 2013, prices have been calculated on a monthly basis, enabling the Company to respond promptly to changes in market conditions. When calculating selling prices for 2017, NPK producers were provided with an additional discount of USD 27 (in the rouble equivalent).

Based on Russia's accession to the WTO and transition to market pricing on the domestic mineral fertiliser market starting 1 January 2013, the Non-Profit Organisation Russian Association of Fertiliser Producers (RAFP) and the Union «Russian Agroindustrial Association of Employers» Agroindustrial Union of Russia (Rosagropromsoyuz) regularly enter into cooperation agreements. The aim of these agreements is to meet the requirements of mineral fertilisers in Russia's agroindustrial sector. These agreements determine the main economic principles of interaction, in particular, that members of the RAFP and Rosagropromsoyuz are recommended to use market pricing principles.

Since 1 July 2013, potassium chloride prices for Russian agricultural producers have been calculated by the minimum export price formula in accordance with FAS Recommendations.

Uralkali also applied the minimum export price formula in the calculation of prices for industrial consumers.

Positioning the Company as a leader in the industry is anchored in its high level of expertise and social responsibility.
Today, it is not enough to simply produce high-quality products; it is also essential to introduce international scientific expertise in the daily practices of farmers (our end consumers), in order to ensure optimal crop yield. Uralkali is a member of Russian and international associations, such as the International Fertilizer Industry Association (IFA) and the Russian Association of Fertilizer Producers (RAFP), and serves on the scientific committee of a recognised international institute engaged in applied agricultural chemistry research — The Fertilizer Institute (TFI).

WORLD'S ARABLE LAND LOCATED IN RUSSIA

10 %

REVENUE SHARE IN DOMESTIC MARKET IN 2017

15 %

TOTAL SALES OF CARNALLITE ON THE DOMESTIC MARKET

0.39 mln tonnes

TOTAL SALES OF DIFFERENT TYPES OF INDUSTRIAL SALT ON THE DOMESTIC MARKET

1.40 mln tonnes

REVENUE GROWTH FROM POTASH SUPPLIES ON THE DOMESTIC MARKET

10 %

BUSINESS MODEL

Production

Uralkali's production facilities includes five mines, one carnallite plant, and six potash plants, which produce standard white and pink MOP, as well as a premium product – granular MOP. The Company holds the licenses to develop three sites at the Verkhnekamsky deposit, which will allow Uralkali to implement its investment programme. The Company's advantage is one of the lowest production costs in the industry, which is an important factor in maintaining its industry leading position.

Logistics

The transport route of Uralkali products from plant to port is one of the shortest in the industry. The Company uses its own fleet of mineral wagons (7.8 thousand pcs.) and the Baltic Bulk Terminal. The developed logistics system allows us to maintain a leading position on the market, optimise warehouse capacity, and adjust production if necessary.

Sales

Uralkali's sales geography covers over 60 countries. The Company's strategy is aimed at maximising revenue and maintaining historical market share. The strategy allows the Company to make effective use of its competitive advantages, such as a leading position in the industry in terms of production costs and production capacity.

Strengths

- LEADERSHIP IN PRODUCTION COSTS
- SIGNIFICANT RESOURCE BASE
- TRANSSHIPMENT CAPACITY AT THE BALTIC BULK TERMINAL
- GLOBAL SCALE OF ACTIVITIES
- 8 SALES OFFICES IN KEY REGIONS
- FOCUS ON EXPANDING RELATIONS WITH INTERNATIONAL CUSTOMERS

Capital

CONTROL
- Corporate governance system
- Risk management system
- Internal control and monitoring systems

SOCIAL CAPITAL
- Cooperation with stakeholders

FINANCIAL CAPITAL
- Financial structure
- Fund raising

PRODUCTION CAPITAL
- Mines
- Potash and carnallite plants
- Projects for the construction of new production facilities

LOGISTICS
- Mineral wagons fleet
- Baltic Bulk Terminal

SALES
- Trade respresentative offices

HUMAN RESOURCES
- Employees
- Health and Safety
- Methods and skills
- Experience

NATURAL RESOURCES
- Potash ore reserves
- Carnallite ore reserves
- Biodiversity and ecosystems
- Water, air, soil

Mission and vision

- **STRATEGIC KPIS**
  Details on page 40
- **RISK MANAGEMENT SYSTEM**
  Details on page 48
- **SUSTAINABLE DEVELOPMENT**
  Details on page 54
- **CORPORATE GOVERNANCE SYSTEM**
  Details on page 78

VALUE CREATION

INVESTING IN THE FUTURE

Uralkali continues to invest in modernisation of its current facilities and development of new capacity as part of the Capacity Development Programme. The programme will be implemented taking into account the current situation and expected developments on the global market.

Production Capacity Development Programme

INVESTMENTS IN 2017

45 mln USD

Ust-Yayvinsky block

In 2017, the construction of high readiness facilities continued within the framework of the project. As for 2017, the investments amounted to USD 45 million.

INVESTMENTS IN 2017

22 mln USD

New Solikamsk-2 mine

In 2017, the designing of the surface complex continued, and the preparation of shafts to operation was carried out. As for 2017, the investments amounted to USD 22 million.

INVESTMENTS IN 2017

22 mln USD

Solikamsk-3 expansion

In 2017, the works on additional sinking of the shaft No. 4 were carried out, and basic process equipment was purchased. As for 2017, the investments amounted to USD 22 million.

INVESTMENTS IN 2017

3 mln USD

Polovodovo

In 2017, the designing of linear facilities continued. As for 2017, the investments amounted to USD 3 million.

INVESTMENTS IN 2017

179 mln USD

Other projects

In order to increase potash production volume, the Company implements the measures aimed at the increase of the section load and ore extraction. Capacity maintenance works, which include such activities as preparation of the mine panels for operation, preparation of worked out sectors for closing, replacement and upgrade of the equipment, re-engineering of buildings and facilities, and upgrade of industrial safety systems, are carried out in accordance with the current regulations. As for 2017, the investments amounted to USD 179 million.

PROMOTING FINANCIAL STABILITY

In 2017, a higher demand was registered at all markets and, as a result, potash import volumes increased against 2016.

Compared to 2016, the results of the Group were as follows:

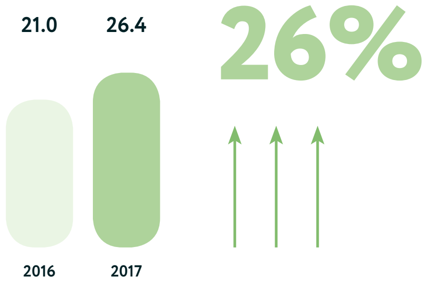
- **The total revenue** increased by 21% compared to 2016 (USD 2.76 billion in 2017 against USD 2.28 billion in 2016);
- **Net revenue** increased by 18% compared to 2016 (USD 2.18 billion in 2017 against USD 1.85 billion in 2016);
- **EBITDA** increased by 13% from USD 1.18 billion in 2016 to USD 1.34 billion in 2017;
- **CAPEX** decreased by 16% from USD 323 million in 2016 to USD 271 million in 2017.

21 %

GROWTH OF TOTAL REVENUE IN 2017

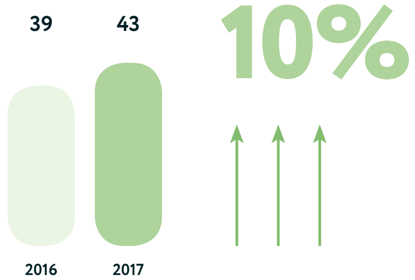
SPB railway tariff

26 USD per tonne



China railway tariff

43 USD per tonne



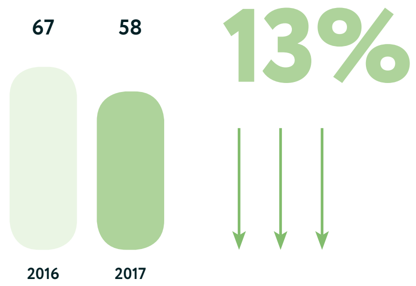
Gross sales

In 2017, a higher demand was observed at potash markets and, as a result, potash import volumes increased against the previous year. Contracts signed with China and India at higher prices, healthy economy of farmers, stabilisation of the regional currency rates, and a high demand level in general provided a positive impact on prices. The Company's sales and average export price increased against 2016. All these factors led to growth in the total revenue by 21% compared to the previous year to USD 2.76 billion.

Other sales (enriched carnallite, pit-run industrial sodium, as well as sodium and magnesium chloride solutions) accounted for 3% of the total revenue in 2017 or USD 91 million.

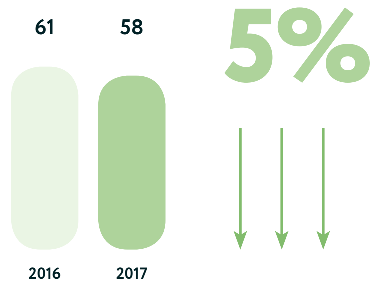
Annual average USD/RUB exchange rate

58



USD exchange rate at the reporting date

58



Railway Tariffs

The Company performs direct railway shipments to customers in Northern China, Europe, and the CIS countries. The weighted average tariff[1] for St. Petersburg increased by 9% (growth by 26% in US dollar terms) mainly due to tariff indexation (6.1%), for China the tariff decreased by 5% (growth by 10% in US dollar terms) mainly due to decrease of supplies through a more expensive route Grodekovo.

Transshipment

Transshipment expenses decreased by 2% against 2016 to USD 29 million in 2017.

Transportation

The Company shipped 88% of the exported products in 2017 by marine transport, mainly through its own terminal in the port of St. Petersburg. The costs of marine transportation of exported products include railway tariffs from Berezniki and Solikamsk to ports of transshipment, transshipment expenses at the seaports and freight costs (except for deliveries on a FOB basis).

12% of export sales were transported by rail.

Costs for these deliveries include the railway tariffs to China and other regions.

Freight

Freight expenses increased in 2017 by 35% against 2016 and amounted to USD 248 (USD 183 million in 2016).

In 2017, the freight market became stronger due to the worldwide economic revival, decreased fleet supply in all segments, and growth of oil prices. Baltic Dry Index, being the main market indicator, increased by 70% against 2016.

The Company also covered barge freight costs in the USA, which were less significant compared to sea transportation costs.

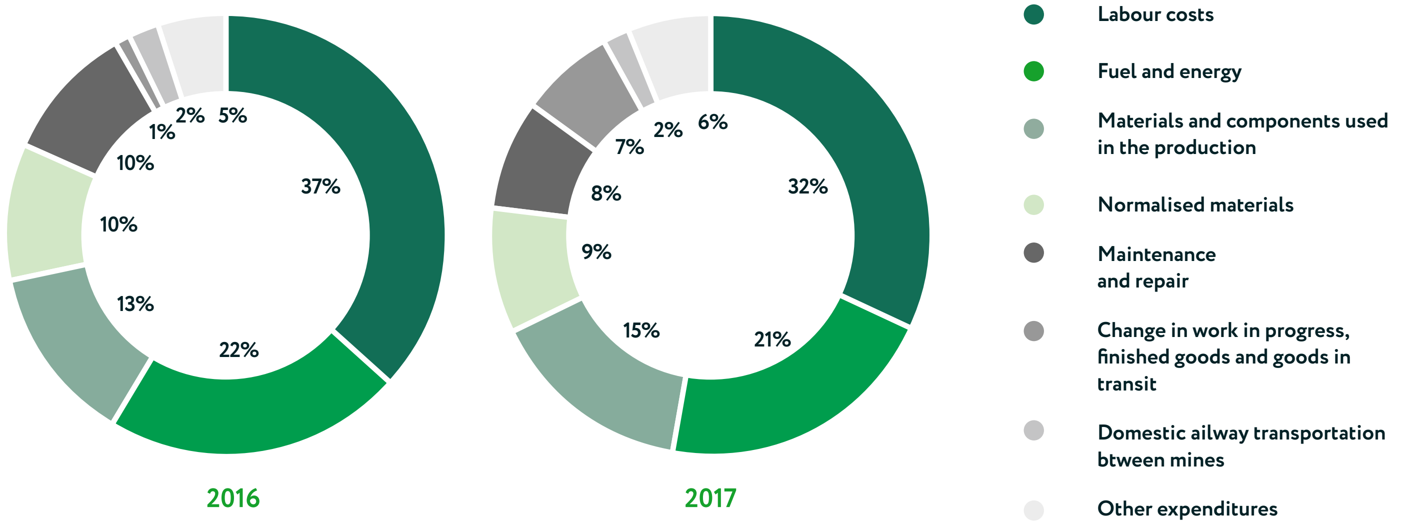
Net revenue

Net revenue is the sales revenue net of variable distribution costs on freight, railway tariff, and transshipment.

According to IFRS financial statements, net revenue increased by 18% to USD 2.18 billion in 2017 compared to 2016 due to growth of the sales volume and growth of FCA export prices.

[1] Weighted average tariff takes into account the volume of the Company's shipments in directions.

Cash COGS structure



Cash COGS[1]

Cash COGS accounted for USD 524 million which was by 39% more than in 2016. Growth of the cash cost was mainly caused by increased volumes of sales, cost of materials and energy resources, as well as payroll indexation.

Labour

The average salary at the Group without remuneration of senior management increased by 1% against 2016 (growth by 15.9% in US dollar terms due to rouble appreciation). The average salary at the Group without remuneration of senior management amounted to some USD 1,102 per month against USD 951 in 2016. Growth of the average salary was mainly caused by indexation due to increased consumer prices.

Around 19.8 thousand people worked for the Group in 2017.

Fuel and Energy

The potash production process is very energy-intensive. Expenses on fuel and energy largely depend on production volume and are denominated in roubles. Electric power and gas were purchased at unregulated rates. However, the price of electricity and gas transmission services was regulated by the government. The Company's power needs were partially met by its own generation. The effective gas tariff decreased by 0.4% in 2017 (growth by 14% in US dollar terms) compared to 2016 and amounted to USD 65 per 1,000 m^3. The effective tariff on purchased electricity increased by 13% in 2017 (growth by 29% in US dollar terms) compared to 2016 and amounted to USD 50 per 1,000 kWh.

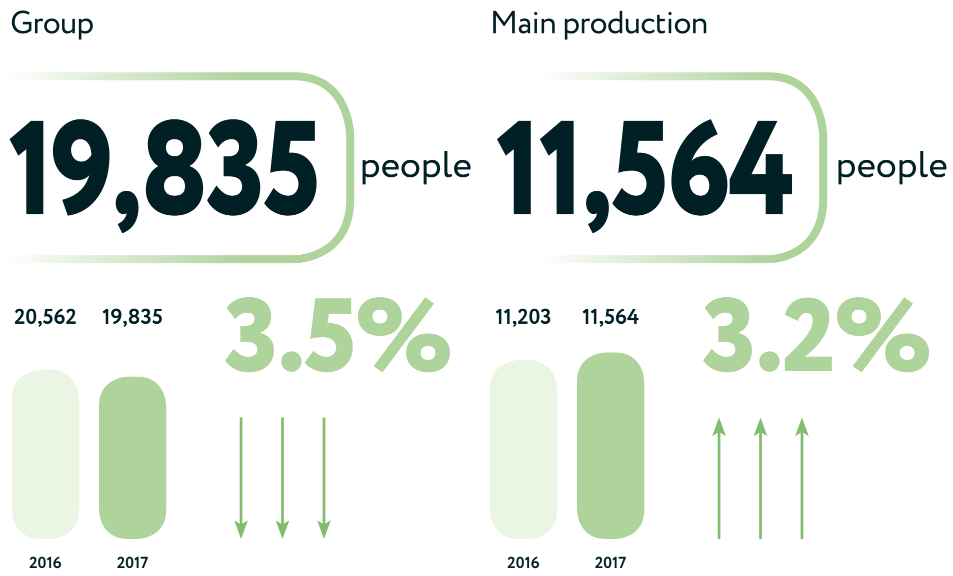
Other cash costs in cost of goods

Other cash costs are costs of materials, repairs, and transportation between mines, etc.

Other cash costs include variable costs (costs of production materials and transportation between mines), and fixed costs (costs related to outsourced repairs and maintenance and materials for repairs).

[1] Cash cost is the cost of goods sold net of depreciation of property, plant and equipment and amortisation of intangible assets.

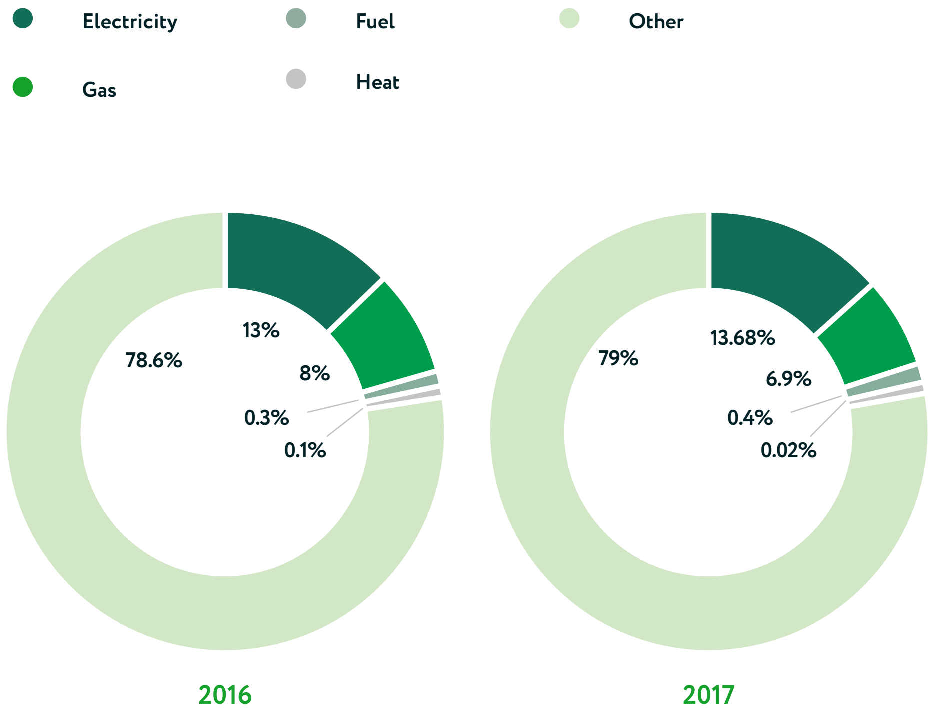
Average annual headcount of Uralkali Group



What is a Mine Cage?

A mine cage is a peculiar transport cabin used for lifting wagons with minerals along the shaft or letting people and equipment down and lifting them up. Its carrying capacity is so great that it allows lowering heavy equipment to a depth of 300 metres.

Fuel and energy costs



Cash general and administrative expenses

In 2017, cash general and administrative expenses[1] increased by 2% in US dollar terms and decreased by 11% in rouble terms (by RUB 1.05 billion) against 2016. The main component of general and administrative expenses was labour costs (62%).

Financial income and expenses

The rouble rate as of the end of 2017 increased by 5% against the beginning of the year and resulted in foreign exchange gain in the amount of USD 272 million, in line with the gain on revaluation of the fair value of derivative financial instruments in the amount of USD 52 million.

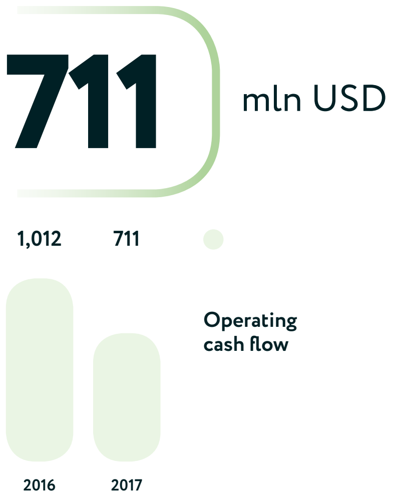
[1] Cash general and administrative expenses are general and administrative expenses net of depreciation of property, plant and equipment and amortisation of intangible assets.

EBITDA analysis

In 2017, EBITDA[1] increased by 13% against 2016 and amounted to USD 1.34 billion. The EBITDA margin[2] was 61% in 2017.

No income and expenses were taken as non-recurring and excluded from calculation of EBITDA 2016 and 2017.

Operating cash flow and CAPEX (USD mln)



Electricity Consumption in 2016–2017

		Natural value, kWh mln	Monetary value, RUB mln
2016	TOTAL consumption	1,732	
	incl. purchase	1,380	3,621
2017	TOTAL consumption	1,839	
	incl. purchase	1,496	4,447

Gas Consumption in 2016–2017

	Associated Gas		Natural Gas	
	Natural value, thousand m³	Monetary value, RUB mln	Natural value, thousand m³	Monetary value, RUB mln
2016	93,310	356	441,336	1,682
2017	106,615	415	448,929	1,694

CAPEX

In 2017, the total CAPEX[3] amounted to USD 271 million. The main expenses during 2017 were related to the expanding production. The construction of the Ust-Yayva mine and completion of the 4th shaft with Solikamsk-3 expansion. Other projects related to the expanding production were also implemented: granulation expansion and activities aimed at increasing section load together with ore extraction. In 2017, The designing of linear facilities of Polovodsky potash plant was continued. The design of the surface complex and preparation works for construction of shafts were carried out as part of the project on construction of a new mine Solikamsk-2.

Cash flow

Cash generated from operating activities decreased in 2017 approximately by 30% against 2016 to USD 0.7 billion.

Loan portfolio

As of 31 December 2017, the Company's net debt amounted to USD 5.37 billion. At that, the cash balance amounted to some USD 1.07 billion, and the total debt to USD 6.44 billion. Growth of the rouble rate resulted in a gain on revaluation of the fair value of derivative financial instruments, the main part of which was cross-currency interest rate SWAP concluded in 2013. The income from their revaluation amounted to USD 52 million in 2017. The effective loan interest rate as of the end of 2017 amounted to some 4.46% (including cross-currency interest rate swaps).

The main factors which influenced this decrease were change in the sales structure and redistribution of volumes to premium markets (South America, South East Asia), where delay of payment is usually higher than on other markets.

Hoisting Plant

A hoisting plant is a main transportation complex connecting the underground part with the surface of an open-pit mine.

Simple gates with hemp ropes were a prototypical model of the modern hoisting plants. After having undergone muscle, horse, and steam stages, in the end they were replaced by electric motors.

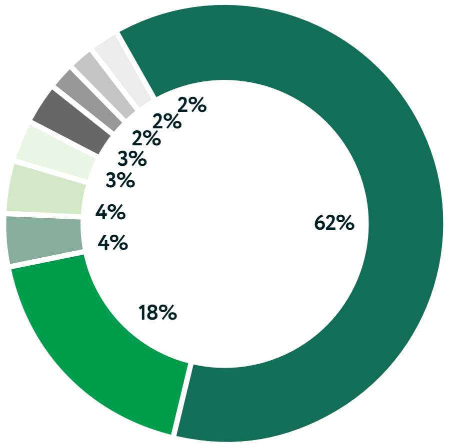
The opportunity came along to perform mining work at ever greater depths, which required development of construction technologies and equipping of shafts. Modern hoisting plants of vertical shafts are the largest engineering constructions in the mining industry.

Heat and Fuel Consumption in 2016–2017

	Heat		Diesel		Petrol		Fuel Oil	
	Natural value, Gcal	Monetary value, RUB thousand	Natural value, t	Monetary value, RUB thousand	Natural value, l	Monetary value, RUB thousand	Natural value, tonnes	Monetary value, RUB thousand
2015	13,816	14,941	3,484	111,874	20,654	590	10,104	92,594
2016	13,221	14,860	2,245	67,396	23,021	689	8,620	66,786
2017	11,165	14,713	2,025	69,405	21,714	698	11,778	126,655

[1] EBITDA index is an operating profit plus depreciation and amortisation.
[2] EBITDA margin is the ratio of EBITDA to the net revenue.
[3] The CAPEX amount includes acquisition of fixed and intangible assets based on the consolidated statement of cash flow under IFRS.

Cash general and administrative expenses in 2017



Share buyback

The Company purchased 11 million of ordinary shares during 2017 as a result of redemption right exercise pursuant to Joint Stock Company Law.

The total amount spent on purchase of ordinary shares of the Company[1] during 2017 was USD 26 million (2016: USD 506 million). All transaction costs were included into the purchase price.

The listing and admission to trading of the Company's Rule 144A and Regulation S GDRs on the London Stock Exchange have been cancelled with effect from start of trading on 22 December 2015. The Company's Rule 144A GDR programme has been terminated with effect from 12 January 2016. The Moscow Stock Exchange made decision to downgrade the listing of Company's shares from Level 1 to Level 3 effective from 26 June 2017 following the decrease of the free float of the Company's shares to 7.5% of the issued capital for a period longer than 6 months.

The number of free-floating shares reached 5.23% as of 31 December 2017.

Calculation of EBITDA

Operating profit

1,101

2017	1,101
2016	989

mln USD

Adjusted for depreciation and amortisation

239

2017	239
2016	194

mln USD

EBITDA

1,340

2017	1,340
2016	1,183

mln USD

[1] According to the consolidated statement of changes in equity according to IFRS.

STRATEGY AND RISK MANAGEMENT

Uralkali is a leading international potash producer. The Company's strategy aims to ensure its comprehensive development and retain its leading positions in the sector.

Development Strategy

Read more on pages 38–47

An effective risk management and internal control system remains one of the Company's priorities. As part of these activities, at all levels, measures are taken to reduce the likelihood of negative consequences that may result from certain events.

Risk Management

Read more on pages 48–53

DELIVERING ON OUR STRATEGY

	MAINTAINING INDUSTRY LEADERSHIP POSITIONS	FOCUSING ON ENHANCED RELATIONSHIPS WITH END CUSTOMERS	FOCUSING ON PEOPLE, COMMUNITIES, SAFETY AND ENVIRONMENT	CONTINUED FOCUS ON BEST CORPORATE GOVERNANCE PRACTICES
Our Vision	• We strive to sustain a leading market position in the global fertiliser industry and contribute to the global food security • We are focused on meeting the world's growing demand for food and seek to take advantage of our unique resource base	We ensure secure and risk-free routes to market through enhanced distribution capabilities from the mines to consumers	• We aim to be the employer of choice in the industry • We are pursuing the highest level of occupational health and industrial safety practices to protect our employees • We take significant steps to minimise the environmental impact of our operations • The Company participates actively in the development of the cities and local communities in which it operates	• We are guided by the principles of openness, transparency, and risk minimisation for all stakeholders and are committed to continuous improvement in our corporate governance practices
KPIs	• Net revenue (potash segment) • Achieved production	• Sales volume • Production volume	• Work-related fatal injury frequency rate (FIFR) • Lost time injury frequency rate (LTIFR) • Social investments • Voluntary labour turnover • Average annual wages (in the main production unit) • Projects related to concern for local people and communities	• Credit rating maintenance corresponding to the Company's current financial position and status • The Company's governance and transparency are not negatively cited by rating agencies/regulators
Priorities	• Revenue maximisation • Stimulation of growing demand for potash • Increasing potash capacity on the lowest cost basis in the industry; an option to add more volumes if economically viable • Focusing on products of the highest quality	• Strengthening customer relationships and reliability of supply • Enhancing logistics platform to secure long-term supply on key markets • Focusing on efficient distribution on key markets	• Seeking to be a regional and industry employer of choice • Focusing on workplace safety, employee and community development • Operating in a socially responsible manner and minimising environmental impact of operations	• Securing our shareholders' rights and interests

KEY PERFORMANCE INDICATORS

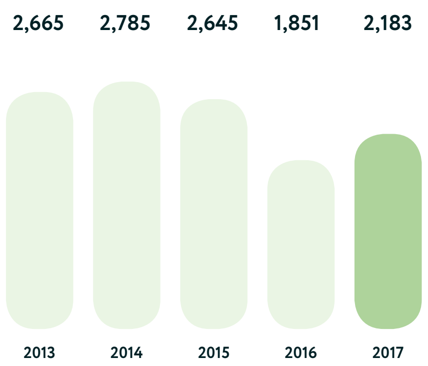
Own production capacities enabled Uralkali to fully satisfy the needs of both Russian and foreign consumers of potash in 2017. The Company's net revenue rose to USD 2.2 billion compared to 2016.

Dmitry Osipov, CEO

Fostering Leadership

Net revenue

2,183 mln USD



Relevance to the strategy

Net revenue is the key financial metric that measures the success of the revenue maximisation strategy. We use net revenue to eliminate the effect of trading operations and transportation costs in order to provide for better cross-industry comparison.

Measurement

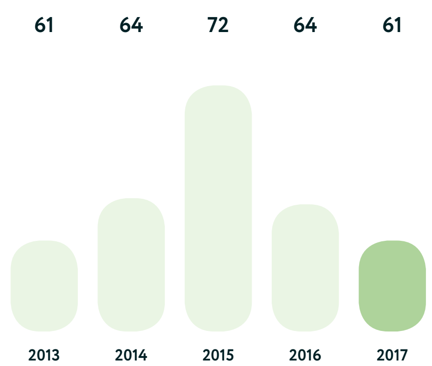
Net revenue represents revenue net of freight, railway tariff, and transshipment costs.

Performance overview

In 2017, net revenue increased due to the increase in sales volume and insignificant growth of price for potash fertilisers, caused by increase of the global demand.

EBITDA margin

61 %



Relevance to the strategy

The EBITDA margin demonstrates our pricing success, cost efficiency, advantages of being a pure-potash producer, and reflects the attractive fundamentals of our business.

Measurement

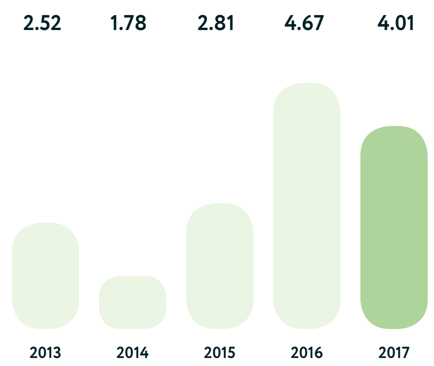
EBITDA divided by Net Revenue. EBITDA is Operating Profit plus depreciation and amortisation.

Performance overview

The EBITDA margin fell from 64% to 61% in 2017, mainly due to an expenditure increase caused by the strengthening of rouble.

Net debt / EBITDA for the last 12 months

4.01



Relevance to the strategy

Net debt/LTM EBITDA measures how robust our capital structure is and how we manage our balance sheet.

Measurement

Net debt = Debt (including bank loans and bonds) less cash and deposits.

Performance overview

The fall in the Net debt/EBITDA ratio was caused by an increase in EBITDA due to favourable market conditions in 2017 and the growth of net debt.

The Origin of Potash Deposits

The formation of potassic minerals involves a range of unique climate and geological processes. Due to the movement of crustal blocks, part of a sea was cut by low massive mountains and shallows.

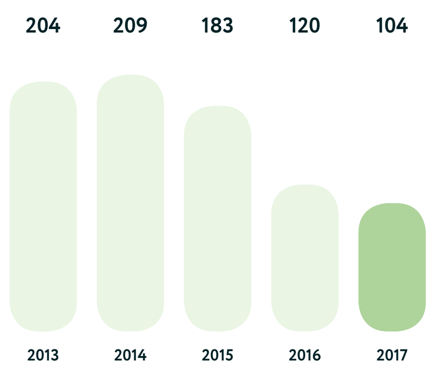
In regions where evaporation of water wasn't sufficiently compensated by precipitation and surface water drainage, such lagoons became dry with time and their bottoms remained covered with crystal salt. As a result of the large crustal movements, these layers deepened into the Earth.

The biggest potash deposits are located in Russia and Canada.

Balanced Approach to Investing

Maintenance CAPEX

104 mln USD



Relevance to the strategy

Maintenance CAPEX measures how efficiently we can sustain our assets post commissioning.

Measurement

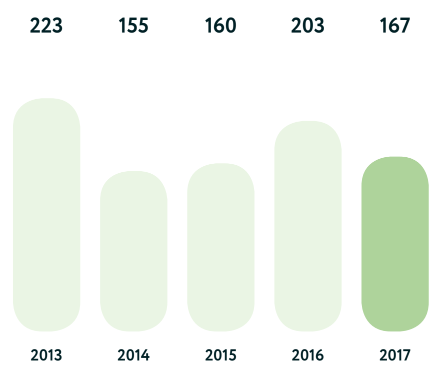
Capital expenditures aimed at maintaining the current production facilities in sound technical condition.

Performance overview

To improve financial performance, the Company kept holding its maintenance CAPEX in 2017.

Expansion CAPEX

167 mln USD



Relevance to the strategy

Expansion CAPEX reflects how efficiently we bring new potash capacity on line.

Measurement

Capital expenditures attributable to the expansion programme.

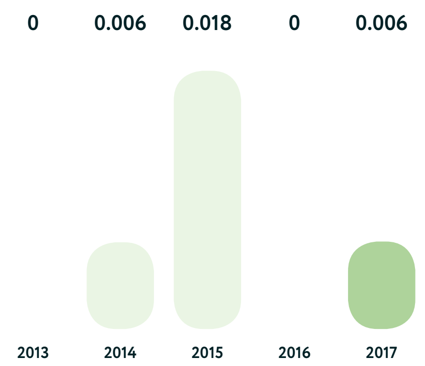
Performance overview

The Company's expansion programme remains one of the most efficient in the field. In 2017, the total expansion CAPEX corresponded to the schedule of launching new capacities aimed to maintain the leading position on the market.

Focus on People, Communities, Safety and Environment

Work-related fatal injury frequency rate (FIFR)

0.006 FIFR



Relevance to the strategy

FIFR is the core indicator of responsible health and safety management. It is central to our focus on operational excellence.

Measurement

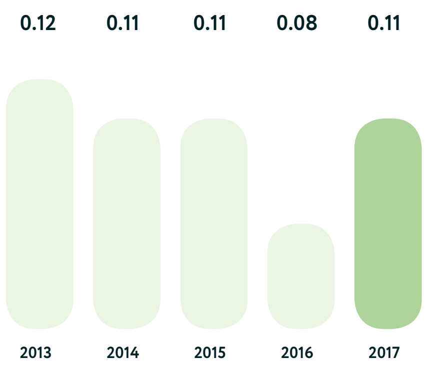
FIFR is calculated based on the number of fatalities per 200 thousand hours worked.

Performance overview

In 2017, one fatal accident took place at Uralkali.

Lost time injury frequency rate (LTIFR)

0.11 LTIFR



Relevance to the strategy

LTIFR reflects work-related injury frequency. The rate helps us to measure the efficiency of our health and safety initiatives and controls across our operations.

Measurement

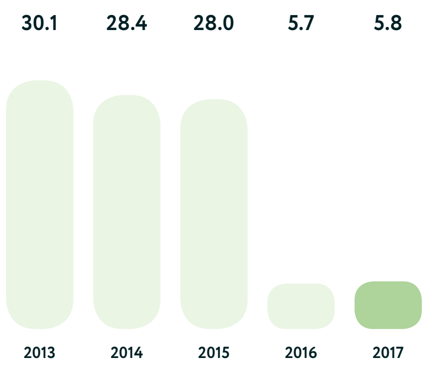
LTIFR is calculated based on the number of lost time injuries per 200 thousand hours worked.

Performance overview

In 2017, 18 incidents were registered at Uralkali's enterprises and subsidiaries in Russia, one of which, with fatal outcome, occurred to the Company's employee. All cases were investigated; the Company took the necessary measures to prevent similar incidents in future.

Social investments

5.8* mln USD



Relevance to the strategy

Social investments demonstrate and reflect the Company's important role in the community in which we operate.

Measurement

Total amount of social expenditures including charity, support of infrastructure, and sport.

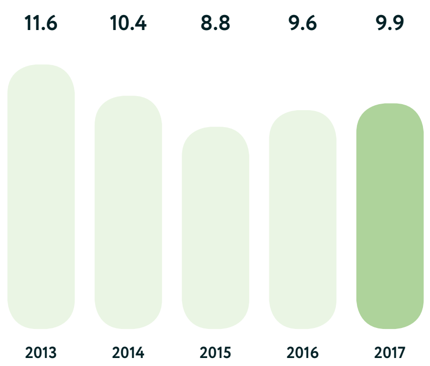
Performance overview

In 2017, Uralkali continued to support sport activities, donate to charity, and contribute to the development of the region where we operate. The indicator remains at the level of the previous year.

* Social expenditures in roubles amounted to RUB 336.52 million for 2017.
Average rate of the Central Bank of the Russian Federation for 2017: USD 1 = RUB 58.3529

Voluntary labour turnover

9.9 %



Relevance to the strategy

Labour turnover represents the ability to retain our people, which is key to the Company's strategy to be positioned as an employer of choice.

Measurement

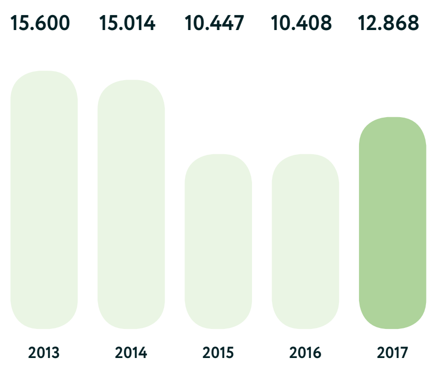
Turnover is the number of permanent employee resignations as a percentage of total employees (excl. transfer to another employer).

Performance overview

In 2017, the turnover index increased mostly due to the appearance of competitors on the regional labour market.

Average annual wages

12.87 th. USD



Relevance to the strategy

Average annual wages per employee in the main production unit measures how competitive we are on the market in relation to attracting and retaining the best people.

Measurement

The annual payroll is divided by the average number of employees in the main production unit, excluding top managers and the Moscow office.

Performance overview

In 2017, the average annual wages denominated in US dollars increased by 24%, partially due to the strengthening of rouble against the US dollar and indexation. Uralkali constantly monitors salary rates and pays the utmost attention to retaining people through ensuring its salary levels remain attractive.

Continued Focus on Best Corporate Governance Practices

Credit rating maintenance

2015–2017 Stable credit outlook maintained.

2012–2014 Investment-grade ratings received and maintained.

Relevance to the strategy

Investment-grade ratings acknowledge that Uralkali is a first-class borrower with strong industry position, balanced financial policy, prudent risk management, and adherence to leading corporate governance standards.

Measurement

Type of ratings assigned to the Company by three rating agencies: Fitch, Moody's, and Standard & Poor's.

Performance overview

As of 31 December 2017, all three agencies retained Uralkali's investment-grade ratings, taking into account the Company's strong fundamentals. Their outlook for Uralkali's securities remained the same.

The Company's governance and transparency are not negatively cited by rating agencies / regulators

2014–2017 Uralkali continued implementing consistent measures to maintain the existing system corporate governance. No significant complaints have been received from regulatory authorities in relation to the Company's corporate governance system over this period.

2011–2013 The Company implemented a number of policies and practices to improve its corporate governance and information transparency.

Relevance to the strategy

The corporate governance system was developed in line with the best global standards, and so shareholders can always rely on it.

Measurement

Any defects in the Company's corporate governance, transparency, disclosure or ethical standards, practices or procedures cited by any rating agency or regulator with jurisdiction over the Company's securities as a reason for an adverse decision with respect to the Company.

Performance overview

Corporate governance continued to be among the key priorities of the Company in 2017. The decision-making process established in Uralkali is fully compliant with legal requirements and is in line with the best corporate governance practices.

21%

REVENUE GROWTH IN 2017

IMPROVING RISK MANAGEMENT

The Audit Committee of the Board of Directors continues its active work in Uralkali. The committee comprises only independent directors in line with the highest corporate governance standards. The risk management work is carried out in the Company on a systematic basis and at all levels.

Paul Ostling,
Chairman of the Audit Committee

An effective risk management and internal control system remains one of the Company's priorities. As part of these activities, at all levels, measures are taken to reduce the likelihood of negative consequences that may result from certain events.

Key risk factors

This section describes mainly the major and most significant risk factors, which may have a considerable impact on the financial and operating performance of Uralkali. All estimates and forecasts contained herein should only be viewed taking these risks into account.

Other risks, of which Uralkali is unaware or which are not currently deemed significant, may become material in the future and have a considerable adverse effect on the Group's commercial, financial and operating performance.

The Annual Report does not aim to give an exhaustive description of all risks that may impact the Company. Uralkali will disclose any necessary information in a timely manner according to the applicable Russian and foreign laws.

Our risk management approach is based on an understanding of our current risk exposure, risk probability and impact, appetite and dynamics.

Risk	Risk description	Risk level	Devel-opment	Comments	Risk minimisation measures
STRATEGIC AND MARKETING RISKS					
Failure to meet targets set for investment projects	Expansion CAPEX, costs associated with productivity increase and other investment costs of Uralkali are an important part of the Company's expenditure budget. There are risks that investment projects' deadlines and budgets will be exceeded, and risks that the projects' technical parameters will not be achieved, or risks of project termination taking into account current factors and forecasts	high	↔	The Company continues to implement its investment programme	• The Company continuously monitors and controls the implementation of its investment programme • The Company makes investment decisions based on market outlook; it selects the most economically efficient projects, based on its financial abilities and the market balance of supply and demand, and determines optimal implementation periods • The Company follows the project management principles when implementing investment projects • Major investments are made after the design stage activities are completed and after the timeframe, costs and feasibility of the projects are confirmed
Change of the supply and demand balance on the main potash markets	Change of the supply and demand balance on the main markets of potash consumption, because of decrease in demand and price of potash due to both political and economic factors, may have a negative impact on the Company's operations. The desire of potash producers to achieve high capacity utilisation in the context of insufficient demand can lead to potash oversupply and thereby to a reduction of the global prices. All this may affect revenues and result in a decrease of the Company's profits	high	↔	The demand for potash on major sales markets does not comply with the level of supply, which leads to a price reduction, decrease of the Company's revenue, and affects the ability to meet assumed obligations	• Uralkali's management is developing a marketing strategy to promote potash • The Company actively supports agricultural producers (e.g. by updating farmers' calculators) • The Company maintains a flexible production strategy, increasing or decreasing production depending on current demand and market forecasts
OPERATING RISKS					
Reduction of production capacity/ production volumes	External and internal factors, including accidents, downtime, a general decline in potash demand, can affect potash production	medium	↔	Production capacity decreased in connection with the accident at Solikamsk-2 in 2014	• Uralkali continues to expand its production capacity and replace retired assets, maintaining them in working order • The Company sets the production targets in accordance with current market situation and the adopted strategy

Risk	Risk description	Risk level	Devel-opment	Comments	Risk minimisation measures
Lack of qualified employees	The specific nature of the Company's business implies in-depth professional training and high qualification of its employees, particularly, in production, mining, and geology. Uralkali may face the difficulty of attracting and retaining staff with sufficient qualifications and the need for additional time and material resources to train and develop its employees. All this can negatively affect the Company's timely achievement of goals	high	→	In the context of the planned launch and development of a number of mining projects in the Perm and neighbouring regions by other companies in the coming years, retention of qualified personnel is becoming one of the main tasks for the Company	• The Company constantly monitors the labour market and takes measures to retain personnel, mainly in production through different ways, including surveys to determine the degree of personnel engagement and monitoring the reasons for resignation • The Company has implemented a system for in-house personnel assessment and training. For example, Uralkali established the Corporate University, which is licensed to deliver 370 training programmes; an e-learning system is being implemented; also in place is the talent pool programme for key positions in the Company. Uralkali offers one of the most attractive social benefits packages in the industry, market-matching salaries, and compensates mortgage payments to the key employees
Non-fulfilment of obligations by contractors, suppliers or customers	The failure of key partners, relations with whom are strategically important, to meet their contractual obligations may adversely affect Uralkali's performance	high	↔	The Company's activities depend on monopolistic energy suppliers and the Russian railways. In the context of macroeconomic instability, suppliers and contractors can raise the price of their products and services. Timely fulfilment by suppliers, contractors and buyers of their obligations related to the implementation of the Company's investment projects is critical in order to ensure compliance with deadlines within the approved financial investments	• The Company strives to ensure alternative suppliers and contractors are available for all its needs • Uralkali is working towards enhancing contractual discipline to ensure the obligations undertaken by the parties are fulfilled on time and in full, including monitoring compliance with the terms of contracts through the introduction of additional controls (including KYC, credit policy and risk assessment model) to improve the quality of documentation, interact with counterparties at various contractual stages, and to ensure timely and complete performance of the obligations assumed by the parties
Expenditure increase	Risks of production costs increase may occur due to wear-and-tear of production equipment, utilisation of obsolete technologies, the inefficient spending of funds on operating activities or growth of energy prices	medium	↔	The Company is implementing programmes to increase productivity and reduce operating expenditures	• The Company is engaged in thorough budgeting and planning activities, ensures continuous monitoring and control of expenses of its bodies and officials • The Company constantly improves performance discipline and implements additional controls that allow it to stay on budget and keep costs at an approved level
FINANCIAL RISKS					
Currency rates fluctuations and interest rates growth	Inflation processes and currency fluctuations significantly affect the financial performance of the Company and may lead to the reduction of net profits	high	↔	Part of the Company's loan portfolio consists of loans with floating interest rates and are denominated in foreign currency. The bulk of Company's expenses is denominated in roubles, while the main export revenues are denominated in US dollars	• The Company minimises the currency fluctuation risks and the risk of a significant increase in the floating interest rate by means of financial derivatives and other available hedging instruments
ENVIRONMENTAL RISKS					
Environmental and mining risks	Uralkali's ore mining and beneficiation activities are exposed to risks associated with the geological structure of the Verkhnekamskoye deposit of potassium salts, and general mineral exploration, extraction and processing risks including possible flooding, fires and other emergencies that can lead to unforeseen costs and a general decline in the efficiency of Company's operations	high	↔	Given unpredictable natural factors associated with mining, the Company takes a conservative approach to mitigate environmental risks	• The Company follows its previously developed mining plan, which includes an extensive safety section. • The Company regularly audits the sufficiency of measures aimed at minimising mining risks. Mining safety monitoring is one of the key Company priorities that is regularly followed up by the CEO, the Board of Directors and their respective committees

Risk	Risk description	Risk level	Devel-opment	Comments	Risk minimisation measures
HSE non-compliance	Uralkali's activities and the use of its property are regulated by various health, safety and environmental laws and regulations. Additional costs and obligations may be incurred due to the need to comply with these requirements	medium	↔	The Company pays considerable attention to industrial safety, treating human life and health as the highest value, and making HSE compliance its main task	• The Company has adopted safety standards, including Cardinal Safety Rules. Regular safety training and examinations of personnel are held; a set of measures to prevent occupational diseases are in place. • The Company pays close attention to complying with environmental legislation and improving its environmental performance; all recommendations and instructions from environmental supervisory authorities are duly taken into account and followed

POLITICAL AND LEGAL RISKS

Risk	Risk description	Risk level	Devel-opment	Comments	Risk minimisation measures
Risks related to the incidents at Berezniki-1 and Solikamsk-2	The flooding of Berezniki-1 of Uralkali in October 2006, as well as the accident at Solikamsk-2 in 2014 had a significant impact on the size of mineral reserves and may lead to additional costs, losses and obligations	high	↔	The Company adheres to the safety and social responsibility policies and adopts a conservative approach	• The Company follows its social responsibility policy, under which it maintains a constructive and consistent relationship with state authorities to respond to any issue in a timely manner
Political and regulatory risks	Uralkali operates on the Russian market and a number of developing markets that are exposed to higher risks than more developed markets, including significant legal, economic and political risks The Company could breach applicable laws or regulations on the markets where it operates. Certain measures of governmental bodies or increased regulation could lead to additional costs, as well as affect creditors' expectations Risks of additional obligations, costs and restrictions for Uralkali due to audits by tax authorities, the federal health and safety agency (Rostekhnadzor) and other regulators	medium	↔	Uralkali is registered in Russia and operates in a number of developing markets that are exposed to higher risks than more developed markets, including legal, economic and political risks, i.e. rapidly changing legislation and legal practice	• The Company's sustainable development depends on its ability to be fully compliant with legal requirements and other binding standards, rules, and instructions. The Company has developed a set of inter-connected measures to ensure compliance of its activities • The Company also monitors any relevant legislative changes in all applicable jurisdictions and liaises with supervisory authorities to promptly adjust its documents and practices • The corporate governance procedures applied to the Company allow the quickest possible adoption of the necessary operational and strategic decisions at different management levels
Compliance with applicable legislation and internal policies	Uralkali is subject to the laws of Russia and other countries of its operations, including anti-monopoly regulations. Claims, including anti-monopoly claims, may create additional costs for the Company	medium	←	The Company is subject to special state regulations in various jurisdictions. Due to macroeconomic instability, regulators can tighten their requirements.	• The Company constantly improves its internal control system in order to ensure compliance of its activities with the requirements of applicable law including anti-monopoly legislation • In 2017, the Russian Federal Anti-Monopoly Service extended its recommendations on provision of non-discriminative access to purchase of potash in Russia for five years, whereby it confirmed the existing pricing and thus reduced destabilisation risks during domestic sales of potash by the Company

← – risk probability decreased

→ – risk probability increased

↔ – risk probability did not change

OUR PRIORITIES

The principle of sustainable development is a fundamental component of Uralkali's strategy which ensures an optimal balance between the interests of the Company, its employees, customers, shareholders, partners, local communities, the authorities, and other stakeholders.

We are constantly improving interaction with our key stakeholders carefully studying their needs and expectations, striving to strengthen a mutually beneficial relationship.

Uralkali continues using best practices for creating public non-financial reporting.

We prepared our Report 2017 using GRI Standards relying on the multistage analysis of its essentiality.

Based on the analysis results, Uralkali's strategic priorities were grouped into four key areas:
- economic sustainability
- employees
- environmental impact
- stakeholder impact

The Company uses these aspects to define, review, and prioritise its sustainable development initiatives.

KEY ACTIVITIES

Sustainable economic development

Focus on corporate governance, openness, transparency, and risk mitigation for all stakeholders

The business model focusing on maintaining cost leadership, vertical integration, capacity development, and premium products

Maintaining leading positions on the global market, which fosters enduring customer relations

Lowering impact on the environment

Ensuring geological safety
includes safety monitoring of operational and idle mines in cooperation with R&D institutes

Responsible water usage
includes wastewater treatment and minimisation, water intake, and recycling systems

Waste management, focusing on the reduction of waste and land reclamation research

Providing energy efficiency
implies a range of activities aimed at optimising energy consumption in the Company's operations

Stakeholder engagement

Business ethics
implies corporate culture code compliance along with corruption and fraud management

Compliance management
implies compliance with all applicable laws and regulations

Local community relations
include social investments, charity, sponsorship, and the resettlement programme

Employees

Recruitment and retention of talented experts
includes cooperation with educational institutions, talent pool development, and grievance resolution mechanism

Labour Safety and Industrial Safety
implies adherence by the Company's employees and contractors to cardinal rules aimed at reducing occupational accident risks

Personnel development
focuses on KPIs, training, and employee satisfaction surveys

STAKEHOLDER ENGAGEMENT

STAKEHOLDERS GROUP	Customers and partners	Shareholders and investment community	Employees	Trade unions	Government and local authorities	Local communities	Mass media
WHY WE ENGAGE	As a vital element of the Company's strategy, the reliable and transparent relationship with our customers and partners drives the Company's performance. Positioned as an industry leader, Uralkali aims to sustain this mutually beneficial partnership to ensure progress and promote development in all spheres	Being a publicly listed company, we need to provide open, timely, and transparent information to help our investors make informed decisions about our financial and non-financial performance	Every aspect of our strategy is based on the commitment of our people. Their knowledge, their willingness to work and their satisfaction are the Company's keys to success. We put an emphasis on creating conditions for the professional and career growth of our employees, which strengthens their loyalty to the business	Efficient cooperation with trade unions is essential for the Company in understanding and fulfilling employees' expectations. Trade unions help monitor the implementation of all health and safety rules and other important agreements	The Company strictly follows industry standards and complies with local and international laws and regulations. Uralkali aims to establish and maintain stable and constructive relations with national and local government authorities, based on the principles of accountability, good faith and mutual benefit	The Company's development needs to be supported by the local communities wherever it operates. Sustainability of ecosystems, biodiversity and a healthy environment are vital conditions for the wellbeing of future generations. A better quality of life for our employees and local communities through our social and cultural projects contributes to regional social and economic development and ensures the sustainability of our operations, helping us fulfil our commitments as an industry leader	Being a global player, the Company is interested in objective, accurate, and timely media coverage of all its financial and production results, key external and internal events, social activities, participations in the industry conferences, international and Russian exhibitions, and other events. An objective perception of Uralkali and its strategy by all stakeholders is important both for the Company and its target audiences
KEY FOCUS AREAS	**Customers** • The quality of goods and services provided • Reliability of supplies • Mandatory compliance with contract provisions and legal requirements • Customer support for the use of the Company's products **Partners** • Procurement standards outlined in all tenders • Rigorous due diligence of all partners to establish their integrity and solvency	• Corporate Governance • Financial and non-financial results • Potash market developments • Strategy and KPIs • Risks • Sustainable development	• Principles of social partnership • Mutual respect and trust that underpin HR Policy • Financial and non-financial incentives • Learning and development opportunities • Compliance with health and safety standards	• Employee loyalty • Compliance with labour safety regulations • Feedback from employees • Decisions on important social issues	• Reporting to regulators • Paying taxes • Planning and implementing local community development projects and social projects • Maintaining a dialogue with government authorities on current legislative and regulatory issues • Corporate philanthropy	• Environmental safety and mitigation of the consequences of industrial accidents • Housing infrastructure development and modernisation • Social infrastructure development and modernisation • Sports development • Support for cultural events • Support for disadvantaged groups of the community	• Accurate media coverage of the Company's strategic messages, corporate events, and news • Getting feedback from the public and the media • Maintaining relationship with stakeholders on all levels
WHAT WE DO	• Meetings with customers, including industry conferences, round tables, and workshops • Master classes and practical training in mineral fertiliser use • Customer surveys • Procurement standards and information on the Company's tenders and procurement plans • Meetings with current and potential suppliers and business partners • Conclusion of contracts for delivery of products and services and monitoring to ensure counterparties meet requirements	• Presentations, webcasts and conference calls between the Company's management and financial community • Website publication of relevant GSM documents • Management presentations at industry and regional conferences • General Shareholders Meetings • Press releases on material issues and key Company events	• HR Policy and Labour Safety Policy • The system of internal communication and feedback • Regular meetings between management and employees • Feedback on hotline (call-centre) messages • Ensuring safety in the workplace • Implementation of social programmes and financial incentive programmes • Employee satisfaction and employee engagement surveys	• Reports on the execution of provisions of Collective Bargaining Agreements and labour safety agreements • Regular face-to-face meetings with management and trade union members • Collecting written opinions on most important social issues	• Information disclosure and reporting • Dialogue with government authorities on legislative and regulatory issues • Development of partnership agreements • Participation in workshops and expert panels • Implementation of joint projects • Local community development planning	• Meetings with representatives of local communities • Economic, environmental and social initiatives • Implementation of CSR projects and local community development programmes • Assisting in the design of development plans for the regions in which Uralkali operates • Publications in local media • Public hearings • Maintaining contact with NGOs	• Press releases on significant issues and key events • Interviews with management • Press tours and press conferences • Relationship building events for media • Perception studies among target media

CHAIRMAN OF THE CSR COMMITTEE STATEMENT

Uralkali's strategy is traditionally focused on compliance with the key principles of sustainability. This ensures a balance of interests for all stakeholders including shareholders, employees, local communities, suppliers, contractors, state authorities, and the mass media.

Sir Robert Margetts,
Senior Independent Director, Chairman of the Corporate Social Responsibility Committee

Introduction

Just like every socially responsible corporation, Uralkali seeks the maximum efficiency and transparency of its operations, while preserving the environment and creating the right legacy for future generations.

Environmental and Industrial Safety

Uralkali has always been a steward of the environment. The Company rigorously follows environmental laws and regulations by efficiently using natural resources and continuously improving its environmental performance.

Operations of a mining company invariably have a certain environmental impact, and so preservation of nature is one of Uralkali's key priorities. This is mainly reflected by the introduction of advanced wastewater treatment and disposal technologies, intensification of water recirculation, and improvement of the overall energy efficiency of operations.

Geological risks are inherent to Uralkali's operations. For this reason, the Company maintains an integrated system of geological monitoring at all of its licence blocks at the Verkhnekamskoye deposit of potassium and magnesium salts. Monitoring data is fully and timely shared with state supervision authorities, which always receive our maximum support.

For more details about the Company's environmental and industrial safety activities in 2017, see page 60.

Health and Safety

One of Uralkali's priorities is to minimise the number of safety incidents and accidents.

The Company entirely understands its obligations towards employees and their families, as well as to local communities in general. It always tries to provide the safest and hygienic working conditions. I would like to point out specifically that only through mutual efforts of the Company and its employees will we be able to minimise the frequency and severity of occupational accidents. Our approach here remains the same: adherence to the internal Cardinal Safety Rules, national safety rules and regulations, and international best practices in occupational health and safety.

For more details about Uralkali's occupational health and safety activities in 2017, see page 66.

Community Engagement

The Company has always paid a great deal of attention to the social and economic development of Berezniki, Solikamsk and the Perm Region on the whole. In 2017, Uralkali continued to cooperate with local authorities within existing partnership agreements to provide support to municipal and regional projects related to infrastructure, landscaping, environmental protection, sports, culture, education and healthcare. The Company maintained an active dialogue with non-governmental and religious organisations, and implemented a number of charity and sponsorship projects.

In total, Uralkali's social investments in 2017 amounted to USD 5.8 million.

For more details about the Company's local development activities, see page 74.

Global Food Security

As a leader of the global potash fertiliser industry, Uralkali fully appreciates the global and urgent nature of the food security issue. The Company produces potash fertilisers to meet the demands of domestic and foreign agricultural producers. In addition to that, Uralkali is implementing a number of projects to improve fertiliser application efficiency.

Uralkali closely cooperates with leading international industrial organisations and research institutions to implement a variety of domestic and international projects aimed at improving crop yields.

In conclusion, I would like to thank the shareholders, Board of Directors, management and employees of Uralkali for their help in enhancing and applying the global best practices in social responsibility and sustainable development. We may have already achieved a lot in addressing the global food security, but we know we can never be complacent.

ENVIRONMENTAL PROTECTION

Responsibility for preservation of the environment is an integral part of Uralkali's business. In 2017, the Company investments in environment protection increased by 80% and amounted to RUB 4,020 million compared to 2016. In addition to current expenditures associated with protecting the atmosphere, water, and land resources, Uralkali is investing in the modernisation of existing machinery and the installation of new pollution control equipment, staff training, and the development of internal monitoring and control systems, as well as scientific research.

4.02 bln RUB

THE COMPANY INVESTED IN ENVIRONMENTAL PROTECTION ACTIVITIES IN 2017

OUR APPROACH

Uralkali focuses on measures to minimise the negative environmental impact of its activities. Responsibility for preserving the environment is an integral part of doing business.

The Company fully adheres to the requirements of environmental legislation, uses natural resources responsibly, and constantly introduces new environmental protection measures.

WHY IS THIS IMPORTANT TO US

Environmental protection implies a set of measures taken to prevent the negative impact of the Company's operations on the environment, which creates favourable and safe conditions for human life.

KEY PRIORITIES

- Reduction of waste discharges into bodies of water, balanced water usage
- Efficient waste management
- Reduction of air emissions
- Energy conservation

STAKEHOLDERS

- Employees
- Trade unions
- Government and local authorities
- Local communities

Key Facts in 2017

PJSC Uralkali's activity for providing environmental safety is carried out in accordance with the environmental legislation of the Russian Federation, complies with environmental standards and rules, and takes into account the requirements of international standards. Uralkali thoroughly assesses the environmental impact of planned and ongoing production activities. Great importance in the environmental management system is attached to the development and implementation of waste management activities, monitoring the environment, upgrading our equipment to reduce its negative impact, and industrial environmental monitoring programmes.

In 2017, the main areas of the Company's environment protection activities were:

- geological safety;
- energy efficiency and minimising our climate impact;
- protection of the atmosphere;
- protection of water resources;
- waste management.

Geological Safety

The Company mines minerals at the Verkhnekamskoye deposit on the basis of technical specifications developed in accordance with applicable regulations and subject to examination and approval as prescribed by the legislation of the Russian Federation.

The main condition for the development of the Verkhnekamskoye deposit is safe mining and preservation of the functional state of the undermined areas. In compliance with legal requirements, the Company applies mining protection measures in the mined-out areas of mines where it is technically possible.

In the event of any restrictions in the use of mining and technical protection measures, Uralkali takes advantage of its own complex monitoring system to identify potentially hazardous sections in a timely manner and to ensure protection for the local population.

The Company carries out instrumental observations of soil surface subsidence (survey monitoring) on the territory of mines and visual monitoring of the under-worked facilities. Geophysical and hydrogeological research is carried out in all of the mines; seismic activity monitoring was organised.

The frequency of monitoring is determined for each facility individually, and is in full compliance with all applicable safety requirements. Uralkali cooperates closely with R&D institutes to perform in-depth studies into the environmental impact of its operations in the region where it operates.

The high level of production organisation and the use of advanced technologies enable Uralkali to successfully achieve its sustainable development goals. These include the efficient use of non-renewable resources and adherence to the highest environmental protection standards to minimise the environmental impact of the Company's business.

Uralkali has conducted special monitoring of the potentially dangerous area of the Solikamsk-2 mine since 5 January 1995, when an earthquake led to the destruction of pillars and the formation of a soil subsidence area about 4 metres deep and 950 metres by 750 metres across under the mined-out areas of northeastern panels 1&2 of the Solikamsk-2 mine. In order to minimise the consequences, the Company backfilled areas around the collapsed zone. Since 1995, the accident area has been subject to detailed comprehensive monitoring.

On 18 November 2014, Uralkali detected higher levels of brine inflow in the Solikamsk-2 mine and immediately implemented an emergency plan. All employees were evacuated from the mine. On 18 November 2014, at around 16:00, a sinkhole with a diameter of approximately 30 metres-40 metres was discovered east of the Solikamsk-2 production site, outside the metropolitan area. The sinkhole is mainly associated with the area where the rocks and inter-bed pillars collapsed on 5 January 1995. The emergency area around the sink-hole was immediately fenced off.

According to the Act of the technical investigation into the cause of the accident, the fresh water inflow into the worked-out areas of the Solikamsk-2 mine on 18 November 2014 was caused by the mass collapse of rock in the mine during the accident in 1995. Thus, the cause of the accident on 18 November 2014 at the Solikamsk-2 mine was an emergency that was unavoidable under the given circumstances.

The danger zone around the sinkhole with restricted access for people is determined, and the perimeter is monitored round-the-clock. Monitoring of the danger zone has been expanded: additional online monitoring methods have been implemented and observation of developments in the situation has been intensified. The following special scientific and project entities were engaged in the emergency mitigation work: Mining Institute of the Ural Branch of the Russian Academy of Sciences, and JSC "VNII Galurgii". The Company is now implementing a number of engineering and other measures to minimise the impact of the accident and reduce suprasalt water inflows into the mine. In order to reduce water inflow into the mine, a dewatering system has been set up around the sinkhole and voids are being plugged.

Boundaries of the danger zone were determined in order to avoid negative consequences in the Solikamsk-2 mine. Beyond this zone, the mining operations are being performed in order to stow the area with materials formed in the result of mineral extraction. Constant monitoring of the situation is carried out in the Solikamsk-2 mine.

Energy and Climate

Energy efficiency

Upon the results of the energy audit as of 29 December 2012, Uralkali's Energy Saving Programme was approved, which included a system of organisational and engineering measures aimed at reduction of energy resources consumption. The programme implementation started from arranging the work of energy saving committees and the incentive system development. Investment projects with the expected completion dates in 2017–2018 were initiated.

In 2017, the main focus was on the energy saving organisational events and implementation of engineering measures of previous years was accomplished. Allocated budget for energy resources was not exceeded.

Uralkali completed the work on project documentation for previously initiated projects.

In 2017, the actual amount of generated electricity decreased compared to 2016 and totalled to 343 million kWh. Reduce of generation due to the scheduled overhauls of generating equipment.

Uralkali, together with its subsidiaries and affiliates incorporated in the Russian Federation, consumed 6.66% of electric energy, and 3.91% of fuel more than in 2016. Increase of energy resources consumption resulted from production volume growth.

Use of associated petroleum gas

As part of the Energy Saving Programme, the Company uses associated petroleum gas, which it purchases from oil and gas companies of the Perm Region. This approach makes it possible not only to reduce the Company's natural gas consumption by providing economic efficiency, but also to prevent the flaring of associated gas by oil companies, thus contributing to atmosphere protection.

In 2017, the volume of associated gas used by Uralkali and its subsidiaries and affiliates in the Russian Federation totalled 151.36 thousand tonnes of oil equivalent.

Greenhouse gas emissions

Greenhouse gases are not contaminants in the ordinary sense of the term. In the concentrations that are actually observed in the atmosphere, they do not have a direct harmful effect on human health or ecosystems. Therefore, only the absolute value of emissions for the year is subject to monitoring, rather than the concentration of a greenhouse gas around production facilities.

In recent years, the attitude towards the problem of climate change in the Russian Federation has been gradually improving; a regulatory framework regulating greenhouse gas emissions is being developed. The Company recognises that its operations are inextricably linked to energy consumption and result in greenhouse gas emissions.

Uralkali has been cooperating with the international Carbon Disclosure Project (CDP), the most important source of data on global climate change, for 6 years already, providing information on the activities in the area of reducing greenhouse gas emissions. During the reporting period, the Group's CO2-equivalent emissions amounted to 1.816 million tonnes, which is 5% higher compared to 2016 (1.733 million tonnes) due to the increase of potassium chloride production volume and the total energy consumption.

Atmospheric emissions

As part of the Company's programme to expand its existing production facilities, Uralkali is upgrading its waste treatment equipment. As a result, the operational efficiency of treatment facilities is increasing, thus reducing the Company's environmental impact.

In the reporting period, Uralkali's pollutant emissions increased by 27%, from 5.12 thousand tonnes in 2016 to 6.51 thousand tonnes in 2017 due to increase of production volume and consumption of fuel. All atmospheric emissions from stationary sources are within the regulated limits.

Water resources

In 2017, the total water intake for industrial needs and utility services at Uralkali and its subsidiaries and affiliates in the Russian Federation increased by 2.0% to 18.77 million m^3 from 18.39 million m3 in 2016. Increase of water consumption resulted from production volume growth. The water intake from surface sources totalled to 14.84 million m^3 (excluding water intake for third parties).

The Company aims to reduce consumption of water for industrial needs and minimise the impact of wastewater disposal on the environment.

The flow rate of water in recycled and reused water supply systems at Uralkali increased to 104.310 million m^3 (103.302 million m^3 in 2016).

In 2017, sterlet (sturgeon) juvenile fish was raised in special conditions on the territory of Karmanovsky Rybkhoz LLC upon the Company's order. On ecologists opinion, this type of fish shall play positive role in ecological balance of the Kama river fauna. An optimum site was chosen for releasing juvenile fish so they could adapt in the open water body. Presence of sterlet food potential in the water body, and water and air temperatures, as well as the distance which the juvenile fish was expected to overcome in the container, were taken into account. Employees of the State Research Institute of Lake and River Fisheries strictly monitored the observance of all these factors. The total number of the juvenile fish was over 87 thousand, and the total weight was around 941 kilogram.

Waste Management

Mining activities generate significant amounts of waste. The Company is doing everything possible to prevent its negative impact on the environment. In particular, Uralkali is making the following efforts:

- Modernising both existing and new facilities to increase the recovery ratio of valuable components from ore (top priority)
- Backfilling the mined-out areas of mines
- Involving waste in secondary use (waste recycling into products for sale, transfer for the preparation of raw materials used in soda production)
- Neutralising and disposing of waste at sites that meet the requirements of the sanitary and environmental legislation

The Company's enterprises produced 32.70 million tonnes of waste in 2017. More than 99% of it was industrial waste of hazard class V (halite waste and clay-salt slurries). During 5 years, the use of halite waste and clay-salt slurries increases. In 2017, the Company reached a 25% growth of halite waste and clay-salt slurries use compared to 2016. In 2016, 13.28 million tonnes were used, in 2017 — 16.57, of which 2.34 million tonnes were used from the volumes accumulated earlier at the Company's location facilities (in 2016, the same number was 1.61 million tonnes).

Halite waste is used for the production of:

- Industrial sodium chloride
- Halite mineral concentrate
- Saline solution for production of soda

STARTING FROM 2013

90 thousand tonnes

OF LARGE REINFORCED CONCRETE PRODUCTS HAVE BEEN PROCESSED INTO CRUSHED STONE

32 thousand tonnes

OF REINFORCED CONCRETE WASTE WAS PREVENTED FROM PLACEMENT AT THE BEREZNIKI MUNICIPAL SOLID WASTE LANDFILL IN 2017

Halite waste and clay-salt slurries are also used for backfilling the mined-out areas of mines. The work on increase of mined-out space backfilling is being carried out during 5 years; the year 2017 was not an exception, the growth rate totalled to 34% (2017 — 15.15 million tonnes, 2016 — 11.30 million tonnes).

Since 2013, the Company has successfully implemented a project for processing old reinforced concrete slabs into crushed stone. During this time, more than 90,000 tonnes of large reinforced concrete products that remained after total buildings and structures renovation were recycled. The produced crushed stone was used as fill for the temporary roads, dams, and arrangement of the temporary construction sites. By doing this, 32,000 tonnes of reinforced concrete waste was prevented from placement at the Berezniki municipal solid waste landfill in 2017.

In the reporting period, waste placement at the landfill amounted to 24.58 thousand tonnes by the Group. The decrease by 41% compared to 2013 (41.88 thousand tonnes in 2013) and 16% compared to 2016 (29.41 thousand tonnes in 2016) has been detected during last five years. This decrease in waste disposal is due to the highly efficient operation of the crushing and sorting plant and the increase in the tonnage of waste transferred to third parties. In 2017, 1,049 thousand tonnes of waste was transferred to third parties for use and neutralisation from 60.15 thousand tonnes in 2016.

Public Environmental Measures

The Company's environmental activities are not limited to environmental measures alone. Uralkali's employees actively participate in all environmental campaigns in the towns of Berezniki and Solikamsk. The potash industry workers are an encouraging example; they believe that we should start from ourselves to make the town clean. Environmental problems can only be solved by joining forces.
To this end, Uralkali actively participates in national and municipal environmental campaigns, supports the initiatives of the employees and NGOs, promotes green thinking, and contributes to attracting the employees and their family members' attention to the environmental problems. Uralkali supported the following environmental events in 2017:

- Volunteer clean-ups in the towns of Berezniki and Solikamsk as part of the All-Russian Environmental Volunteer Clean-Up Green Spring
- A town event Save Trees' Life 2017 in Berezniki
- Campaigns for planting greenery and clean up debris in Berezniki and Solikamsk during the All-Russian event Protection from Environmental Hazard Days
- All-Russian event Night of Museums in ECOstyle
- All-Russian ecological quest Clean Games
- The Best Ecological Fairy Tale contest and the Best Ecological Poster organised by the Green Contour movement together with the administration of the Ural Gems summer camp for four summer shifts
- Volunteer clean-ups in Berezniki as part of the All-Russian Environmental Volunteer Clean-Up Green Russia
- Saturday voluntary work days in places of public entertainment in Berezniki and Solikamsk (Usolka river in Solikamsk, coast-line area of the Nizhne-Zyryansky water storage reservoir), as well as Saturday voluntary work days in the Solikamsk Assisted Living Facility
- Ecoimage 2017 contest among the town enterprises and institutions organised by the Berezniki town administration, upon the results of which Uralkali became a winner in the Ecological Education nomination
- The Clean Environment regional ecological event

Upon the 2017 results, Uralkali made it to top ten of environment and energy efficiency of the largest Russian companies; the Company also became a prize winner of the contest "100 Best Companies in Russia. Environment and Environmental Management".

What are the Characteristics of the Mining Profession?

Miners are people of strong body and spirit. Hard physical activities, humidity, dust, cold, and lack of natural light take endurance, courage, and persistence. The extreme work conditions develop discipline and responsibility — mine workers must be able to quickly respond to signals, have fine hearing and be extremely observant. It is important for this profession to have a good image memory, a good eye, and physical coordination in order to not make a mistake in calculations.

People working underground are given preferential treatment in terms of their work experience. The period of work of miners before they retire is 20 years.

LABOUR AND INDUSTRIAL SAFETY

In 2017, the Company continued to implement its HSE Policy, which was updated last year in accordance with the legislation requirements. When adopting this document in 2012, Uralkali declared that health, labour, industrial safety and the environment are the key priorities for the Company's activities and decisions whatever area of operation they relate to.

The outfit of miners includes a special helmet, a "light" (a flashlight fixed on a belt), rubber boots or any other special boots and clothes, as well as a filtering self-rescue breathing apparatus. This individual respiratory protection is used in conditions of possible lack of oxygen.

It is believed that potassium chloride dust is beneficial for lungs but causes skin irritation; that's why mine workers put on several layers of their outfit that is tight-fitting in the wrist and neck areas, and always take a shower after shifts. Instruments used during work in mines are quite heavy. For example: a hammer drill weights 35 kilogrammes, a gad picker — up to 15 kilogrammes, and a belt with a battery for a flashlight — around 6 kilogrammes.

OUR APPROACH

Safety is a fundamental value and integral part of our actions and decisions. We understand that careless, thoughtless, and irresponsible actions may have tragic consequences not only for us and our colleagues, but also for our families and friends. We understand that there is nothing more important than being alive and healthy.

WHY IS THIS IMPORTANT TO US?

Absence of fatalities, incidents, and occupational diseases is one of the key goals of efficient business. Each employee wants to work in favourable conditions. At the same time, the Company expects its employees to follow the safety rules. By supporting these principles, we will be able to achieve a higher level of performance and ensure the Company's sustainable development.

KEY PRIORITIES

- Absence of industrial incidents
- Absence of accidents

STAKEHOLDERS

- Employees
- Trade unions
- Local communities
- Media

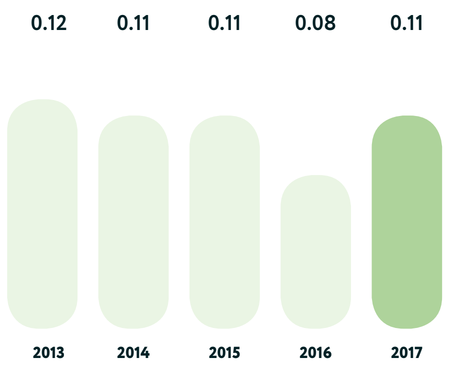
Performance Indicators

BIn 2017, 18 incidents were registered at PJSC Uralkali's facilities and subsidiaries in Russia, one of which, with fatal outcome, occurred to the Company's employee. All cases were investigated; the Company took the necessary measures to prevent similar incidents in future. It should be noted that all incidents occurred for organisational reasons, and not for technical or technological ones.

In the reporting year, the lost time injury frequency rate (LTIFR) at Uralkali and its subsidiaries and affiliates in the Russian Federation was 0.11, and the lost days rate (LDR) — 8.1.

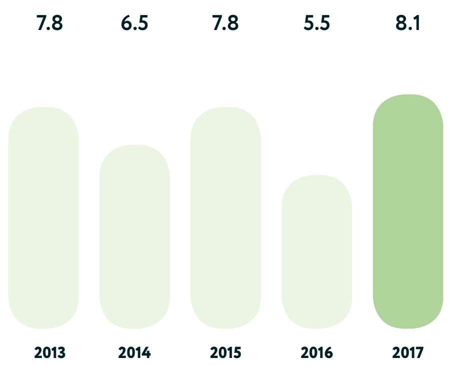
Lost time injury frequency rate, LTIFR

0.11



The lost days rate, LDR

8.1



Number of incidents increased from 1 in 2016 to 4 in 2017. There were no accidents at PJSC Uralkali's operational sites in 2017.

Organisational and Engineering Measures

Labour safety

PJSC Uralkali carried out sanitary and hygienic certification of the cancer-hazardous facilities.

In 2017, the construction of special sites for storage of waste metal started at Berezniki-2, Berezniki-3, and Solikamsk-3; all works are expected to be completed by the end of 2018.

The following vehicles were purchased: Kurier T3744 — for transporting explosive materials in mines, and Krot-T32204 — for transporting people in mines.

64 employees attended a special assessment of workplace conditions (SAWC) training. Identification and measurement of harmful industrial factors was carried out at 2,271 work places of the surface complex and the administrative subdivisions in the framework of the SAWC; the results of preliminary assessment were presented to the commission.

To increase the quality of procured personal protective equipment (PPE), we've updated the relevant descriptions in our technical specification. We continue testing our best samples in operational conditions (including subsurface ones), based on monitoring of Russian manufacturers experience in producing the PPE.

Industrial safety

In 2017, Uralkali continued to develop and improve the production control over compliance with the Industrial Safety requirements at its hazardous production facilities.

The Strategic Plan of Performing Industrial Safety Examinations of Engineering Devices, Buildings, and Constructions of Hazardous Production Facilities was developed and approved. This document allows the Company to assess and plan expenses required for performing industrial safety examinations of engineering devices, buildings, and constructions, the time of safe operation of which expires in the current year and within next 5–10 years.

The procedure of emergency risk identification and assessment was implemented, based on which the documentation on danger identification and operational risk management was created for identification of hazardous production facilities of class 2 of hazard.

We've developed declarations of industrial safety of hazardous production facilities of class 2 of hazard.

In 2017, the Company performed additional works for completing a pilot operation of the Local Alarm Engineering System components at the hydraulic structures (Berezniki-2 Verkhne-Zyryansky reservoir and Solikamsk-3 slurry storage) and putting them into industrial operation in accordance with the statutory procedure.

Uralkali continued training and assessment of the mine rescue crew (MRC) members at the Berezniki-2, Berezniki-4, Solikamsk-1, Solikamsk-2, and Solikamsk-3 mines in 2017. More than 45 mine workers received the status of rescuer for the first time. In December 2017, PJSC Uralkali's mine MRCs passed regular assessment of the Ministry of Industry and Trade of Russia enabling them to perform mine rescue operations for the period up to 2020.

Fire safety, civil defence, and emergency prevention

No emergencies took place at the Company's sites related to fire safety in 2017. The number of fires at the surface complex reduced from 10 in 2016 to 9 in 2017.

The measures related to bringing the Company's sites to the fire safe state implemented in 2016–2017, in line with measures proposed by an independent fire safety auditor, helped us to pass the fire safety and civil defence regular assessment of the Department of Supervisory and Preventive Activities of the Russian Ministry of Emergencies in the Perm Region. During testing, no shutdowns of facilities and equipment occurred; the Company received conclusion on minimal risks which is based on the assessment results.

Uralkali performed regular and preventive maintenance on more than 1,100 systems and units of the automated fire alarm, firefighting, alarm, and people evacuation control systems for ensuring fire safety of surface complex facilities.

We continue our work on identification of fire alarm systems and automated fire fighting units at all the Company's facilities, as well as exercise the interaction when transmitting signals to emergency rescue services on duty.

To improve fire protection of the Company's employees and property, the phased introduction of twenty-four-hour monitoring of our fire alarm systems and automated fire fighting units was started in 2017. It will allow us to respond quickly to possible operational incidents and failures of such systems via the monitoring centre.

85 R-30E respirators for work in gas polluted and unsuitable for normal breathing environment and 9 reels of special mine rescue communication were purchased in 2017 in the context of technical re-equipment and upgrade of professional emergency rescue crew subdivisions, which provide the mine rescue service and fire guard for the Company's facilities.

We carried out the work on adjustment of safety certificates for Solikamsk-1, Solikamsk-2, and Solikamsk-3 facilities, as well as storage facilities at the Solikamsk site. Plans for elimination of petroleum product spill at the Company's oil and lubricant storage facilities in Berezniki and Solikamsk were developed and approved by the Russian Ministry of Emergencies.

Uralkali conducted in full the scheduled trainings, team-staff exercises, and exercise of personnel activity in case of potential natural or man-induced emergency, fire, and activity upon civil defence signals.

The Company continued to maintain its civil defence structures in state of readiness, adopted and scheduled necessary measures for improving their protective properties. Based on the results of a local review competition in 2017, the Company's civil defence structure at Solikamsk-2, designed for over 600 people, was awarded with the third place among similar structures of the Perm Region.

In 2017, Uralkali performed preparation activities for a children recreation camp Ural Gems in order to provide safe rest of children of the Company's employees for a period of 2017 summer recreational campaign. To certify training activity of Uralkali's Corporate University, the compliance with the fire safety requirements of its premises was ensured.

Training and briefing

Awareness of employees of the labour, industrial, and fire safety requirements, along with bringing a culture of compliance, plays a key role in ensuring workplace safety. Before starting work at Uralkali's production facilities, employees attend a workplace briefing. Providing workplace safety and ensuring monitoring compliance of employees with the safety requirements are part of the responsibilities of all foremen and supervisors.

Trainings and certification in 2017:

- in the area of industrial safety — 4,204 employees
- in the area of labour safety — 1,241 employees
- in the area of emergency prevention and civil defence — over 8,800 employees
- in the area of fire safety — 2,768 employees

Our plans for 2018

- Implementing measures upon results of incidents investigation
- Providing special assessment of workplace conditions at workplaces of the subsurface complex, administration, and new workplaces
- Collecting and compiling the data on a number of engineering devices, buildings, and structures at the Company's hazardous production facilities which are subjects to examination in order to extend the period of safe operation, as well as preparing a strategic plan for expert examination of industrial safety
- Preparing the Company's hazardous production facilities for a scheduled inspection by Western Urals Department of the Federal Environmental, Industrial and Nuclear Supervision Service (Rostekhnadzor)
- Assessing fire risks of the Company's individual facilities in order to optimise expenses for implementing the requirements of Federal Law No. 123-FZ of 22 July 2008 on Technical Regulations Related to Fire Safety
- Implementing a system to monitor efficiency of the existing fire protection systems for guaranteeing detection of fires at early stages at Uralkali's surface complex facilities in the city of Berezniki
- Using the train and development centre established at Berezniki-3 for training of employees on performance of works at heights
- Further implementation of the long-term Fire Safety Action Plan for 2016–2018 in order to reduce the risk of fires occurring (spreading) at the Company's facilities

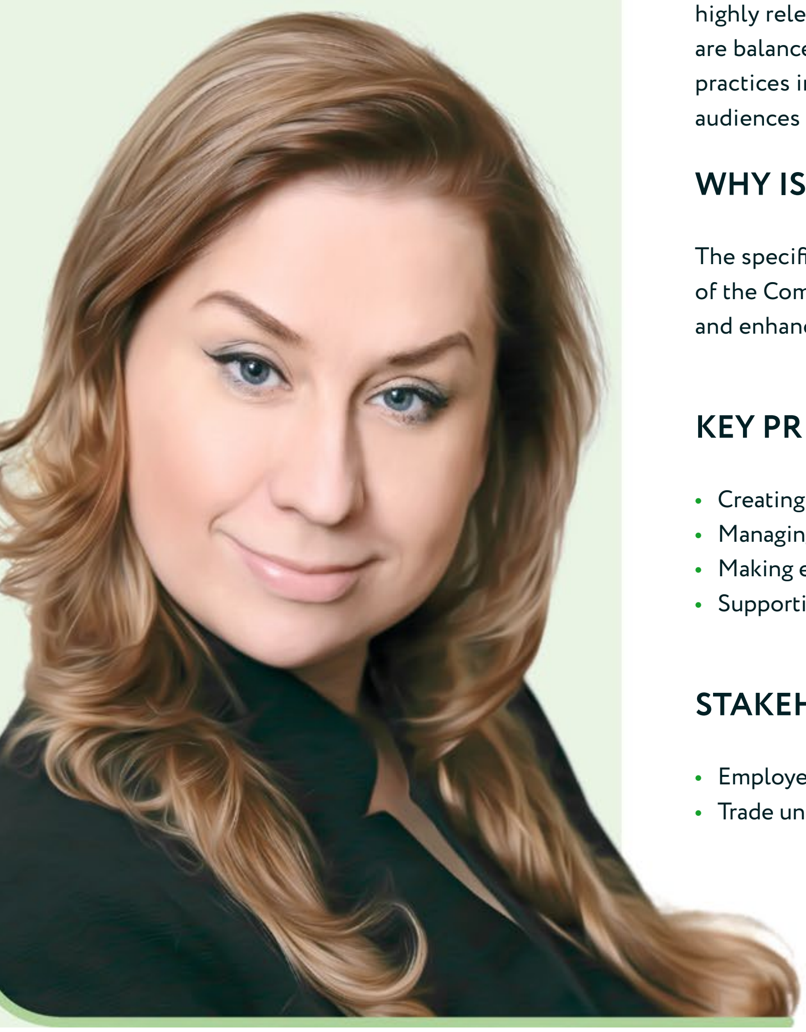
The modern prototype of mining helmets was developed in 2011.

Now, mining helmets are made of resistant non-conductive plastic that can survive aggressive mine water, acids, and oils. Inside the helmet is a soft, elastic shock absorber. Such a helmet can resist a blow even if it was caused by a heavy object that fell on it.

Miners started to wear special head coverings in the 30s of the last century. At first, it was rubber hats with wide flaps and straps which protected against salt flows and water. In the 50s, the industry workers wore cap-like protruded helmets made of fibre and protected the head from sudden blows.

OUR PEOPLE

Uralkali is an efficient leader of the potash industry. Our employees know how to set goals and achieve them. The Company fully supports those who are ready to make progress, grow professionally, work in team, and accomplish more. We value the experience and professionalism. Our reputation of an attractive employer allows us to select the best, most productive, and talented youth in order to ensure intergenerational continuity.



Irina Konstantinova,
Human Resources Director of PJSC Uralkali

OUR APPROACH

Uralkali is manifesting leadership in every area, including the sphere of human resources. Our HR programmes are aimed at resolving the issues highly relevant for the Company and its employees. Social benefits are balanced, effective, and recognised as the best in the industry. Our practices in the human capital development area take into account all target audiences and are highly evaluated by experts.

WHY IS THIS IMPORTANT TO US?

The specific features of Verkhnekamsky labour market require development of the Companys' initiatives aimed at promoting blue-collar occupations and enhancing prestige of engineer and technical professions.

KEY PRIORITIES

- Creating conditions for personnel success and efficiency
- Managing the professional development of employees
- Making emphasis on our own personnel when appointing managers
- Supporting succession in the professional dynasties

STAKEHOLDERS

- Employees
- Trade unions
- Government and local authorities
- Local communities

Strategic Projects

In 2017, Uralkali signed a collective agreement for 2018–2020. The Company continues providing all key social benefits, guarantees, and wide opportunities to its employees.

To date, Uralkali's social package is one of the most attractive in the industry. It includes medical service and recreation, food expenses compensation, free shuttle service, arrangement and reimbursement of summer recreation for children of the potash industry workers, material support to the veterans, arrangement of cultural, sports, health, and fitness work, and material assistance in difficult circumstances. Our housing programme deserves a special attention. It allows to reimburse the interest rate for payment of mortgage loans in accordance with the Company's Regulation on Improvement of Housing Conditions.

12,868 USD

THE AVERAGE ANNUAL SALARY IN THE MAIN PRODUCTION DIVISION (INCLUDING ANNUAL BONUS)

42,668 training activities

WERE HELD BY PJSC URALKALI, ITS SUBSIDIARIES AND AFFILIATES IN THE RUSSIAN FEDERATION IN 2017

For the extraction and production of potash fertilisers a special type of personnel is needed – professional, responsible, and dedicated to prospective work. The Company's HR strategy focuses on selection of employees of this type, making them part of the team.

Up to **70** %

REIMBURSEMENT OF EXPENSES FOR MEAL

Motivation

Uralkali's labour remuneration system is transparent, fair, and unified for all categories of employees. The grade and KPI systems used by the Company ensure connection between the amount of remuneration and working results.

In 2017, the key production personnel incentive system was updated in accordance with the labour market expectations. The Company rewards the subdivisions and employees that achieve better results comparing with others in same conditions.

Rewarding

In 2017, Uralkali established new corporate awards in addition to the key ones (Honoured Potash Industry Worker, PJSC Uralkali Letter of Honour, placing a photo on the Subdivision Honours Board, Subdivision Letter of Honour, Letter of Acknowledgement in honour of the employee's jubilee) including

- a memorable award pin and a Letter of Acknowledgement for employees working for the Company for 25 years
- the Best Mine Foremen of the Production Unit, the Best Foremen of Mining Machines, as well as the Best Miner are defined by Miner's Day

There are main and auxiliary mining professions.

The main mining professions are operators of rock removing machines who operates combines and shuttle cars in ore mining and mining preparatory works, as well as mine overseers controlling the extraction process.

The auxiliary mining professions are workers, managers, and specialists servicing the production processes at mines: machinery repair and maintenance specialists, wiremen, iengine drivers of in-mine self-propelled vehicles, timbermen, gas examiners, mining surveyors, geologists and many others.

Not all of these new awards involve material remuneration. However, all of them contribute to preserving the significant corporate culture, based on the attention of management to achievements and success of the Company's subdivisions and employees. The open competition for employees Person of the Year takes a special place in Uralkali. A winner is selected by general voting, in which every employee of Uralkali Group can participate.

Up to **50** %

REIMBURSEMENT OF EXPENSES FOR VISITS OF EMPLOYEES TO SWIMMING POOLS AND RENTAL OF SPORTS EQUIPMENT

Career and Development

We appreciate great expertise of our employees and them striving for self-development is always welcomed. Our employees have an opportunity to take part in various cross-functional projects, hence constantly expanding their competencies.

The Corporate University, established in 2015, provides necessary opportunities for development of employees due to a wide range of training programmes, the number of which is increasing year by year, and organises online classes on the corporate portal.

The Corporate University constantly extends its audience; from 2017, it provides training not only for Uralkali Group employees, but also for third parties and representatives of other entities.

Youth

Throughout the reporting year, the Youth Movement of the Company was intensively developing. The movement's representatives carry out charity activities, support federal and regional projects, take part in corporate events and sport competitions.

In 2017, the Company's representatives joined the Youth Parliament of Berezniki.

2.56 mln USD

THE COMPANY'S EXPENSES FOR THE SHUTTLE SERVICE, DELIVERING EMPLOYEES TO AND FROM WORKING SITES IN 2017

Veterans

In accordance with the Attention and Care Programme, Uralkali supports a public organisation of the potash industry veterans in the towns of Berezniki and Solikamsk. Funding of the Veteran Council amounted to USD 987,987, and USD 183,156 was spent on health resort treatment for veterans in 2017.

Regular meetings with the Company's management and employees help our veterans to keep in touch with the enterprise that became like a second home for them.

Uralkali's veterans lead an active social life: they participate in the city and regional events, go to excursions, carry out creative competitions and festivals.

Moreover, the Council organises club activities. In 2017, a book of poems Clean Spring of Inspiration written by veterans was published in Solikamsk. It was devoted to the 10th anniversary of the Inspiration literary club.

987.99 thousand USD

FUNDING OF THE VETERAN COUNCIL IN 2017

183.16 thousand USD

WERE SPENT ON HEALTH RESORT TREATMENT FOR VETERANS

Communication and Feedback

Uralkali is always open to any proposals, questions, and ideas of its employees. The Company has a call-centre, which collects and processes inquiries coming from all stakeholders. Representatives of the working team and veterans can discuss the most relevant issues with the CEO at annual informative meetings.

Uralkali Group has Institution of Ethical Representatives, activities of which are aimed at enhancing the Company's efficiency and reducing the risk of conflicts or violations in subdivisions.

Due to the system of internal and external communication, Uralkali's employees get timely and full information on all key issues, which results in better performance.

OUR COMMUNITIES

Being one of the largest employers in the Perm Region, Uralkali contributes significantly to the economic development of the region and cities where it operates, actively participates in the implementation of socially important projects and initiatives, and takes part in solving pressing social problems. The Company's social investment policy is aimed at sustainable development of the regions where it operates.

337 mln RUB

SIZE OF THE COMPANY'S SOCIAL INVESTMENTS

In 2017, the Company continued its work with local authorities through partnership agreements aimed at ensuring the long-term effect from investments in key social projects in the field of socio-economic development of the territories.

Uralkali's employees participate in the work of local government, such as Berezniki Town Duma and Solikamsk Town Duma. At the regional level, the Company collaborates with the Governor's office and the Government of the Perm region. The Company representative are the members of the Perm Region Legislative Assembly, they represent interests of the territories, where the Company operates, and participate in developing the Regional legislation.

In 2017, the size of the Company's social investments amounted to nearly RUB 337 million.

Social and Economic Development in the Region Where We Operate

In addition to providing stable employment and meeting the tax obligations, the Company undertakes voluntary commitments to create comfortable living conditions in Berezniki and Solikamsk, where the main production facilities are located.

Encouraging Sports

In 2017, Uralkali continued to support the development of physical education and sports in the local communities.

Supported by the Company, Vlad Krichfalushy, a sportsman from Berezniki, participated in the World Para-Taekwondo Championship (as a member of the Russian team), which took place in London, and won the title of the World's Champion in his category. With the Company's contribution, street power workout and gymbarr competitions were held in Berezniki for the first time.

The Company provided funds to implement the charity project on construction of a Berezniki Arena-Sport indoor skating rink. The rink, which will accommodate almost 300 spectators, will make it possible to skate and hold training classes all year round.

In 2017, we continued cooperation with the Swimming Federation of the Perm Region in supporting the development and promotion of this sport.

In the framework of a project on promotion of basketball as a mass sport for children and teenagers, implemented in the cities of Berezniki and Solikamsk, Uralkali improved 28 basketball centres, where 1,680 children are training. In particular, the necessary equipment and 2,000 sets of sports outfit were purchased and 10 school gyms were renovated during the whole period of the project implementation.

The Company supported streetball competitions among the cities, where more than 137 teams took part. In 2017, the traditional School Basketball League — Kali-Basket Junior — attracted nearly 1,300 elementary school students from Berezniki and Solikamsk.

18 combined teams of young basketball players were formed in order to represent the Company's project of basketball development at international and Russian tournaments. In 2017, the young basketball players participated in 30 All-Russian and Regional tournaments of Youth Basketball League. The teams won 1st and 2nd places in 19 tournaments. Moreover, off-site summer training camps were organised in the Perm Region and other Russian regions during summer.

With the support from the Company, Solikamsk kick-boxers presented Russia in three largest international tournaments — the World Cup in Rimini (Italy), the World Championship in Budapest (Hungary), and the World Cup in Anapa, where they became winners and medallists. Solikamsk sportsmen won in total 10 medals, five of which were gold.

Throughout the year, the Company helped Solikamsk figure-skaters and judoists to organise training camps, which serve them as a base for preparation for various tournaments. Nearly 200 young judoists from various Russian regions participated in the traditional youth judo tournament organised in Solikamsk.

In the summer of 2017, the Company contributed to the construction of a rock climbing wall for sport climbing class. There was held a large-scale event, called Way of the Strong, which attracted 32 regional participant teams.

With the support of Uralkali, three significant sports festivals of regional and inter-regional level were held in Usolye district: Stroganov Mile snowkiting competitions, Stroganov Regatta sailing match and Stroganov Verst equestrian competitions. Besides, the Company provided funds for various public and sporting events, including district track-and-field relay, GTO (Ready for Labour and Defence) festival among the students of general education institutions, and tourist gathering among local settlements and enterprises.

Usolye Education Department together with Uralkali implemented a We Can Swim project, aimed at teaching swimming lessons to the district elementary school students. 100 children were trained in total, half of them were the children from low-income families.

People with disabilities were also supported. For example, Uralkali helped to implement Dancing Without Frontiers project in Solikamsk. The project was aimed at the social integration of the persons with musculo-skeletal/mobility disabilities. The help provided by the Company allowed Solikamsk armwrestlers with disabilities to go to the World Championship in Budapest (Hungary), where they won five gold and one silver medals.

This year marks a milestone anniversary of Miner's Day!

The holiday has existed since 1948 and will celebrate its 70th anniversary.

Miner's Day is celebrated on the last Sunday of August.

An event that took place in late August of 1935 became the industry's symbol and reason for establishing the professional holiday — On the night of 30 and 31 August, the legendary Alexey Stakhanov set a historical record by exceeding the performance standards by fourteen times.

1,700

children

RECEIVED GIFTS, INCLUDING CHILDREN FROM LARGE FAMILIES AND FAMILIES WITH LOW INCOME

Supporting Culture, Education and Medicine

Year after year, Uralkali promotes creative development and takes care of education of the growing generation.

In 2017, we helped numerous educational institutions of Berezniki, Solikamsk and Solikamsk district to renovate their infrastructure. In particular, we purchased a bus for Usolye district schools, provided funds to purchase equipment for Zvezdny palace of creativity; provided the funds for preparation of Solikamsk schools and kindergartens for a new school year. In order to improve the security of educational institutions, video surveillance systems were installed in six schools and six kindergartens of Solikamsk district in 2017. The Company acquired and presented to the town Berezniki a project on construction of a kindergarten for 240 children.

The Company provided charity support in purchasing of medical equipment for Vagner town hospital of Berezniki.

In 2017, Uralkali participated in erecting a monument devoted to a great Russian combat leader A. Suvorov in the territory of Perm Suvorov Military School.

Support of municipal contest of social and cultural projects in Usolye district became a significant area of activity. The projects aimed to saving the environment, supporting youth associations, preserving spiritual, ethical and family values, supporting the disabled people, and developing physical education were implemented in the framework of the contest.

Uralkali traditionally sponsored Berezniki Town Day festivities, making a contribution of RUB 2.5 million and arranging the interactive sites. The Company supported the commemorative events held to mark the International Workers' Day and Victory Day in Solikamsk. Uralkali supported a number of socially focused cultural mass events in Solikamsk district. Solikamsk Town Day is traditionally celebrated on the Miner's Day, and Uralkali is the main sponsor of the town festivals.

In 2017, the Company provided the funds to build an ice town in Solikamsk, and presented to the town winter slopes that may be used for many years to come.

The Company arranged New Year performances for the children living in Berezniki, Solikamsk and Solikamsk district. Over 1,700 children, including the children from large families and families with low income, received New Year gifts.

Supporting Municipalities and Urban Development

During 2017, Uralkali provided assistance to municipalities in addressing issues of local importance.
Activities within the context of municipal programmes sponsored by the Company included the following:
- acquisition of an automatic urban development informational system for Berezniki
- improvement of the town park
- construction of the gas pipeline, road repairs

A town contest on courtyard development and other activities, aimed at forming a responsible attitude of the locals towards public space, was arranged with the financial support of the Company. Over 200 people participated in My Courtyard Is the Most Beautiful contest, over 100 flower beds and flower gardens were arranged.

Besides, in 2017, Uralkali provided the funds to renovate control service to enable installation of the new video system — Secure Town, which controls a surveillance camera network. This measure was aimed at ensuring secure living environment for the inhabitants of Berezniki. Charity assistance was also provided in purchasing the laser road speed measurement devices.

Charity and sponsorship

Uralkali regularly helps disadvantaged groups of the population.

In the reporting year, support traditionally was provided to Berezniki and Solikamsk local organisations of All-Russian Society of the disabled, Perm regional organisation of the disabled children and their families, as well as to Berezniki town subdivision of All-Russian organisation of the disabled, Chernobyl of Russia Union, Town Councils of veterans of war, labour, armed forces and law enforcement forces of Berezniki and Solikamsk, Town Society for Environment Protection.

In 2017, Uralkali provided financial support to enable holding of the regional forum, where current problems of respecting the interest of the older generation were discussed.

Supporting the environmental initiatives

In 2017, the Company supported environmental projects as follows:
- a conference for the representatives of the natural reserves and national parks of Privolzhye Federal District was held in the unique Vishersky reserve, situated in the north of the Perm Region
- a meeting of the Perm Region school rangers was held, which assembled over 300 participants
- in the framework of the environmental activity called Alley of the Miner Glory larch-tree alleys were planted
- in the course of the environmental quest, several kilometres of coastline were cleaned

Supporting Public and Religious Organisations

Uralkali regards the activities of public and religious organisations as an important element of social environment development that serves to maintaining stability in the regions where the Company operates.

With the support of Uralkali, the construction of St. Nicholas Cathedral, one of the largest in the Perm region, continued in the reporting year. Brick walls and five domes have already been constructed, and the project of internal cathedral mural decoration is being developed.

We provide help in organising religious festivals.

BOARD OF DIRECTORS

Sergey CHEMEZOV
Chairman of the Board of Directors
Independent Director

Year of birth

1952

Citizenship

Russian Federation

Education

University degree, Irkutsk Institute of National Economy.

Election to the Board of Directors

First elected to the Board of Directors in March 2014. Since then, he has been repeatedly re-elected.

Career background

Since 1980, he has held senior positions in a number of public entities, including Promexport and Rosoboronexport.

1996–1999: headed the office of foreign economic relations of the Administrative Department of the President of the Russian Federation.

In December 2007, he was appointed CEO of Rostec, a state corporation set up to support the development, production, and export of high-tech industrial products.

Membership in Board Committees

Not a member of the Committees.

External appointments

Chairman of the Board of Directors of JSC Rosoboronexport, PJSC VSMPO-AVISMA Corporation and PJSC Kamaz.

Deputy Chairman of the Board of Directors of JSC Avtovaz.

Member of the Board of Directors of PJSC UAC, PJSC Aeroflot – Russian Airlines, JSC JSCB International Financial Club, Alliance Rostec Auto B.V., JSC United Rocket and Space Corporation and State Space Corporation Roscosmos.

Sir Robert John MARGETTS
Deputy Chairman of the Board of Directors
Lead Independent Director

Year of birth

1946

Citizenship

United Kingdom

Education

University degree, University of Cambridge.

Election to the Board of Directors

First elected to the Board of Directors in June 2011. Since then, he has been repeatedly re-elected.

Career background

1998–2010: served on the Boards of Directors of Anglo American PLC, Wellstream PLC, was Chairman of the Board of Directors of Legal & General Group PLC, BOC PLC. Also held the position of Executive Vice President of the Board of Directors of Imperial Chemical Industries PLC.

Membership in Board Committees

Chairman of the Committee on CSR and the Committee for Investment and Development, Member of the Audit Committee and the Appointments and Remuneration Committee.

External appointments

Chairman of the boards of directors of the Institute for Energy Technology, Ensus Ltd., Ordnance Survey Ltd., Lythe Hill Park Limited, and Lithe Hill Park Properties Limited. Independent member of the Board of Directors of the Huntsman Corporation LLC.

Dmitry MAZEPIN
Deputy Chairman of the Board of Directors
Non-Executive Director

Year of birth

1968

Citizenship

Russian Federation

Education

University degree, MGIMO of the Ministry of Foreign Affairs of the Russian Federation.

Election to the Board of Directors

First elected to the Board of Directors in March 2014. Since then, he has been repeatedly re-elected.

Career background

Since the mid-1990s he has held senior management positions in government and large companies, including Tyumen Oil Company,

JSC Nizhnevartovskneftegaz, OJSC Kuzbassugol coal company and the Russian Federal Property Fund.

2002–2003: President of OJSC Sibur. From 2007: Chairman of the Board of

Directors of JSC UCC URALCHEM and also the management company UralChem Holding P.L.C.

Since 2015: Member of the Management Board of the All-Russian employers' associations Russian Union of Industrialists and Entrepreneurs.

Since 2016: Chairman of the Commission for Mineral Fertiliser Production and Market of Russian Union of Industrialists and Entrepreneurs.

Membership in Board Committees

Not a member of the Committees.

External appointments

Chairman of the Board of Directors of JSC UCC URALCHEM and also the management company UralChem Holding P.L.C.;
Director of CI-Chemical Invest Limited.

Paul OSTLING
Member of the Board of Directors
Independent Director

Year of birth

1948

Citizenship

United States of America

Education

University degree, Fordham University.

Election to the Board of Directors

First elected to the Board of Directors in June 2011. Since then, he has been repeatedly re-elected.

Career background

1977–2007: held various executive positions at Ernst and Young, eventually becoming global chief operating officer.

2007–2013: held executive positions in various companies, including Kungur Oil and Gas Equipment and Services, first as the CEO, then from 2010 as a member of the Board of Directors; member of the Board of Directors of OJSC Promsvyazbank and UralChem Holding P.L.C., OJSC MTS and Datalogix Inc.

Membership in Board Committees

Chairman of the Audit Committee (expert in finance) and the Appointments and Remuneration Committee, Member of the Committee on CSR and the Committee for Investment and Development.

External appointments

Chairman of the Board of Directors of JKX Oil and Gas plc.

Member of the Board of Directors of NCO CJSC NRD, the Business Council for International Understanding and the Boy scouts of America Transatlantic Council.

Dmitry OSIPOV
Member of the Board of Directors CEO

Year of birth

1966

Citizenship

Russian Federation

Education

Graduated from Lobachevsky State University of Nizhny Novgorod.

Election to the Board of Directors

First elected to the Board of Directors in March 2014. Since then, he has been repeatedly re-elected.

Career background

2007–2011: Director General of JSC UCC URALCHEM.

2007–2013: Member of the Board of Directors of JSC UCC URALCHEM.

2011–2013: Deputy Chairman of the Board of Directors of JSC UCC URALCHEM.

Since 24 December 2013 – CEO of Uralkali.

Since 2016 – Member of the Commission for Mineral Fertiliser Production and Market of Russian Union of Industrialists and Entrepreneurs.

Membership in Board Committees

Member of the Committee on CSR and the Committee for Investment and Development.

Member of the Board of Directors of JSC UCC URALCHEM

Member of the Board of Directors of several companies affiliated with Uralkali.

Member of the Finance Committee of International Fertilizer Association, IFA.

Dmitry KONYAEV
Member of the Board of Directors
Non-Executive Director

Year of birth

1971

Citizenship

Russian Federation

Education

Graduated from Lomonosov Moscow State University.

Election to the Board of Directors

First elected to the Board of Directors in March 2014. Since then, he has been repeatedly re-elected.

Career background

Since 1998 he has held a number of senior management positions in major industrial and trading companies: Sederrot International AB, LLC Mineral Trading and Uralkali Trading SA (Singapore).

2007–2011: Commercial Director of JSC UCC URALCHEM.

Since 2011: Director General of JSC UCC URALCHEM.

Since 2016: Deputy Chairman of the Commission for Mineral Fertiliser Production and Market of Russian Union of Industrialists and Entrepreneurs.

Membership in Board Committees

Member of the Committee for Investment and Development, the Committee on CSR and the Appointments and Remuneration Committee.

External appointments

Member of the Board of Directors of JSC UCC URALCHEM and several companies affiliated with JSC UCC URALCHEM.

Member of the Board of Directors of International Fertilizer Association, IFA.

Head of Communications and Public Affairs Committee of International Fertilizer Association, IFA.

Luc MAENE
Member of the Board of Directors
Independent Director

Year of birth
1946

Citizenship
Belgium

Education
University degree, The University of Ghent.

Election to the Board of Directors
First elected to the Board of Directors in June 2016.

Career background
In 1987, Luc Maene began working in the International Fertilizer Industry Association (IFA), where he worked his way up from Executive Secretary to Secretary-General.
From 1998 to 2012, Mr. Maene led the organisation as Director General. Over the years Mr. Maene has served on the Board of Directors of the International Fertilizer Development Center (IFDC) as Deputy Chairman of the Board; Chairman of the Board of Directors of FIRT (fertilizer manufacturers round table); and a member of the Board of Directors of CEDAP – French organisation for Leaders of Association.

Membership in Board Committees
Member of the Appointment and Remuneration Committee, and the Audit Committee.

External appointments
Member of the Board of Directors of LM AGRI Ltd., IRM Ltd.

Dimitry TATYANIN
Member of the Board of Directors
Non-Executive Director

Year of birth
1967

Citizenship
Russian Federation

Education
Graduated from Voronezh State University.

Election to the Board of Directors
First elected to the Board of Directors in September 2016.

Career background
Since 1993, he has held senior management positions in the legal departments of various companies, including LLC Infistrakh, JSC KredoBank, Alfa-Eco Group, JSC AK Sibur. Since 2007, he has served as Director of Law and a member of the Board of Directors at UralChem.

Membership in Board Committees
Member of the Committee on CSR.

External appointments
Member of the Board of Directors of JSC UCC URALCHEM and several companies affiliated with JSC UCC URALCHEM.

Dmitry LOBYAK
Member of the Board of Directors
Non-Executive Director

Year of birth
1967

Citizenship
Republic of Belarus

Education
University degree, graduated from Leningrad Higher Command School, twice decorated with the Order of the Red Banner named after S.M.Kirov.

Election to the Board of Directors
First elected to the Board of Directors in September 2016.

Career background
1993–2005: worked as an engineer at Poliprint (Minsk, Republic of Belarus).

2005–2010: Head of Commercial Department at Juras Oil LLC (Minsk, Belarus).

Since 2010: member and the Director of Juras Oil.

Membership in Board Committees
Member of the Appointment and Remuneration Committee and the Committee for Investment and Development.

External appointments
CEO of Juras Oil LLC.

CORPORATE GOVERNANCE

Corporate governance is a system of interaction between executive bodies of joint-stock companies and their boards of directors, shareholders, and other stakeholders[1].

Following the movement of Uralkali's shares from Level 1 to Level 3 on the Moscow Exchange due to a low free float, the corporate governance requirements applicable to the Company have become substantially lighter. However, the Company retained the existing and well-proven structure of its governance bodies in 2017.

In addition to the governance bodies required by national laws, namely the General Shareholders Meeting (which is the highest governance body), the Board of Directors (which provides overall supervision of the Company's activities), and executive bodies (the Chief Executive Officer and the Management Board), the Company also created a number of committees reporting to the Board of Directors. These committees are advisory bodies that preview matters falling under the Board's competence and issue their recommendations. Where necessary, the committees can also advise the Company's management. In total, there four committees (see the "Activities of the Board Committees" table for more information about the composition and competence of the committees):

- The Audit Committee
- The Investment and Development Committee
- The Corporate Social Responsibility Committee
- The Appointments and Remuneration Committee

One of the Company's key priorities is to create and maintain an efficient and transparent system of corporate governance, where stakeholders clearly understand roles and responsibilities of every element in this system.

There are also several committees and commissions reporting directly to the CEO, which conduct a detailed review of the matters under the competence of the CEO and Management Board. The committees are represented by senior executives and middle managers.

And although the decisions taken by these committees and commissions are generally not binding for the CEO, there are always taken into account when adopting managerial resolutions.

Uralkali also has the Corporate Secretary who coordinates relations between the Company's governance bodies, arranges the Board of Directors' meetings and General Shareholders Meetings, and oversees compliance with external and internal procedures in respect of shareholders' rights and legitimate interests. Since 2011, the Corporate Secretary of Uralkali is Maria Klimashevskaya. She first joined the Company in 2008 as Ms. Klimashevskaya started to work for the Company as a leading legal counsel; in 2010, she became the Board's Secretary and then the Corporate Secretary in 2011 while continuing to act as the Secretary of the Board of Directors and its Committees. In 2003 Maria Klimashevskaya graduated from the Moscow State University with a degree in law, and ranks among the best corporate secretaries of Russian companies.

[1] The Code of Corporate Governance recommended by the Central Bank of the Russian Federation.

Composition of the Board of Directors

The composition of the Board of Directors did not change in 2017 and includes the same members who were elected in September 2016. Independent directors include Sergey Chemezov, (the Chairman of the Board of Directors), Sir Robert Margetts (the Senior Independent Director), Paul Ostling, and Luc Maene.

Non-Executive Directors are Dmitry Mazepin (the Deputy Chairman), Dmitry Lobyak, Dmitry Konyaev, and Dmitry Tatyanin. Dmitry Osipov is the Executive Director and also the CEO of Uralkali.

Though Level 3 doesn't provide for the Company's liability to include independent directors in the Board of Directors, the independent directors make more than one third of the Board's members, enabling to keep the balance between independent, non-executive, and executive directors.

Board's Activity Planning and Performance Review

The activities of the Board and its Committees in 2017 generally followed the work plan approved in December 2016.

For the first time in several years, the Board's composition did not change during 2017. In March-April 2017, the Board conducted a traditional self-review exercise, when Directors completed a questionnaire covering different aspects of the Board's work like timeliness and quality hand-out materials for meetings, effectiveness of discussions, and performance of the Board Committees, the Company's Management, and the Corporate Secretary. The self-review revealed a number of areas that Directors would like to focus more on during the meetings. Directors also gave their recommendations on how meetings should be prepared and conducted, and agreed on further actions.

Board Meetings and the General Meeting in 2017

In 2017, the Board of Directors had 15 meetings including 9 meetings held in absentia. Since 2017, it is now within the Board's competence to approve annual financial statements as per the Russian Accounting Standards and the Annual Reports. In 2017, the Board passed a number of important resolutions, which were recommended to the General Shareholders Meetings. In particular, the Board gave a recommendation to the Annual General Meeting (AGM), which the AGM supported, to approve a major transaction (a credit facility agreement with Sberbank). Other matters raised to the AGM included certain statutory actions like electing members of the Board of Directors and the Revision Commission, and approving the Company's auditors.

In November 2017, the Board of Directors recommended to the General Meeting to approve a share capital increase by issuing preferred shares through a private offering for major shareholders in order to raise financing and reduce the Company's debt burden. Another recommendation was to approve Uralkali's delisting from the Moscow Exchange. The delisting decision was triggered by several factors, including the listing level lowering, the decrease of free float from 27.8% in 2015 to 5.23% in 2017, and low exchange trading volumes. On 18 December 2017, the Extraordinary General Meeting (EGM) approved the delisting, the increase of share capital by issuing preferred shares, as well as a revision of the Company's Charter.

During the year, the Board of Directors passed a number of resolutions appointing senior executives. On 18 December 2017, the Board approved the corporate budget for 2018, and on 29 December 2017, the Board approved the resolution to issue preferred shares, which was then registered by the Central Bank of the Russian Federation on 15 January 2018.

Number of Board and Committee meetings in 2017. Attendance rate*

Full name	Board of Directors (15** meetings)	Audit Committee (8 meetings)	Appointments and Remuneration Committee (4 meetings)	Investments and Development Committee (1 meeting)	Corporate Social Responsibility Committee (2 meetings)
Dmitry Konyaev	All***		All	All	All
Dmitry Lobyak	All		All	All	
Dmitry Mazepin	All				
Luc Maene	All	All	All		
Sir Robert John Margetts	All	All	All	All	All
Dmitry Osipov	All			All	All
Paul James Ostling	All	All	All	All	All
Dimitry Tatyanin	All				All
Sergey Chemezov	All				

* "Attendance" means participation of directors in a Board/Committee meeting by way of physical presence (for meetings held in praesentia), voting by ballot (for meetings held in absentia), and submission of a written opinion in relation to agenda items if physical presence is impossible.

** In 2017, nine out of fifteen Board meetings were held in absentia.

*** "All" refers to the number of Board/Committee meetings where a member had to be present either before the termination of the member's term of office or following his/her election to the Board/Committee.

Activities of the Board Committees

Board Committee	Members (as of 31 Dec 2017)	Key functions	Targets for 2017	Target achievement in 2017
AUDIT COMMITTEE	**Paul Ostling** (Chairman), Sir Robert John Margetts, Luc Maene	• Risk management and internal control • External and internal audit • Corporate governance • Legal compliance	• Development of recommendations to approve the IFRS and RAS annual and semi-annual reports and the annual report • Recommendations on approval of the IFRS and RAS auditors • Improvement of the risk management and internal control system	✓ ✓ ✓
CORPORATE SOCIAL RESPONSIBILITY COMMITTEE	**Sir Robert John Margetts** (Chairman), Dmitry Konyaev, Dmitry Osipov, Paul Ostling, Dimitry Tatyanin	• Oversight of health, safety, environment and social responsibility matters to develop an effective management system for these areas	• Monitoring of the Company's HSE performance • Consideration of mine safety issues, including backfilling operations	✓ ✓
APPOINTMENTS AND REMUNERATION COMMITTEE	**Paul Ostling** (Chairman), Sir Robert John Margetts, Dmitry Konyaev, Luc Maene, Dmitry Lobyak	• Recruitment of qualified executive personnel • Development of incentive plans to facilitate implementation of strategic plans and ensure succession in management	• Assessment of the management's 2017 performance charts • Review or headcount and communications related matters • Recommendations on key appointments	✓ ✓ ✓
INVESTMENTS AND DEVELOPMENT COMMITTEE	**Sir Robert John Margetts** (Chairman), Paul Ostling, Dmitry Konyaev, Dmitry Lobyak, Dmitry Osipov	• Strategic development • Participation in budgeting • Major investment projects	• Consideration of issues related to the Company's development programme • Monitoring of investment projects' efficiency	✓ ✓

Report of the Audit Committee

Members of the Audit Committee remained the same in 2017. In accordance with the best corporate governance standards, the Committee is represented only by independent directors.

Despite the fact that the presence of an audit committee is not a mandatory requirement for Level 3 companies listed on the Moscow Exchange, Uralkali retained this body in its governance structure.

The Audit Committee has the following members:

- Paul Ostling (Chairman, an Independent Director, and a financial expert)
- Sir Robert John Margetts (the Senior Independent Director)
- Luc Maene (an Independent Director)

The Audit Committee traditional competence covers public reporting, internal and external audit, risk management and internal control.

In 2017, the Committee gave a lot of its time to the risk management and internal control system. In particular, the Control and Revision Department (CRD) was established, which administratively reports to the CEO. However, CRD's reports are also given to the Audit Committee as the latter oversees the efficiency and reliability of the risk management and internal control system. The first such report was presented to the Audit Committee in September 2017.

The Committee also receives and reviews periodic activity reports from the Company's Internal Audit Directorate.

Throughout the year, the Audit Committee has been discussing ways to improve the risk management and internal control system. In December 2017, it was decided to refer all risk-management matters to CRD, which was expanded with a separate risk management group. In 2018, the Company plans to update the corporate risk map to reflect the changes in the internal and external environment since 2016.

Total actual remuneration paid to CJSC Deloitte & Touche CIS and its affiliates in 2017 amounted to RUB 64,545,440:

Auditor	Fee for audit services (RUB)	Fee for consulting services (RUB)
CJSC Deloitte & Touche CIS	37,170,000	11,255,655
Deloitte Consulting LLC	0	16,119,785
TOTAL:	37,170,000	27,375,440
Audit / consulting fee ratio (%)	57.59	42.41

Taking into account the internal policies and practices adopted by auditors in order to ensure their independence and to avoid conflicts of interests, the Company is reasonably assured that the provision of non-audit (consulting) services does not threaten the auditors' independence in terms of the provided audit services. Following a review of non-audit services on 14 March 2018, the Committee concluded that there was all evidence of the impartiality and independence of the auditors of the Company's financial statements based on the audit/consulting fee ratio.

The Audit Committee also assessed the efficiency of the external audit process and concluded that the auditors had duly discharged their obligations including regular monitoring of the accounting, fiscal and tax book-keeping practices of the Company and that the auditors' reports reflect the actual RAS statements and the IFRS consolidated financial statements.

In 2018, the Committee will continue to improve the internal control and risk management system, while retaining its focus on the Company's financial reporting.

Risk Management and Internal Control

In 2015–2017, significant changes took place in the Company including a large number of new appointments. This, as well as the previous corporate actions like the Company's delisting from the London Stock Exchange, the lowering of the listing level and the anticipated delisting from the Moscow Exchange, requires the risk map to be updated and the ongoing risk management process to be further improved. The risk management and internal control system (RMICS) is based on the principles incorporated in ERM (Enterprise Risk Management), an integrated risk management system, which

- Is a continuous process that covers all of the Company and is implemented by its employees at every level
- Is used in the development of the Company's strategy
- Is applied in the whole organisation and includes a corporate-level review of the risk portfolio
- Aims to identify events that may affect the organisation and develop measures to minimise this potential impact
- Provides the management and the Board of Directors with reasonable confidence in achieving its goals

Taking into account the numerous changes in the organisational structure and a number of appointments that took place in the reporting year, the Company plans update the current Risk Management and Internal Control Policy to ensure that it is aligned to the fullest possible degree with the actual model used in Uralkali. To date, the RMICS is organised as follows:

Board of Directors	Approves the overall risk management and internal control policy; identifies the major risks related to the Company's activities; and approves the corporate risk management system
Audit Committee	Monitors the reliability and effectiveness of the RMICS; assesses the internal control procedures and makes improvement recommendations; reviews and evaluates compliance with the risk management and internal control policy; develops recommendations to approve the risks map
General Director	Provides an overall guidance for the risk management process
Management Board	Reviews matters raised by the CEO, including those related to the RMICS
Executive Directors	Regulate their respective business processes; identify the goals of these processes; and assess key risks
Internal Audit Directorate	Assesses efficiency of the risk management, internal control and corporate governance systems
Control and Revision Department	Conducts independent inspections and offers consultations in relation to the reliability and effectiveness of risk management, internal control and corporate governance systems; verifies accuracy of financial statements and annual reports; assesses financial and economic activities of the Company and its subsidiaries and affiliates. Coordinates the risk management process and consolidation of information about the risk management process and internal control system at all levels for the Audit Committee, the Board of Directors, the CEO, and the Management Board
Employees	Perform the duties imposed by the RMICS and promptly inform their management about any new risks in their day-to-day work

Use of the Risk Management and Internal Control System in the Development of Financial Statements

Transparency and reliability of financial reporting is one of the crucial principles of corporate governance, and ensuring the proper quality of financial statements is a key function of the Board of Directors.

In 2017, Uralkali continued to use the previously developed controls designed to ensure a proper collection and preparation of information and to ensure reliability of reporting data. The process of preparing financial statements involves employees, officers, governance bodies and external auditors of the Company, who have the following roles:

Governance bodies and employees	Roles
Chief Financial Officer	Ensures: • availability and reliability of information in the enterprise resource management system • interaction with auditors • inventory count of the property
Revision Commission	Assures: • data in Uralkali's annual reports • periodic annual accounting statements • reports sent to statistical and government authorities and assessment of the internal control system

Governance bodies and employees	Roles
Audit Committee	Preliminarily reviews: • Uralkali's financial statements • draft reports of the external auditor Monitors: • completeness and integrity of financial statements Recommends: • external auditor candidates for a preliminary approval by the Board of Directors and a final approval by the General Shareholders Meeting
External Auditors	Audit: • RAS accounting statements • IFRS annual and half-year consolidated financial statements
Board of Directors	Approves financial statements taking into account recommendations made by the Audit Committee

Procedure to Prevent Conflicts of Interest

Russian legislation provides for a number of mechanisms to prevent conflicts of interests among the Company's directors and members of executive bodies, which, for instance, may be related to their employment in managerial positions by competitors of the Company. One of the mechanisms is directors' and officers' duty to inform the Company of any positions and/or of any equity ownership they may hold in other organisations. Also, a director is obliged to refrain from voting on a transaction if he or she may be interested in the Company entering into this transaction. Thirdly, a director must inform the Company of any parties in relation to which the director may be deemed a related party if entering into a transaction. Accordingly, when the Board approves a related party transaction, any director who is deemed a related party for the transaction shall not vote.

The Company also has a number of internal controls to identify a conflict of interests. In particular, a director is obliged to inform the Company of any persons in relation to which the director is an affiliate. Moreover, the corporate information system has a list of related parties (updated regularly), which is used to select transactions that have to be put before the Board of Directors or the General Shareholders Meeting of the Company.

In 2015–2017 the Company used a revision of the Regulations on the Audit Committee. The new document introduced special working procedure for the Audit Committee in the event of a strategic transaction to be entered into by the Company. As strategic transactions mean a transfer of ownership or control in relation to a significant number of voting rights over voting shares of the Company or an acquisition by Uralkali or a member of Uralkali Group of significant blocks of shares, only a special committee comprised solely of independent directors issued recommendations pertaining to such transactions (including their terms, conditions and procedures) in order to respect the interests of all shareholders and avoid a conflict of interest on the part of one or several directors who may be associated with major shareholders.

In 2017, Uralkali or other members of Uralkali Group did not grant loans to directors of the Company.

Major and Related Party Transactions

In 2017, the Company entered into a number of transactions, which were deemed major and/or related party transactions pursuant to the Russian Federal Law On Joint-Stock Companies (the Law). The Law also stipulates that such transactions must be approved by the General Shareholders Meeting or the Board of Directors depending on the value of transactions and the identity and number of related parties, and explains the approval procedure.

Most of related party transactions were approved by the AGM. All related party transactions were approved in accordance with the Law.

Executive Bodies

The Company's executive bodies are its Chief Executive Officer (the sole executive body) and the Management Board (the collective executive body). The executive bodies manage the Company's day-to-day operations. The responsibilities of the CEO and the Management Board are defined in the Company's Charter. In addition, the CEO also reviews matters which by law are not within competence of the General Meeting or the Board of Directors. The Management Board is chaired by the CEO, while its quantitative and personal composition is determined by the Board of Directors.

In 2017, the composition of the Management Board changed several times, and as of 31 December 2017 it included seven members:
- Dmitry Osipov (Chairman)
- Anton Vischanenko
- Irina Konstantinova
- Vitaly Lauk
- Alexander Kulbitsky
- Marina Shvetsova
- Alexey Yashnikov

MANAGEMENT BOARD

Dmitry
OSIPOV
CEO,
Chairman of the Management Board

Year of birth

1966

Citizenship

Russian Federation

Education

Lobachevsky State University of Nizhny Novgorod.

Appointment

A member of the Management Board since December 2013.

Skills and experience

2007–2011: CEO of JSC UCC URALCHEM.

2007–2013: member of the Board of Directors of JSC UCC URALCHEM.

2011–2013: Deputy Chairman of the Board of Directors of JSC UCC URALCHEM.

On 24 December 2013, Mr Osipov was appointed the CEO of PJSC Uralkali.

Since 2016, he is a member of the Commission for Mineral Fertiliser Production and Market of the Russian Union of Industrialists and Entrepreneurs.

External appointments

A member of the Board of Directors of a number of Uralkali's affiliates. A member of the Board of Directors of JSC UCC URALCHEM. Since 2016, a member of the Commission for Mineral Fertiliser Production and Market of Russian Union of Industrialists and Entrepreneurs.

Member of the Finance Committee of International Fertilizer Association, IFA.

Anton
VISHCHANENKO
Chief Financial Officer

Year of birth

1979

Citizenship

Russian Federation

Education

Moscow State Aviation Institute.

Appointment

A member of the Management Board since 2014.

Skills and experience

Since 2000, Anton Vischanenko has held various mid-level and executive positions at JSC Wimm-Bill-Dann, PJSC Mechel and JSC UCC URALCHEM.

In 2012, he was appointed a Deputy CEO – CFO of the Novorossiysk Commercial Sea Port.

In October 2014, Mr. Vischanenko became Uralkali's CFO.

External appointments

A member of the Board of Directors of a number of Uralkali's affiliates.

Alexey
YASHNIKOV
Capital Construction Director

Year of birth

1971

Citizenship

Russian Federation

Education

Magnitogorsk Mining and Metallurgical Institute.

Appointment

A member of the Management Board since 2016.

Skills and experience

Since 2009, Mr. Yashnikov has held a number of senior positions in Kraspromstroy LLC, MAIS LLC, Investtsentrstroy LLC and Standartstroygarant LLC.

2014–2015: Deputy Deputy Capital Construction Director at JSC Belgorkhimprom.

Since June 2016: Capital Construction Director at PJSC Uralkali.

External appointments

Mr. Yashnikov does not have executive positions in other companies.

Alexander
KULBITSKY
Procurement Director

Year of birth

1974

Citizenship

Republic of Belarus

Education

Belarusian Trade-Economic University of Consumer Cooperation.

Appointment

A member of the Management Board since 2017.

Skills and experience

2015–2016: Deputy Marketing Manager at Yuras Oil LLC (Minsk, Belarus). In 1996, he began to work as a planning engineer at the casting and mechanical plant JSC LMZ Universal (Soligorsk, Belarus), the largest manufacturer of mining and chemical processing equipment in Belarus.

2009–2015: 1st Deputy CEO.

Since January 2017: Procurement Director at PJSC Uralkali

External appointments

Mr. Kulbitsky does not have executive positions in other companies.

Marina
SHVETSOVA
Legal and Corporate Affairs Director

Year of birth

1972

Citizenship

Russian Federation

Education

Perm State University.

Appointment

A member of the Management Board since 2005.

Skills and experience

1999–2006: lecturer at the Perm State University.

2001–2005: various positions, including Head of the Legal Department, at CJSC Sibur-Khimprom.

Joined Uralkali in 2005.

Since 2006, she has been the Legal and Corporate Affairs Director.

External appointments

A member of the Board of Directors of a number of Uralkali's affiliates.

Irina
KONSTANTINOVA
Human Resources Director

Year of birth

1978

Citizenship

Russian Federation

Education

Perm State Technical University.

Appointment

A member of the Management Board since 2017.

Skills and experience

Since 2000, Ms. Konstantinova has various positions in PJSC Uralkali: head of the personnel training department, a senior training specialist, a recruitment and appraisal specialist in the personnel recruitment and development department.

Since September 2015: Head of the Corporate University.

Since November 2017: Head of the Personnel Recruitment and Development Department.

Since December 2017: Human Resources Director at PJSC Uralkali

External appointments

Ms. Konstantinova does not have executive positions in other companies.

Vitaly
LAUK
Chief Technical Officer

Year of birth

1968

Citizenship

Russian Federation

Education

Perm Scientific Research Technological Institute.

Appointment

A member of the Management Board since 2015.

Skills and experience

Mr. Lauk started his career in 1990 as a loader engine driver at Solikamsk-3. This was followed by a professional growth path: area electrician, deputy mine manager, deputy chief mechanic, mine chief mechanic, chief mining engineer, head of mine, and the Chief Mechanic of PJSC Uralkali. Since 2016: 1st Deputy Chief Technical Officer.

Since December 2017: Chief Technical Officer at PJSC Uralkali.

External appointments

A member of the Board of Directors of a number of Uralkali's affiliates.

In 2017, the Management Board held 11 meetings.

Committees under the CEO (Working Groups)

There are several committees and commissions (Working Groups) in the organisational structure of the Company, which directly report to the CEO and focus on the key aspects of the Company's activities. To date there are 8 Working Groups:

- Health, Safety, Environment and Corporate Social Responsibility Working Group
- Risk and Internal Control Working Group
- Procurement Working Group
- Investments Working Group
- Subsidiary Management Working Group
- Mine Safety Working Group
- Compensation and Benefits Working Group; and
- Information Technology Working Group

These groups are represented by Senior Executive and personally led by the CEO. The Working Groups' competence includes monitoring and review of relevant information; preliminary discussions and risk analysis; and follow-up of scheduled activities. This approach ensures a continuous dialogue with the management team and a two-way flow of information about the most crucial aspects of the Company's activities. In 2017, around 79 meetings of the Working Groups were held.

Remuneration Payable to the Management Board and the Board of Directors

Members of the Board of Directors receive remuneration in line with the Regulations on Directors' Remuneration and Reimbursement (the Remuneration Regulations). According to the Remuneration Regulations, remuneration is provided to independent and non-executive directors. A director can waive his or her remuneration.

An independent director's annual remuneration consists of the base part (for being on the Board of Directors) and a separate part for additional duties as a committee member / chairperson or as a Deputy Chairperson of the Board of Directors. Both parts of remuneration are fixed values.

Remuneration payable to the Chairman of the Board of Directors is governed by a specific section of the Remuneration Regulations. The Chairman's remuneration is also fixed and is paid on a monthly basis in equal amounts.

In 2017, remuneration was paid to five directors including four independent directors (Sergey Chemezov, Sir Robert Margetts, Paul Ostling and Luc Maene) and one non-executive director (Dmitry Lobyak).

In accordance with the Remuneration Regulations, directors are reimbursed for their travel expenses (travel to and from the board meeting venue), accommodation costs and the costs not directly related to participation in board meetings but connected with the business of the Company.

Total payments to directors in 2017 were as follows:

Payment	In RUB	In USD*
Remuneration	182,984,797.00	3,135,830.39
Expenses	5,393,084.00	92,421.87
Total:	**188,377,881.00**	**3,228,252.26**

* Based on the average exchange rate for 2017: 58.3529 RUB/USD.

Remuneration payable to members of the Management Board consists of two parts: a monthly salary, the size of which is specified in individual employment contracts, and an annual bonus. The amount of the bonus depends on the achievement of individual annual KPIs, which reflects the contribution of a member of the management team to the achievement of strategic and operating goals of the Company. Members of the Management Board do not receive any additional remuneration for their work on the Management Board.

Currently, the Company does not have a long-term management incentive programme, and so senior executives of the Company are not paid additional bonuses.

The total amounts paid to the Management Board in 2017 were as follows:

Payment	In RUB*	In USD**
Salary	229,932,070.00	3,940,370.92
Annual bonus	98,328,740.00	1,685,070.32
Expenses	2,294,911.00	39,328.14
Total	**330,555,721.00**	**5,664,769.38**

* After personal income tax.
** Based on the average exchange rate for 2017: 58.3529 RUB/USD.

Highlights of the CEO's Remuneration and Expenses Policy

The CEO is appointed by the Board of Directors. The competence of the Board of Directors also includes the approval of the CEO's employment agreement, as well as the CEO's annual performance cards (after their review by the Investments and Development Committee and the Appointments and Remuneration Committee). The Board of Directors generally follows the committees' recommendations but may introduce certain amendments if deemed necessary by directors.

The size of the CEO's remuneration (salary) is specified in the employment agreement. Total remuneration payable to the CEO (as well as to other executive directors including members of the Management Board) consists of two parts: a monthly salary, the size of which is specified in individual employment contracts, and an annual bonus. The CEO may also receive a bonus in line with the Executives' Bonus Regulations, which created a performance management system that provides a correlation between the corporate and individual goals ensures that achievement of goals is measurable and transparent. Bonuses are only paid if an executive (including the CEO) has met individual KPIs and are subject to deductions applied in certain situations.

The CEO's KPI-based performance is first reviewed by the Investments and Development Committee and then by Appointments and Remuneration Committee, which makes the final recommendation to the Board of Directors.

The CEO is also the Chairman of the Management Board; however, the CEO and other members of the Management Board do not receive additional remuneration for this role.

All security and reimbursement clauses provided by internal regulations and the collective bargaining agreement also apply to the CEO. The CEO's expenses incurred in relation to his office duties are reimbursed against supporting documents. Just like any other employee, the CEO's travel expenses are fully reimbursed within the limits set by internal regulations. In addition, the CEO's hospitality expenses are also reimbursed.

Information about Management's Equity Ownership

According to the Company's registrar, OJSC VTB Registrar, as of 31 December 2017 there are no directors (members of the Board of Directors and Management Board) in the Company's share register both as of 1 January 2017 and as of 31 December 2017 who held positions in the governance bodies of Uralkali in 2017. There is no record of any transactions made by members of Uralkali's governance bodies to acquire or dispose of shares of the Company, including dates and essence of transactions, the category (type) and a number of Uralkali shares, which were the subject matter of such transactions from 1 January 2017 until 31 December 2017. The share register has no records of nominee shareholders as of 1 January 2017 and as of 31 December 2017.

Anti-fraud and Anti-corruption Compliance System

In 2011, the Company adopted an anti-fraud programme, which established a mechanism to prevent corporate fraud. The programme covers internal, economic and information security and provides for a hotline service to receive messages about suspected fraudulent activities. In 2017, various activities on safety and security were implemented in the Company as part of this programme.

In 2013, the Company started a project to create an anti-corruption compliance system. As of the end of 2017, the compliance system includes the anti-trust compliance, anti-corruption compliance, ethical compliance, and sanctions compliance components.

The Audit Committee regularly reviews reports on the anti-fraud and compliance systems.

INFORMATION FOR SHAREHOLDERS AND INVESTORS

1.47 bln RUB

SHARE CAPITAL OF PUBLIC JOINT STOCK COMPANY URALKALI IS DIVIDED INTO

2.94 bln

OF ORDINARY REGISTERED SHARES WITH A FACE VALUE OF RUB 0.50 EACH

Trading floors of Uralkali shares

Stock exchange	Ticker code
Moscow Exchange	URKA

Uralkali securities identification numbers

CUSIP[1]	
• Regulation S GDRs	91688E206
ISIN[2]	
• Regulation S GDRs	US91688E2063
• Ordinary shares	RU0007661302

Ordinary Shares

Uralkali's share capital amounts to RUB 1,468,007,945.50 divided into 2,936,015,891 ordinary registered shares with a face value of RUB 0.50 each. By the date of this report, the Company's share capital has remained unchanged since 1 August 2012.

Global Depositary Receipts (GDRs)

In respect of PJSC Uralkali's ordinary shares, GDRs under Regulation S were issued at a ratio of five registered ordinary shares per one GDR. The GDRs under Regulation S had been traded on the London Stock Exchange (LSE) until 22 December 2015, after which they were delisted. The Company's depositary bank is The Bank of New York Mellon.

The GDR programme of PJSC Uralkali under Regulation 144A was closed on 12 January 2016 due to the extremely small volume.

Uralkali's ordinary shares can be converted to GDRs and vice versa.

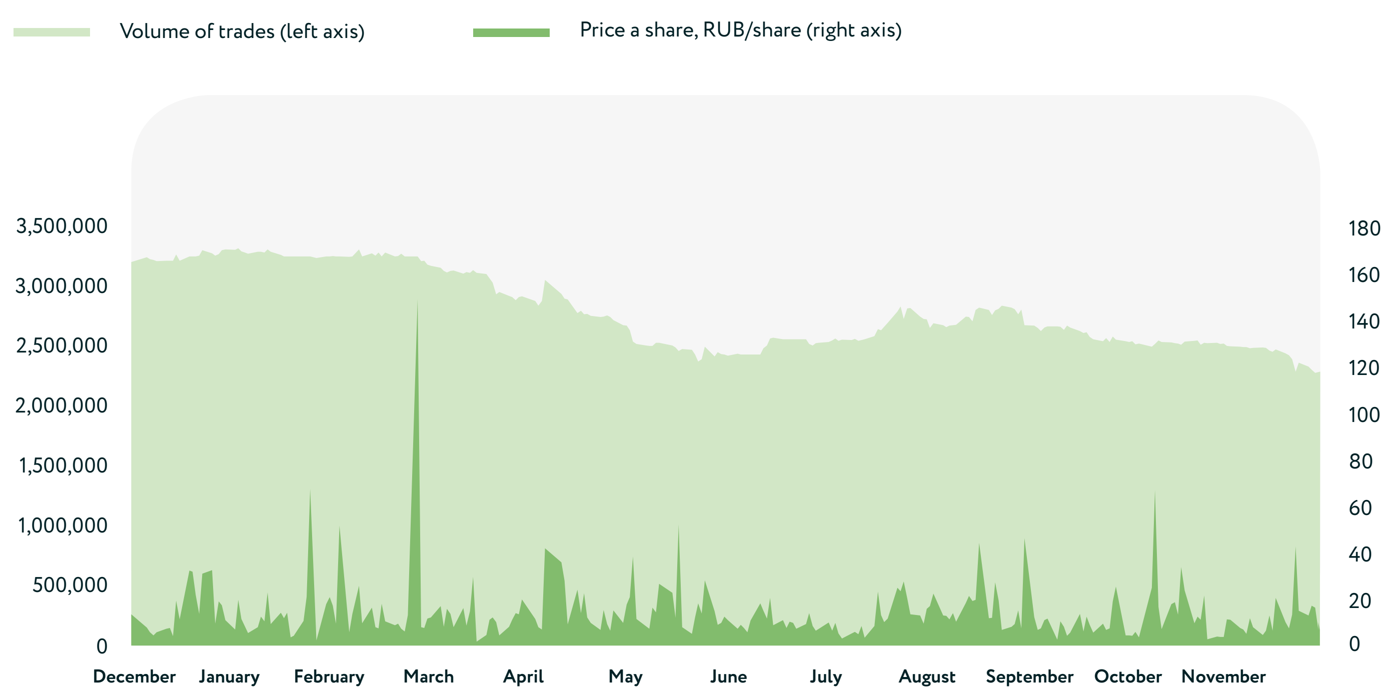
As of 31 December 2017, GDRs represented approximately 24.97% of the Company's share capital.

Stock Exchange

As of 31 December 2017, Uralkali's ordinary shares were traded on the Moscow Exchange. Uralkali's GDRs had been traded on the LSE up to their delisting on 22 December 2015.

[1] CUSIP (Committee on Uniform Security Identification Procedures) – an identification number which is given to the issue of shares for the purposes of facilitating clearing.
[2] ISIN (International Securities Identification Number) – an international identification number of a security.

Moscow Exchange trading volume for 2017
(Uralkali ordinary shares)



Uralkali's ordinary shares traded on the Moscow Exchange

	2016	2017
Annual maximum price, RUB	203.35	170.50
Annual minimum price, RUB	159.20	116.30
Year-end price, RUB	165.20	117.50
Trading volume, million pcs	256.7	69.8

Uralkali's share in major indices*

MICEX	–
RTS	–

* As of December 2017 Source: Moscow Exchange

Share and GDR Buyback Programme

Uralkali didn't implement the share and GDR buyback programme in 2017.

In 2017, the Company purchased 11,109,568 ordinary shares as a result of shareholders exercising their buyback rights as stipulated in the Federal Law on Joint Stock Companies, which in total amounted to about 0.4% of the share capital. All repurchased shares were sold by the Company in 2017.

Analyst Coverage

Eleven equity research analysts from leading banks, including Credit Suisse, Goldman Sachs, HSBC, UBS, VTB Capital, and Sberbank CIB, follow the Company on a regular basis.

Uralkali's IR team accurately monitors and communicates analyst consensus to the Company's Board of Directors and top management.

For more information please see: http://www.uralkali.com/investors/analysts/.

Credit Ratings

In June 2012, the Company received investment grade credit ratings from three international rating agencies: Fitch, Standard & Poor's, and Moody's.

In 2016, S&P and Fitch changed their outlook for PJSC Uralkali's securities from stable to negative.

During 2017, the rating agencies did not change the rating and outlook for PJSC Uralkali's securities.

Dividends

Annual General Meeting of Uralkali shareholders was held on 20 June 2017 in the city of Berezniki of the Perm Region. The meeting decided not to pay the dividends for 2016.

Taxation

As a general rule, dividends in the Russian Federation are taxed as follows:

- for legal entities:
  – 0% – for tax residents of the Russian Federation, if such an entity owns over 50% of the Company's share capital for a period of more than 365 days at the day of the decision on dividend payment;
  – 13% – for other Russian entities;
  – 15% – for foreign entities.
- for individuals:
  – 13% – for Russian tax residents;
  – 15% – for tax non-residents.

Should the recipient of a dividend be a tax resident of a state with which the Russian Federation has signed a treaty on avoidance of double taxation, the tax payments must be made in compliance with the tax rate indicated under the relevant treaty (subject to the conditions set forth in the treaty).

This information is provided for illustrative purposes only. Potential and current investors should seek the advice of professional consultants on tax matters related to investments in the Company's shares and GDRs.

Dividend policy

The payment of dividend is regulated by the legislation of the Russian Federation. Dividends are paid from the Company's profits after taxation (net profit). The net profit size is determined on the basis of the Company's accounting (financial) statements. Pursuant to the Federal Law on Joint-Stock Companies and the Company's Charter and the Regulation on the Dividend Policy, the Company has a right to make decision (declare) on payment of dividends on outstanding shares upon the results of the first quarter, half a year, nine months, and (or) upon the results of a financial year. PJSC Uralkali's Regulation on the Dividend Policy approved by the Board of Directors in April 2015, stipulates that the Company's Board of Directors shall submit recommendations to the General Shareholders Meeting on dividend payment based on performance in the reporting period, taking into account the Company's financial results. The Board of Directors considers main areas of net profit distribution and determines shares of net profit which can be reasonably used for paying dividends. The Board of Directors decides on the dividend amount recommended to the General Shareholders Meeting, the payment procedure, and the date for determining those entitled to receive dividends, in accordance with the Federal Law on Joint-Stock Companies, the Charter and the Regulation on the Board of Directors by a majority vote of the Board members attending the meeting.

Dividend payments

Period	Date, when persons eligible to receive dividends are determined	Date of the decision on dividend payment	Dividend per ordinary share / GDR (RUB)	Accrued dividends (thou RUB)
2013	20 June 2014	9 June 2014	1.63/8.15	4,785,705.9
Interim dividends	29 October 2013	18 December 2013	2.21/11.05	6,488,595.1
2012	25 April 2013	4 June 2013	3.9/19.5	11,450,461.9

The Company's General Shareholders Meeting decides on dividend payment (declaration). The Amount of dividends cannot exceed the amount of dividends recommended by the Company's Board of Directors.

Uralkali informs shareholders and other stakeholders, including potential investors and professional participants of the securities market about its dividend policy by publishing the Dividend Policy on the Internet and outlining its main provisions in the Company's annual reports.

For more information, please see Uralkali's website: http:// http://www.uralkali.com/investors/shareholder_inf/dividends/

On 26 December 2014, Uralkali Extraordinary General Meeting of Shareholders was held. The decision to pay interim dividends in monetary terms in the amount of RUB 2.96 per one PJSC Uralkali's ordinary share was not made (Minutes No. 44 of 29 December 2014).

On 15 June 2015, Uralkali Annual General Meeting of Shareholders was held. In the meeting, it was decided not to pay the dividends upon the results of 2014 (Minutes No. 45 of 16 June 2015).

On 17 June 2016, Uralkali Annual General Meeting of Shareholders was held. In the meeting, it was decided not to pay the dividends upon the results of 2015 (Minutes No. 51 of 22 June 2016).

On 20 June 2017, Uralkali Annual General Meeting of Shareholders was held. In the meeting, it was decided not to pay the dividends upon the results of 2016 (Minutes No. 55 of 20 June 2017).

Investor Relations

Communication and dialogue

Transparent communications with all shareholders is one of Uralkali's top priorities.

Uralkali understands the importance of keeping the investment community informed of the latest developments and provides updated outlooks in order to build understanding of the Company's investment activity.

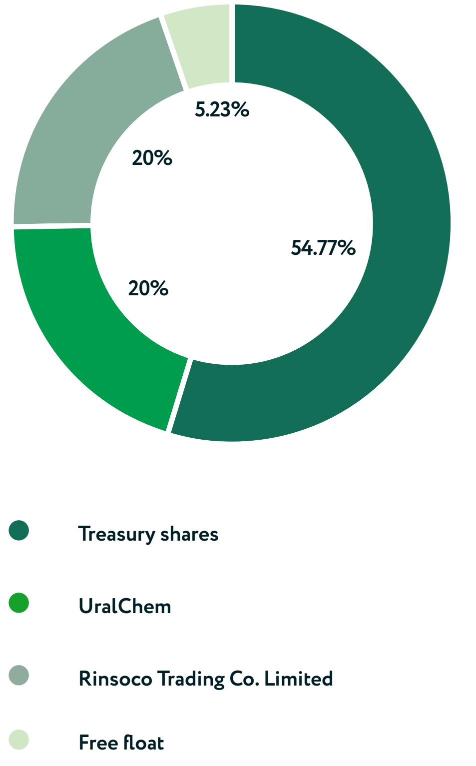
Today, miners are not just mine diggers, but highly qualified and educated experts who solve difficult technical tasks in extreme conditions.

As a rule, they graduate specialised educational institutions: colleges, technical colleges, and special trainings where they study from one month to six years depending on their area of expertise.

Potash Institution has been established based on Perm State University with the support of JSC Uralkali and JSC Silvinit.

In 2017, Uralkali maintained active communication with investors through the following activities:
- The Company's top management participated in a number of leading international market and industry conferences and forums focused on emerging markets
- Webcast and conference call for presentation of IFRS financial statements for 2016 and market review on 13 March 2017

Share capital structure[1]



Information disclosure

The Company takes great care to ensure that any relevant information is released to all shareholders and analysts at the same time, in accordance with the transparency principles. Generally, the information is distributed through the following channels:
- **Uralkali website:** The Company publishes releases on important events and financial results. Any interested parties can subscribe online to receive news updates by registering online. Uralkali posts its annual reports on its website www.uralkali.com on the day of the report's official publication, and sends out a press release to announce the publication. Hard copies of the annual reports are available upon request via the website. For more information please see: http://www.uralkali.com/investors/
  The website is regularly updated.
- **Social media:** Uralkali selectively uses social media as an additional channel of information disclosure and to distribute Company and industry news, as well as to highlight publications in the Russian and foreign media. For more information, please visit Uralkali's official Facebook page (www.facebook.com/UralkaliRU) and Twitter account (https://twitter.com/uralkali_russia).
- **E-mail:** The Investor Relations Department can be contacted with respect to any queries at ir@msc.uralkali.com.

[1] As of 31 December 2016. The shareholdings are provided with approximation. Shares of Rinsoco Trading Co. Limited and Uralchem OJSC comprise less than 20%.

Contents

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Public Joint Stock Company "Uralkali"

Opinion

We have audited the consolidated financial statements of Public Joint Stock Company "Uralkali" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statements of profit or loss, other comprehensive income, statement of changes in equity and statement of cash flows for 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for 2017 in accordance with International Financial Reporting Standards ("IFRSs").

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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Assessment of compliance with covenants	
Refer to Note 2 Basis of preparation and significant accounting policies and Note 15 Borrowings. The Group is highly leveraged with net debt of US$ 5,371,123 thousand as at 31 December 2017 and it has to comply with certain financial and non-financial covenants stipulated in loan agreements. In addition to the analysis of compliance with covenants at the reporting date, Management prepares financial forecasts to assess the Group's ability to comply with covenants in the future. These financial forecasts are particularly sensitive to changes in foreign currency exchange rates and long-term potash prices.	We obtained an understanding of the process of monitoring compliance with financial and non-financial covenants stipulated in loan agreements. We reviewed the terms and conditions of loan agreements and recalculated covenants. We challenged Management's key assumptions used in the financial forecast by: • assessing covenant compliance forecasts, including stress tests scenarios and related mitigation plans; • testing the appropriateness of Management's assumptions including foreign currency exchange rates and potash prices, inflation rate, and discount rate based on the available market information; and • performing our own sensitivity analysis to test the adequacy of the available headroom related to covenant compliance.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Recoverability of the loan issued	
Refer to Note 4 Critical accounting judgements and key sources of estimation uncertainty in applying accounting policies and Note 5 Related parties. The Group issued a loan to a related party amounting to US$ 379,232 thousand as at 31 December 2017 to finance business operations of the related party. After initial recognition, the loan is measured at amortised cost using the effective interest rate method, less any loss allowances for expected credit losses. This is a key audit matter due to the materiality of the outstanding balance as at 31 December 2017 and the significance of Management's estimates and judgements involved in assessing the recoverability of the loan. These estimates and judgements primarily relate to projections of long-term potash prices and foreign currency exchange rates.	Our audit procedures included, but were not limited to, understanding the methodology and analysing the valuation model and inputs used by Management to assess the recoverability of the loan. We evaluated the appropriateness and consistency of Management's judgments and estimates, including the following: • comparing key assumptions used in the cash flows model to the available market information; • assessing sensitivity of the model to changes in key parameters; • challenging historical accuracy of Management and market forecasts. We assessed the financial condition and financial performance of the related party and obtained confirmation from the related party of the outstanding balance at 31 December 2017. We considered whether subsequent amendments to the loan agreement after the balance-sheet date had any impact on Management's assessment of the recoverability of the loan.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report and Quarterly report for the 1st quarter of 2018, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report and Quarterly report for the 1st quarter of 2018, 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Chaban Dmitriy,
Engagement partner

3 April 2018

Audited entity: Public Joint Stock Company "Uralkali"

Certificate of state registration № 1128
issued on 14 October 1992 by the Berezniki Administration, Perm region

Certificate of registration in the Unified State Register of Legal Entities № 1025901702188 issued on 11 September 2002

Location: 63 Pyatiletki ul., Berezniki, 618426, the Perm region

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register

№ 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484

Consolidated Statement of Financial Position as of 31 December 2017

(in thousands of US dollars, unless otherwise stated)

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	7	2,461,948	2,244,153
Prepayments for acquisition of property, plant and equipment and intangible assets		221,246	186,831
Goodwill	8	1,024,146	972,536
Intangible assets	9	2,973,680	2,869,387
Deferred income tax asset	25	16,615	47,408
Income tax prepayments		–	26,222
Prepaid transaction costs on bank facilities		70,397	81,410
Loan issued	5	–	188,762
Investment in associate		23,789	23,942
Derivative financial assets	12	6,047	–
Other non-current assets		63,242	3,600
Total non-current assets		**6,861,110**	**6,644,251**
Current assets			
Inventories	10	91,939	162,036
Trade and other receivables	11	533,959	261,554
Advances to suppliers		26,608	27,502
Income tax prepayments		3,812	32,868
Derivative financial assets	12	16,783	–
Loan issued	5	379,232	–
Other financial assets		1,927	68,267
Cash and cash equivalents	13	1,072,609	1,485,521
Total current assets		**2,126,869**	**2,037,748**
TOTAL ASSETS		**8,987,979**	**8,681,999**

	Note	31 December 2017	31 December 2016
EQUITY			
Share capital	14	35,762	35,762
Treasury shares	14	(27,101)	(26,909)
Share premium		483,572	509,484
Currency translation reserve		(3,717,237)	(3,739,971)
Retained earnings		4,362,544	3,486,183
Equity attributable to the company's equity holders		**1,137,540**	**264,549**
Non-controlling interests		12,017	11,533
TOTAL EQUITY		**1,149,557**	**276,082**
LIABILITIES			
Non-current liabilities			
Borrowings	15	3,490,666	4,590,673
Bonds	16	1,059,954	582,357
Post-employment and other long-term benefit obligations		36,604	34,424
Deferred income tax liability	25	645,605	579,237
Provisions	17	221,314	164,683
Derivative financial liabilities	12	11,609	123,753
Other non-current liabilities		14,027	–
Total non-current liabilities		**5,479,779**	**6,075,127**
Current liabilities			
Borrowings	15	1,291,875	1,827,201
Bonds	16	601,237	2,550
Trade and other payables	18	272,918	247,356
Advances received		22,448	49,604
Provisions	17	40,996	43,127
Derivative financial liabilities	12	109,815	153,372
Current income tax payable		19,354	7,580
Total current liabilities		**2,358,643**	**2,330,790**
TOTAL LIABILITIES		**7,838,422**	**8,405,917**
TOTAL LIABILITIES AND EQUITY		**8,987,979**	**8,681,999**

Approved for issue and signed on behalf of the Board of Directors on 3 April 2018:

Dmitry Osipov
Chief Executive Officer

Anton Vishanenko
Chief Financial Officer

Consolidated Statement of Profit or Loss for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise stated)

	Note	2017	2016
Revenues	19	2,760,874	2,278,249
Cost of sales	20	(739,076)	(549,766)
Gross profit		**2,021,798**	**1,728,483**
Distribution costs	21	(747,804)	(547,676)
General and administrative expenses	22	(157,390)	(154,082)
Taxes other than income tax		(21,706)	(25,414)
Other operating income/(expenses), net	23	6,404	(12,741)
Operating profit		**1,101,302**	**988,570**
Finance (expenses)/income, net	24	(8,285)	768,126
Profit before income tax		**1,093,017**	**1,756,696**
Income tax expense	25	(218,389)	(329,550)
Net profit for the period		**874,628**	**1,427,146**
Profit/(loss) attributable to:			
Company's equity holders		873,979	1,427,283
Non-controlling interests		649	(137)
Net profit for the period		**874,628**	**1,427,146**
Weighted average number of ordinary shares in issue (million)		1,336	1,417
Earnings per share – basic and diluted (in US cents)		**65.42**	**100.73**

Consolidated Statement of Other Comprehensive Income for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise stated)

	2017	2016
Net profit for the period	**874,628**	**1,427,146**
Other comprehensive income/(loss)		
Items that will not be reclassified to profit:		
Remeasurement of post-employment benefit obligations	2,382	1,579
Total other comprehensive income/(loss) for the period	**25,116**	**(31,896)**
Total comprehensive income for the period	**899,744**	**1,395,250**
Total comprehensive income/(loss) for the period attributable to:		
Company's equity holders	899,095	1,395,387
Non-controlling interests	649	(137)

Consolidated Statement of Cash Flows for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise stated)

	Note	2017	2016
Cash flows from operating activities			
Profit before income tax		1,093,017	1,756,696
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	7, 9	239,176	194,151
Loss on disposals of property, plant and equipment and intangible assets	23	8,318	9,322
Loss on/(reversal of) impairment of prepayments for acquisition of property, plant and equipment and intangible assets		448	(2,207)
(Reversal)/accrual of provision for obsolete inventories		(798)	3,770
(Reversal)/accrual of impairment of property, plant and equipment and assets under construction		(2,849)	3,191
Accrual/(reversal) of impairment of trade and other receivables and advances to suppliers		1,304	(991)
Change in provisions, net	17	(8,696)	9,436
Fair value gain on derivative financial instruments, net	24	(51,662)	(184,983)
Foreign exchange gain, net	24	(271,908)	(888,967)
Other finance expenses, net		331,855	305,824
Operating cash flows before working capital changes		**1,338,205**	**1,205,242**
(Increase)/decrease in trade and other receivables and advances to suppliers		(277,104)	165,064
Decrease/(increase) in inventories		78,687	(4,042)
Decrease in trade and other payables, advances received and provisions		(18,275)	(4,634)
(Decrease)/increase in other taxes payable/receivable		(6,934)	16,037
Cash generated from operations		**1,114,579**	**1,377,667**
Interest paid		(326,436)	(318,848)
Income taxes paid net of refunds received		(77,643)	(46,835)
Net cash generated from operating activities		**710,500**	**1,011,984**

	Note	2017	2016
Cash flows from investing activities			
Acquisition of property, plant and equipment		(269,782)	(317,399)
Acquisition of intangible assets		(1,106)	(5,732)
Proceeds from sales of property, plant and equipment		2,575	590
Loan issued		(333,973)	(477,438)
Proceeds from loan repayments		160,192	292,536
Purchase of other financial assets		(1,704)	–
Proceeds from sale of other financial assets		70,010	–
Dividend and interest received		10,149	13,504
Net cash used in investing activities		**(363,639)**	**(493,939)**
Cash flows from financing activities			
Repayments of borrowings	15	(3,244,000)	(910,977)
Proceeds from borrowings	15	1,603,010	1,370,533
Proceeds from issuance of bonds	16	1,070,181	–
Arrangement fees and other financial charges paid		(32,391)	(112,269)
Cash proceeds from derivatives	12	12,710	14,671
Cash paid for derivatives	12	(151,792)	(215,620)
Purchase of treasury shares	14	(26,104)	(506,134)
Decrease in restricted cash		–	200,000
Acquisition of subsidiaries, net of cash acquired		(165)	–
Finance lease payments		(34)	(40)
Dividends paid to the Company's shareholders		–	(106)
Net cash used in financing activities		**(768,585)**	**(159,942)**
Effect of changes in foreign exchange rate on cash and cash equivalents		8,812	15,540
Net (decrease)/increase in cash and cash equivalents		**(412,912)**	**373,643**
Cash and cash equivalents at the beginning of the period	13	**1,485,521**	**1,111,878**
Cash and cash equivalents at the end of the period	13	**1,072,609**	**1,485,521**

Consolidated Statement of Changes in Equity for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital	Treasury shares	Share premium	Retained earnings	Currency translation reserve	Total	Non-controlling interests	Total
Balance as at 1 January 2016	**35,762**	**(23,953)**	**1,012,662**	**2,057,321**	**(3,706,496)**	**(624,704)**	**11,670**	**(613,034)**
Profit/(loss) for the period	–	–	–	1,427,283	–	1,427,283	(137)	**1,427,146**
Other comprehensive income/(loss)	–	–	–	1,579	(33,475)	(31,896)	–	**(31,896)**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**1,428,862**	**(33,475)**	**1,395,387**	**(137)**	**1,395,250**
Transactions with equity shareholders								
Purchase of treasury shares (Note 14)	–	(2,956)	(503,178)	–	–	(506,134)	–	**(506,134)**
Total transactions with equity shareholders	**–**	**(2,956)**	**(503,178)**	**–**	**–**	**(506,134)**	**–**	**(506,134)**
Balance as at 31 December 2016	**35,762**	**(26,909)**	**509,484**	**3,486,183**	**(3,739,971)**	**264,549**	**11,533**	**276,082**
Profit for the period	–	–	–	873,979	–	873,979	649	**874,628**
Other comprehensive income	–	–	–	2,382	22,734	25,116	–	**25,116**
Total comprehensive income for the period	**–**	**–**	**–**	**876,361**	**22,734**	**899,095**	**649**	**899,744**
Transactions with equity shareholders								
Purchase of non-controlling interest	–	–	–	–	–	–	(165)	**(165)**
Purchase of treasury shares (Note 14)	–	(192)	(25,912)	–	–	(26,104)	–	**(26,104)**
Total transactions with equity shareholders	**–**	**(192)**	**(25,912)**	**–**	**–**	**(26,104)**	**(165)**	**(26,269)**
Balance as at 31 December 2017	**35,762**	**(27,101)**	**483,572**	**4,362,544**	**(3,717,237)**	**1,137,540**	**12,017**	**1,149,557**

Notes to the Consolidated Financial Statements for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise stated)

1 The Uralkali Group and its operations

Public Joint Stock Company Uralkali (the "Company") and its subsidiaries (together the "Group") produce mineral fertilizers, which are extracted and processed in the vicinity of the cities of Berezniki and Solikamsk, Russia. They are distributed both on foreign and domestic markets. The Group manufactures various types of products, the most significant being a wide range of potassium salts.

The Company holds operating licences, issued by the Mineral Resource Usage Department in the Privolzhskii Federal district for the extraction of potassium, magnesium and sodium salts from the Durimanskiy, Bigelsko-Troitsky, Solikamskiy (north and south parts) and Novo-Solikamskiy plots of the Verkhnekamskoye field. The licences were prolonged on 1 April 2013 till 2018 – 2021 at nominal cost. In 2016 licences previously valid till 2018 were prolonged till 2043 – 2055 (north part of Solikamskiy plot, Bigelsko-Troitsky and Novo-Solikamskiy plots). In 2017 the licences for the south part of Solikamskiy plot and Durimanskiy plot previously valid till 2021 were prolonged till 2026 and 2024, respectively. The Company also owns licences for the Ust'-Yaivinskiy plot of the Verkhnekamskoye field, which expires in 2024, for the Polovodovskiy plot of the Verkhnekamskoye field, which expires in 2054, and for the Romanovskoye plot of the Verkhnekamskoye field, which expires in 2039. In 2017 the Company received a licence for geological exploration of the Izverski plot on the territory of Usolsky and Alexandrovsky districts of the Perm region, which is valid until 2022.

As at 31 December 2017 and 31 December 2016 the Group had no ultimate controlling party.

The Company was incorporated in the Russian Federation on 14 October 1992 and has its registered office at 63 Pyatiletki St., Berezniki, Perm region, Russian Federation.

2 Basis of preparation and significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the periods presented.

2.1 Basis of preparation and presentation

Compliance with International Financial Reporting Standards
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Going concern
These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

In making its going concern assessment the Group has taken into account its financial position, expected commercial results, its borrowings and available but not yet used credit lines, as well as planned capital expenditures and capital commitments and other risks to which the Group is exposed.

After making appropriate enquires, the Management considers that the Group has adequate resources to cover the working capital deficit and continue in operational existence for at least the next 12 months from the date of issuance of these consolidated financial statements. The Group has sufficient available credit lines (including revolving credit lines with Russian and international banks) to cover short term liquidity gaps, if any. For more detailed information refer to the Note 15.

Consequently, Management of the Group has determined that it is appropriate to adopt the going concern basis in the preparation of these consolidated financial statements.

Basis of presentation
The Company and its subsidiaries maintain their books and records in Russian roubles in accordance with statutory

accounting and taxation principles and practices applicable in respective jurisdictions. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from these generally accepted under IFRS. Accordingly, such financial information has been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

2.2 Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its variable returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.3 Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from equity attributable to the company's equity holders.

2.4 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment loss. Cost includes all costs directly attributable to bringing the asset to its working condition for its intended use. Property, plant and equipment acquired through business combinations are recorded at fair value determined by independent valuation at the date of acquisition, less accumulated depreciation and accumulated impairment since acquisition date.

At each reporting date Management reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the Management estimates the recoverable amount, which is determined as the higher of an asset's or cash generating unit's, to which the asset is attributable, fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss within other operating expenses.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use and fair value less costs to sell.

Repair and maintenance expenditures are expensed as incurred. Major renewals and improvements are capitalised. Gains and losses on disposals are determined by comparing proceeds with the carrying amount are recognised in profit or loss.

Depreciation on property, plant and equipment items is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	10–60
Mining assets[1]	5–30
Plant and equipment	2–30
Transport vehicles	5–15
Other	2–15
Land	Not depreciated

[1] Mining assets include mine infrastructure and present value of future decommissioning and filling cavities costs. Depreciation methods applied to these mining assets as well as their useful lives are stated in Note 4. Future decommissioning costs for buildings and equipment are included in Buildings and Plant and equipment groups.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

2.5 Operating leases

Leases where substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged on a straight-line basis over the lease term to profit or loss. Operating leases include long-term leases of land with rental payments, lease rates are regularly reviewed by the government.

2.6 Finance lease liabilities

Where the Group is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of future finance charges, are included in borrowings.

The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

2.7 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (hereinafter – "CGU") or groups of CGUs that is expected to benefit from the synergies of the combination.

CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

2.8 Intangible assets

The Group's intangible assets, other than goodwill, have definite useful lives and primarily include mining licences. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, or, in the case of assets acquired in a business combination, at fair value as at the date of the combination and subsequently on the same basis as intangible assets that are acquired separately.

Expenditure on software, patents, trademarks and non-mineral licences are capitalised and amortised using the straight-line method over their useful lives. Mining licences are amortised under a unit of production method.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

2.9 Financial assets and liabilities

Classification of financial assets and liabilities
The Group classifies its financial assets into the following measurement categories: (a) financial assets at fair value through profit or loss; (b) loans and receivables; (c) investments held-to-maturity; and (d) available-for-sale financial assets.

Derivative financial instruments, represented by cross-currency interest rate and interest rate swaps, are carried at their fair value. Derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The income received from currency-interest rate swap transactions reduces interest expense. The Group does not apply hedge accounting.

All other financial assets except for loans and receivables and cash are included in the available-for-sale category.

Financial liabilities have the following measurement categories: (a) financial liabilities at fair value through profit or loss (FVTPL) and (b) other financial liabilities. Changes in value are recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

Measurement of financial assets and liabilities
Financial instruments are carried at their fair value, initial value or depreciated value. The descripton of all these evaluation methods is presented below.

Depending on their classification, financial instruments are carried at fair value, cost or amortised cost, as described below.

Trade and other receivables are measured at amortised cost using the effective interest method. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss.

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 and deposits with original maturity of more than three months held for the purpose of meeting short-term cash needs that are convertible into known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Restricted balances being exchanged or used to settle liabilities at least twelve months after the reporting date are shown separately from cash and cash equivalents for the purposes of the consolidated statement of financial position and are included in non-current assets.

Bank overdrafts which are repayable on demand are included as a component of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Pledge agreements
A pledge agreement is a contract that requires the issuer to provide its property as security for debt or other obligation. This pledged property is transferred to the holder as reimbursement for a loss incurred in the event a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.
Pledge agreements are initially measured at their fair values and, if not designated as at fair value through profit or loss (FVTPL), are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies

Borrowings are measured at amortised cost using the effective interest method. Borrowing costs are recognised as an expense on a time-proportion basis using the effective interest method.

Trade and other payables are accrued when the counterparty has performed its obligations under contract and are carried at amortised cost using the effective interest method.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Financial instruments measured at fair value are analysed by levels of the fair value hierarchy as follows:

(i) level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date,
(ii) level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly, and
(iii) level 3 inputs are unobservable inputs for the asset or liability.

Initial recognition of financial assets and liabilities
Derivatives and other financial assets at fair value through profit or loss are initially recorded at fair value. All other financial assets/liabilities are initially recorded at fair value plus/minus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

A gain or loss on initial recognition is only recorded if there is a difference between the fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. All regular way purchases and sales of financial instruments are recognised on the trade date, which is the date that the Group commits to purchase or sell the financial instrument.

Offsetting financial assets and financial liabilities
Financial assets and liabilities are offset and net amount is presented in the statement of financial position only when there is a legally enforceable right to set-off the recognised amounts, and there is intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. The right to offset (1) must not be contingent on a future event and (2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business activities, (b) in the event of default and (c) in the case of insolvency or bankruptcy.

Derecognition of financial assets and liabilities
The Group derecognises financial assets when: (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired; or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets; or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

2.10 Income tax

Income tax has been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the reporting date in each of the jurisdictions where the Group's entities are incorporated. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

The Group's uncertain tax positions are assessed by Management at every reporting date. Liabilities are recorded for income tax positions that are determined by Management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditures required to settle the obligations at the reporting date.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than income taxes are recorded within operating expenses.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post-acquisition retained earnings of subsidiaries unless there is an intention to sell subsidiary in the foreseeable future, since the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

2.11 Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis. The cost of finished products and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

The Group has capitalised transportation costs incurred related to finished goods and necessary for their transportation to the warehouses, where the shipment is performed, in the cost of finished goods.

2.12 Share capital

Ordinary shares and Global Depositary Receipts (GDRs) are classified as equity. Incremental costs directly attributable to the issue of new shares, other than on a business combination, are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented as share premium.

2.13 Treasury shares

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.14 Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements have been authorised for issue.

2.15 Value added tax (VAT)

Output VAT is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis (if the Company has no right to set-off) and disclosed separately as an asset and liability. Where a provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debt, including VAT.

2.16 Borrowing costs

The Group capitalises borrowing costs relating to assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) as part of the cost of the asset. The Group considers a qualifying asset to be an investment project with an implementation period exceeding one year.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that a cash outflow will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

Net present value of provisions is determined by discounting future real cash outflows associated with the specific past event. The Group determined the yield to maturity of the Russian government bonds as a discount factor for discounting the future real cash outflows associated with provisions to reflect the time value of money.

2.18 Foreign currency translation

Functional and presentation currency. Functional currency of each entity of the Group is the national currency of the Russian Federation, Russian Rouble ("RR"). The presentation currency of these consolidated financial statements is US dollar ("US$").

Transactions and balances. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end official exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items.

Foreign currency exchange rates
The official rates of exchange, as determined by the Central Bank of the Russian Federation (CBRF):

	31 December 2017		31 December 2016	
	US$	Euro	US$	Euro
closing rate	57.60	68.87	60.66	63.81
average rate	58.35	65.90	67.03	74.23

2.19 Revenue recognition

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods under the appropriate INCOTERMS specified in the sales contracts, unless other terms are specified in a separate clause in the sales contracts;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales are shown net of VAT, export duties and discounts, and after eliminating sales within the Group. Revenues are measured at the fair value of the consideration received or receivable.

Revenue from sales of products other than potassium chloride (such as carnallite, salts, etc.) is recognised as Other revenue.

2.20 Transshipment, transport repairs and maintenance costs

Most of the transshipment costs are incurred by JSC "Baltic Bulker Terminal", a 100% subsidiary whose activity is related to the transshipment of fertilisers produced by the Group, and presented within distribution costs. In addition to this, distribution costs include transport repairs and maintenance costs which are incurred by LLC "Vagon Depo Balahonzi", a 100% subsidiary of the Group. These costs include depreciation, payroll, material expenses and various general and administrative expenses.

2.21 Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

2.22 Social costs

The Group incurs social costs related to the provision of benefits such as health services and charity costs related to various social programmes. These amounts have been charged to other operating expenses.

2.23 Pension costs

In the normal course of business, the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed as incurred.

For defined benefit pension plans, the cost of providing benefits is determined using the Projected Unit Credit Method and is charged to profit or loss so as to spread the cost over the service period of the employees. An interest cost representing the unwinding of the discount rate on the scheme liabilities is charged to profit or loss. The liability recognised in the consolidated statement of financial position, in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date. The plans are not externally funded. The defined benefit obligation is calculated annually by the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms of maturity approximating the terms of the relevant pension liability.

All actuarial gains and losses which arise in calculating the present value of the defined benefit obligation are recognised immediately in other comprehensive income.

2.24 Earnings/loss per share

Earnings per share are determined by dividing the net income attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year. During current and comparative periods diluted earnings per share are not different from basic earnings per share.

2.25 Segment reporting

The Group identifies and presents segments in accordance with the criteria set forth in IFRS 8 "Operating segments" and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources. The chief operating decision-maker has been determined as Chief Executive Officer (hereinafter – "CEO"). It was determined, that the Group has one operating segment – the extraction, production and sales of potash fertilisers.

3 IFRS standards update

The following is a list of new or amended IFRS standards and interpretations that have been applied by the Group for the first time in these annual consolidated financial statements:

Title	Subject	Effect on the consolidated financial statements
Amendments to IAS 7	Statement of cash flows	The Group's liabilities arising from financing activities consist of borrowings (note 15), bonds (note 16) and derivative financial liabilities (note 12). A reconciliation between the opening and closing balances of these items is provided in notes 15, 16 and 12. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in notes 15, 16 and 12, the application of these amendments has had no impact on the Group's consolidated financial statements.
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses	No effect.
Amendments to IFRS 12	Disclosure of interests in other entities	No effect.

With the exception of specific items mentioned above, the adoption of these new and revised standards and interpretations had no effect on the amounts reported as well as the presentation and disclosure of information in the consolidated financial statements of the Group.
The following standards and interpretations, which have not been applied in these consolidated financial statements, were in issue but not yet effective:

Title	Subject	Effective for annual periods beginning on or after	Expected effect on the consolidated financial statements
IFRS 9	Financial Instruments	1 January 2018	No significant changes are anticipated, see below
IFRS 15	Revenue from Contracts with Customers	1 January 2018	Under review, see below
IFRS 16	Leases	1 January 2019	Under review, see below
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	No significant changes are anticipated
IFRIC 23	Uncertainty Over Income Tax Treatments	1 January 2019	Under review
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined later	Not applicable
Amendments to IFRS 9	Prepayment Features With Negative Compensation	1 January 2019	No significant changes are anticipated
Amendments to IAS 28	Long-Term Interests in Associates and Joint Ventures	1 January 2019	Not applicable

IFRS 9 Financial Instruments
IFRS 9 will change the classification and measurement principles for financial assets, but is not anticipated to have a significant impact on the consolidated financial statements. The key areas of IFRS 9 which will impact the Group relate to the classification of financial assets and the application of the expected loss model.

All recognised financial assets currently within the scope of IAS 39 will be subsequently measured at either amortised costs, fair value through profit or loss (FVTPL), or fair value through other comprehensive income (FVTOCI) under IFRS 9 depending on the contractual cash flows of the instrument and the business model under which it is held.

No significant changes are anticipated in classification and measurement of financial instruments, except for classification of factored receivables which will be accounted at FVTOCI.

The impairment model for financial assets under IFRS 9 will reflect expected credit losses and changes in those expected credit losses as opposed to reflecting only for incurred credit losses under IAS 39.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables as required or permitted by IFRS 9. In relation to loans to related parties and pledge agreements (Note 5), Management does not expect to recognise any credit losses within the next 12 months.

In general, Management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items.

The Group has assessed the impact of the adoption of IFRS 9 on the Group's consolidated financial statements as insignificant.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:
- Step 1: Identify the contract with the customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contracts;
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognises revenue from the following major sources:
- sale of goods;
- complex service (sale of goods and delivery and package services);
- other revenue.

Management is currently assessing full potential effect of IFRS 15 implementation.

IFRS 16 Leases
As at 31 December 2017, the Group has non-cancellable operating lease commitments of US$ 21 million (Note 26). IAS 17 does not require the recognition of any right-of-use assets or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 26. A preliminary assessment indicates that these arrangements would meet the definition of a lease under IFRS 16, and hence the Group would recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have an impact on the amounts recognised in the Group's consolidated financial statements and Management is currently assessing its full potential effect. It is not practicable to provide a reasonable estimate of the financial effect until the Management completes the review.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Group Management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Remaining useful life of property, plant and equipment and mining licences
Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical condition of assets and estimated period during which these assets will be bringing economic benefits to the Group (Note 7).

The Group holds operating mining licences for the production of potassium salts, magnesium and sodium which were extended to 2018–2021 upon their expiry on 1 April 2013. In 2016 licences previously valid until 2018 were prolonged to 2043–2055 (north part of Solikamskiy plot, Bigelsko-Troitsky and Novo-Solikamskiy plots). Management assesses the remaining useful life of mining licences on the basis of the expected mining reserves.

The estimated remaining useful life of certain property, plant and equipment and mineral resources is beyond the expiry date of the relevant mining licences (Note 1). Management believes that in future the licences will be further renewed in due order at nominal cost. Any changes to this assumption could significantly affect prospective depreciation and amortisation charges and asset carrying values.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provisions for mine Solikamsk-2 flooding
On 18 November 2014, a burst of suprasalt water was detected into the mined-out area of Solikamsk-2 ("SKRU-2"), which was caused by the negative development of the 1995 accident related to a mass collapse of the rock and subsequent substantial destruction of the water-proof layer – emergency circumstances which could not be prevented.

Comprehensive mitigation plan was developed immediately and has been executed throughout 2015–2017.

In line with the accident mitigation plan, the Group continues to comprehensively monitor the situation. Currently the Group is implementing a number of engineering and other arrangements to minimise the impact of the accident and reduce suprasalt water inflows into the mine.

The major uncertainties associated with the provision for mine Solikamsk-2 flooding are as follows:
- amount of expenses which are best available estimates of future costs;
- period of time over which expenses are expected to be incurred. The major cash outflows are expected to be incurred up to 2023; and
- in 2017 Management applied the discount rate of 7.3% based on government bonds interest rates (2016: from 8.2% to 8.4%).

As at the date of approval of these consolidated financial statements there are no lawsuits against the Group for reimbursement of expenses resulting from the negative impact of the accident in the Solikamsk-2 mine.

Management believes that there are no liabilities relating to the Solikamsk-2 flooding other than those disclosed in the consolidated financial statements for the year ended 31 December 2017.

Provisions for mine Berezniki-1 flooding
Since 28 October 2006, the Group ceased production operations at the Berezniki-1 mine due to natural groundwater inflow that reached a level which could not be properly controlled by the Group.

In January 2007 the Government Committee for the prevention of negative consequences of the accident caused by the flooding of a mine in the Verkhnekamskoye field in Perm Region was set up. The Committee is still working, and a series of measures to prevent any negative consequences of the accident in Berezniki-1 are in place. The Company conducts constant monitoring and is involved in other monitoring and prevention activities.

Management believes that as at 31 December 2017 there are no liabilities relating to the Berezniki-1 flooding which are not recorded or not disclosed in the consolidated financial statements.

Provision for filling cavities
A provision has been established in the consolidated financial statements for the Group's obligation to replace the ore and waste extracted from the Solikamsk mines and Berezniki-2 and Berezniki-4 mines (Note 17).

Management initially estimated the amount of legal obligations for filling cavities within fixed assets. Remeasurement of an existing amount of these cavities that result from changes in estimates of mine surveys is recorded as an addition or disposal of an asset and is depreciated over its useful life using the straight-line method of depreciation. Unwinding of the discount is recognised in profit or loss in finance income and finance costs. The amount of expenses incurred due to filling of the cavities for other reasons is recognised in the current period in the consolidated statement of profit or loss.

The major uncertainties that relate to the amount and timing of the cash outflows related to filling cavities and judgements made by Management in respect of these uncertainties are as follows:

- Estimated time to fill cavities. Cash flow payments are expected to occur principally between 2018 and 2044;
- The extent of the filling cavities work which will have to be performed in the future may vary depending on the actual environmental situation. Management believes that the legal obligation to replace the ore and waste mined is consistent with the cavities filling plan agreed with the State Mine Supervisory Body;
- The future unit cost of replacing one cubic meter of the ore and waste mined may vary depending on the technology and the cost of methods utilised. Management estimates that the unit cost of replacing a cubic meter of waste and ore mined in future years, for the period of the current filling cavities plan, adjusted for the effect of inflation, will not be materially different from the actual cost incurred in the current period. The forecasted inflation rate in the Russian Federation is expected to be in the range of 4.0% to 4.9% for the period starting from 2018 till 2020 (2016: from 4.5% to 5.4%). Starting from 2021, the expected inflation rate in the Russian Federation is forecasted to be 4.3% (2016: 4.7%); and
- In 2017, Management applied discount rates ranging from 7.1% to 9.3% based on government bonds interest rates (2016: from 8.2% to 8.6%).

Restructuring provision
The Group accrued a provision for the closing down of the processing and carnallite plants subdivision at Berezniki 1 (Note 17).

The major uncertainties that relate to the amount and timing of the cash outflows related to the restructuring works and assumptions made by Management in respect of these uncertainties are as follows:

- Estimated costs of dismantling and restoration works for the dismantling of the processing and carnallite plants at Berezniki-1;
- Estimated time to complete works. Major cash outflows are expected to occur till 2019;
- In 2017 Management applied discount rates ranging from 6.6% to 7.0% based on government bonds interest rates (2016: from 8.3% to 8.4%).

Provision for asset retirement obligations
The Group has recorded a provision relating to asset retirement obligations (Note 17), which will be settled at the end of estimated lives of mines, therefore requiring estimates to be made over a long period.

Environmental laws, regulations and interpretations by regulatory authorities, as well as circumstances affecting the Group's operations could change, either of which could result in significant changes to its current mining plans.

The recorded provision is based on the best estimate of costs required to settle the obligations, taking into account the nature, extent and timing of current and proposed restoration and closure techniques in view of present environmental laws and regulations. It is reasonably possible that the ultimate costs could change in the future and that changes to these estimates could have a material effect on the Group's consolidated financial statements.

The estimation of asset retirement obligation costs depends on the development of environmentally acceptable closure and post-closure plans. The Group uses appropriate technical resources, including internal consultants from scientific institutes JSC "NII Galurgii" and JSC "VNII Galurgii", to develop specific site closure and post-closure plans in accordance with the requirements of the legislation of the Russian Federation.

The major uncertainties that relate to the amount and timing of the cash outflows related to the asset retirement obligations and assumptions made by Management in respect of these uncertainties are as follows:

- Mine life estimates. Cash flow payments are expected to occur principally between 2026 and 2069. These estimates are based on Management's current best assessment of the Group's current reserves;
- The extent of the restoration works which will have to be performed in the future may vary depending on the actual environmental situation. Management believes that the legal obligation for decommissioning of the underground and surface complex is consistent with the terms of licences;
- The future unit cost of decommissioning works may vary depending on the technology and the cost of resources used, as well as the inflation rate. The forecasted inflation rate in the Russian Federation is expected to be in the range of 4.0% to 4.9% for the period starting from 2018 till 2020 (2016: from 4.5% to 5.4%). Starting from 2021, the expected inflation rate in the Russian Federation is forecasted to be 4.3% (2016: 4.7%);
- In 2017, Management applied discount rates ranging from 7.6% to 9.3% based on government bonds interest rates (2016: from 8.5% to 8.6%).

During 2017, the Group completed its assessment of future costs to fulfil its current decommissioning obligations for Ust'-Yayvinskii mine. Total estimated provision for asset retirement obligations amounts to US$ 613 as at 31 December 2017.

Provision for resettlement
On 12 July 2017 the Company, the Government of the Perm Region and the Administration of the town of Berezniki signed an agreement according to which the Company shall provide additional financing for: (1) the relocation of people living in inadequate housing facilities in Berezniki due to the accident at the Berezniki-1 mine; (2) the construction of new infrastructure facilities which will support well-being of resettled people at their new place of residence; (3) demolition of the houses.

Under this agreement the Company will allocate up to RR 1,264 mln (US$ 21.9 mln at the exchange rate as at 31 December 2017) in addition to previously allocated funds according to the agreement concluded as at 5 December 2013. The expenses in the amount of RR 422 mln (US$ 7.2 mln at the average exchange rate for 2017) are expected to be incurred not earlier than 2019 and were recognized in long-term provisions as at 31 December 2017 on a discounted basis.

Annual impairment test of goodwill
The Group tests goodwill for impairment at least annually. The main assumptions used in value-in-use calculations are described in Note 8.

Mining licences
Management makes estimates, judgements and significant assumptions to assess whether the recoverable amount of the licences exceeds their carrying value. This largely depends on the estimates about a range of technical and economic factors, including technology for construction of the mines, the level of capital expenditure needed to develop the deposit, the expected start of the production, the future potash prices and exchange rates. Since the assumptions used to estimate the above factors might change from period to period, the results of Management estimates might also change from period to period.

Review of impairment indicators for property, plant and equipment
The Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets are impaired as at each reporting date. No impairment indicators were identified as at 31 December 2017.

Classification and recoverability of a loan issued to a related party
In 2016 the Group issued an unsecured revolving loan facility to a related party for a period of 2 years. Management considered among other things, the interest rate, maturity of the loan and payment history of the debtor and concluded that the loan was issued at market terms and should be classified as a financial asset in the consolidated financial statement of financial position, rather than a transaction accounted for as a distribution to owners in the consolidated statement of changes in equity.

At the end of each reporting period, Management considers the financial position and financial performance of the debtor to identify whether the loan is recoverable. The ability of the debtor to repay the loan depends on returns from its investments in companies operating in the fertiliser industry. Management applied a number of significant assumptions in their financial model to assess the recoverability of the loan which are disclosed in Note 8.

Tax legislation
Russian tax, currency and customs legislation is subject to varying interpretations (Note 26.2).

5 Related parties

Related parties include shareholders, associates and entities under control of the Group's major shareholders and key management personnel. The Company and its subsidiaries, in the ordinary course of their business, enter into various sale, purchase and service transactions with related parties. Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this Note.

On 8 July 2016, Onexim Group Limited ceased to be related party of the Group following disposal of 18.66% of the Company's share through Rinsoco Trading Limited.

Details of outstanding balances between the Group and its related parties are disclosed below.

Outstanding balances with related parties under control of shareholders with significant influence over the Group	31 December 2017	31 December 2016
Loan issued including interest receivable	379,232	188,762
Trade and other receivables and other financial assets	17,776	39
Other non-current liabilities	14,026	–
Trade and other payables	5,308	4,163
Advances received	1,115	1,317

Outstanding balances with associate	31 December 2017	31 December 2016
Accrued liabilities	4,274	–
Trade and other payables	160	–
Trade and other receivables	83	–

The loan to a related party is a US$ denominated unsecured revolving loan facility granted in April 2016 for a period of 2 years under market conditions and was prolonged in 2018 till 2023 (Note 30). The loan is given at a market rate with interests payable at the maturity date.

In December 2017, the Group entered into a share pledge agreement with PJSC "Sberbank of Russia" (hereinafter – "Sberbank") whereby the Company pledged some of its own shares held by JSC Uralkali-Technologiya as security for loans of a related party, as follows:

- 41,104,223 shares of PJSC Uralkali representing 1.4% of Company's share capital as primary pledge; and
- 252,497,366 shares of PJSC Uralkali representing 8.6% of Company's share capital as secondary pledge, which are also pledged as primary security for credit facilities received by the Group from Sberbank in 2016 (Note 15).

The pledge was provided at market terms and expires in 2023. As at 31 December 2017, the fair value of the pledged agreement of US$ 17.7 mln for 6 years was recognised in other non-current assets, other payables and other non-current liabilities.

Details of significant transactions between the Group and its related parties are disclosed below.

Transactions with related parties under control of shareholders with significant influence over the Group	2017	2016
Revenue (sales of potassium chloride)	39,357	27,497
Other revenue	1,355	1,264
Interest income	17,411	4,128
Purchase of inventories	11,156	7,416
Transportation expenses	10,406	6,365
Purchase of property, plant and equipment and assets under construction	2,077	1,651
General and administrative expenses	1,603	1,450
Other expenses	209	88

Transactions with associate	2017	2016
Other income	–	6,317
Transshipment	4,920	4,288
Other distribution costs	5,081	4,686

Key management's compensation

Key management personnel compensation consists of remuneration paid to executive directors and other directors for their services in full- or part-time positions. Compensation is made up of annual remuneration and a performance bonus depending on operating results.

Key management's compensation is presented below:

	Expenses		Accrued liabilities	
	2017	2016	31 December 2017	31 December 2016
Short-term employee benefits	7,071	7,412	4,837	4,866
Dismissal payout	137	134	–	–
Total	**7,208**	**7,546**	**4,837**	**4,866**

6 Segment information

The Group evaluates performance and makes investment and strategic decisions based on a review of the profitability of the Group as a whole, and based on operating segments. The Company's operating segment has been determined based on reports reviewed by CEO, assessed to be Company's chief operating decision maker ("CODM"), that are used to make strategic decisions.

It was determined, that the Group has one operating segment – the extraction, production and sales of potash fertilizers.

The financial information reported on operating segments is based on the management accounts which are based on IFRS. The CODM performs an analysis of the operating results based on the measurements of:

- revenues;
- revenues net of freight, railway tariff and transshipment costs;
- operating profit;
- cash capital expenditures net of VAT ("Cash CAPEX").

Business segment assets and liabilities are not reviewed by the CODM and therefore are not disclosed in this Note.

a) The following is an analysis of the Group's revenue and results from continuing operations for the reportable segment:

	Note	2017	2016
Revenues	19	2,760,874	2,278,249
Revenues net of freight, railway tariff and transshipment costs	19, 21	2,182,680	1,850,970
Operating profit		1,101,302	988,570
Cash CAPEX		270,888	323,130

b) Geographical information

The analysis of Group sales by region was:

	2017	2016
Russia	412,953	350,800
China, India, South East Asia	1,032,799	952,949
Latin America, USA	936,119	632,751
Europe, other countries	379,003	341,749
Total revenues	**2,760,874**	**2,278,249**

The sales are allocated by region based on the destination country.

c) Major customers

The Group had no external customers which represented more than 10% of the Group's revenues in the years ended 31 December 2017 and 2016.

7 Property, plant and equipment

	Buildings	Mining assets	Plant and equipment	Transport	Other	Land	Assets under construction	Total
COST								
Balance as at 1 January 2016	**488,916**	**631,832**	**817,040**	**155,474**	**20,578**	**6,271**	**488,528**	**2,608,639**
Additions	74	–	1,558	139	–	–	323,884	325,655
Changes in estimates added to property, plant and equipment (Note 17)	634	46,676	–	–	–	–	–	47,310
Commissioning of assets and transfers	105,932	1,915	157,932	17,116	(3,735)	74	(289,752)	(10,518)
Disposals	(4,000)	(996)	(18,445)	(2,468)	(226)	(14)	(6,678)	(32,827)
Effect of translation to presentation currency	110,991	123,964	185,732	32,530	3,347	1,270	101,110	558,944
Balance as at 31 December 2016	**702,547**	**803,391**	**1,143,817**	**202,791**	**19,964**	**7,601**	**617,092**	**3,497,203**
Additions	29	–	33	–	–	–	244,644	244,706
Changes in estimates added to property, plant and equipment (Note 17)	(12,566)	71,466	(1,177)	–	–	–	–	57,723
Recognition of asset related to decommissioning obligations (Note 17)	201	–	–	–	–	–	412	613
Commissioning of assets and transfers	38,135	115,622	55,869	3,334	(927)	24	(212,057)	–
Disposals	(548)	(7,963)	(16,965)	(7,810)	(105)	–	(3,629)	(37,020)
Effect of translation to presentation currency	37,610	44,974	61,145	10,703	1,094	406	33,112	189,044
Balance as at 31 December 2017	**765,408**	**1,027,490**	**1,242,722**	**209,018**	**20,026**	**8,031**	**679,574**	**3,952,269**

	Buildings	Mining assets	Plant and equipment	Transport	Other	Land	Assets under construction	Total
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
Balance as at 1 January 2016	**110,886**	**263,025**	**470,206**	**71,777**	**8,222**	**–**	**1,549**	**925,665**
Depreciation charge	21,910	50,332	69,785	11,968	959	–	–	154,954
Disposals	(1,590)	(398)	(15,129)	(2,095)	(83)	–	–	(19,295)
Transfers	11,456	(82,315)	61,371	(1,829)	(716)	–	1,516	(10,517)
(Reversal of impairment)/impairment	(1,229)	4,663	(5,347)	512	–	–	4,592	3,191
Effect of translation to presentation currency	26,601	42,234	112,320	15,191	1,605	–	1,101	199,052
Balance as at 31 December 2016	**168,034**	**277,541**	**693,206**	**95,524**	**9,987**	**–**	**8,758**	**1,253,050**
Depreciation charge	27,603	82,396	73,795	12,585	1,268	–	–	197,647
Disposals	(186)	(6,610)	(15,149)	(4,178)	(102)	–	–	(26,225)
Transfers	29	81	370	(315)	(182)	–	17	–
(Reversal of impairment)/impairment	(14)	(137)	(568)	(589)	–	–	(1,541)	(2,849)
Effect of translation to presentation currency	9,275	15,718	37,549	5,199	514	–	443	68,698
Balance as at 31 December 2017	**204,741**	**368,989**	**789,203**	**108,226**	**11,485**	**–**	**7,677**	**1,490,321**
NET BOOK VALUE								
Balance as at 1 January 2016	**378,030**	**368,807**	**346,834**	**83,697**	**12,356**	**6,271**	**486,979**	**1,682,974**
Balance as at 31 December 2016	**534,513**	**525,850**	**450,611**	**107,267**	**9,977**	**7,601**	**608,334**	**2,244,153**
Balance as at 31 December 2017	**560,667**	**658,501**	**453,519**	**100,792**	**8,541**	**8,031**	**671,897**	**2,461,948**

In 2016 the Group changed the classification between groups of fixed assets due to the changes to approach of classification of assets as Mining assets.

Allocation of depreciation charge for the period	**2017**	**2016**
Cost of sales (Note 20)	169,512	130,724
Distribution costs (Note 21)	11,847	10,719
General and administrative expenses (Note 22)	7,862	6,784
Other operating expenses (Note 23)	1,364	885
Capitalised within assets under construction	7,062	5,842
Total	**197,647**	**154,954**

Fully depreciated assets still in use
As at 31 December 2017 and 31 December 2016 the gross carrying value of fully depreciated property, plant and equipment still in use was US$ 416,046 and US$ 385,964 respectively.

8 Goodwill

The goodwill is primarily attributable to the expected future operational and marketing synergies arising from the business combinations with Silvinit Group and not to individual assets of the subsidiaries and was allocated to CGU – PJSC "Uralkali". The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on actual financial results, budget approved by Management and discount rates reflecting time value of money and inherent risks.

Management analysed the impact of changes in key assumptions on the value-in-use amount. Changes in key assumptions which may lead to potential impairment of goodwill are not probable considering current market estimates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2017	**2016**
RR/US$ exchange rate (till 2040)	From 61 to 138	From 65 to 123
Growth rate beyond one year	4.0% p.a.	4.0% p.a.
US$ weighted average cost of capital	10.2% p.a.	10.9% p.a.
Long-term inflation rate	4.0% p.a.	From 3.0% to 6.4% p.a.

The Group did not recognise any impairment of goodwill in the consolidated financial statements for the years ended 31 December 2017 and 31 December 2016.

9 Intangible assets

	Note	Mining licences	Software	Other	Total
COST					
Balance as at 1 January 2016		**2,674,962**	**9,354**	**9,961**	**2,694,277**
Additions		–	6,336	132	6,468
Disposals		–	(1,608)	(2,292)	(3,900)
Effect of translation to presentation currency		539,156	2,391	1,775	543,322
Balance as at 31 December 2016		**3,214,118**	**16,473**	**9,576**	**3,240,167**
Additions		–	603	903	1,506
Disposals		–	(946)	(209)	(1,155)
Effect of translation to presentation currency		170,566	874	508	171,948
Balance as at 31 December 2017		**3,384,684**	**17,004**	**10,778**	**3,412,466**
ACCUMULATED AMORTISATION					
Balance at 1 January 2016		**(263,547)**	**(3,354)**	**(2,393)**	**(269,294)**
Amortisation charge	20, 21, 22	(40,671)	(2,448)	(1,920)	(45,039)
Disposals of accumulated amortisation		–	1,372	956	2,328
Effect of translation to presentation currency		(57,396)	(789)	(590)	(58,775)
Balance as at 31 December 2016		**(361,614)**	**(5,219)**	**(3,947)**	**(370,780)**
Amortisation charge	20, 21, 22	(45,327)	(2,394)	(870)	(48,591)
Disposals of accumulated amortisation		–	884	2	886
Effect of translation to presentation currency		(19,782)	(296)	(223)	(20,301)
Balance as at 31 December 2017		**(426,723)**	**(7,025)**	**(5,038)**	**(438,786)**
NET BOOK VALUE					
As at 1 January 2016		**2,411,415**	**6,000**	**7,568**	**2,424,983**
As at 31 December 2016		**2,852,504**	**11,254**	**5,629**	**2,869,387**
As at 31 December 2017		**2,957,961**	**9,979**	**5,740**	**2,973,680**

10 Inventories

	31 December 2017	31 December 2016
Raw materials and spare parts	65,213	72,754
Finished products	16,986	77,330
Work in progress	3,671	4,553
Other inventories	6,069	7,399
Total inventories	**91,939**	**162,036**

11 Trade and other receivables

	31 December 2017	31 December 2016
Financial receivables		
Trade receivables	484,536	209,630
Other receivables	11,936	17,315
Less: provision for doubtful debt	(14,010)	(13,313)
Total financial receivables	**482,462**	213,632
Non-financial receivables		
VAT recoverable	49,570	47,286
Other taxes recoverable	1,927	636
Total non-financial receivables	**51,497**	**47,922**
Total trade and other receivables	**533,959**	**261,554**

As at 31 December 2017 trade receivables of US$ 464,628 (31 December 2016: US$ 189,513), net of provision for impairment, were denominated in foreign currencies; 89% of this balance was denominated in US$ (31 December 2016: 88%) and 11% was denominated in Euro (31 December 2016: 12%).

Movements of the provision for doubtful debt were as follows:

	2017		2016	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Balance as at 1 January	**(6,673)**	**(6,640)**	**(8,503)**	**(4,755)**
Provision accrued	(762)	(1,138)	(7,585)	(2,858)
Provision reversed	490	345	10,618	892
Provision utilised	188	710	90	40
Foreign exchange gain/(loss), net	190	(13)	83	1,087
Effect of translation to presentation currency	(353)	(354)	(1,377)	(1,045)
Balance as at 31 December	**(6,920)**	**(7,090)**	**(6,674)**	**(6,639)**

The accrual and reversal of the provision for doubtful debt have been included in other operating expenses in the consolidated statement of profit or loss (Note 23). Amounts charged to the provision account are written off when there is no expectation of recovering additional cash.

Analysis by credit quality of trade and other receivables is as follows:

	31 December 2017		31 December 2016	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Current and not impaired				
Insured	335,235	139	85,068	158
Not insured or factored	130,516	2,572	97,787	9,978
Total current and not impaired	**465,751**	**2,711**	**182,855**	**10,136**
Past due but not impaired				
less than 45 days overdue	11,024	1,333	12,319	404
45 to 90 days overdue	132	209	902	52
over 90 days overdue	709	593	6,880	84
Total past due but not impaired	**11,865**	**2,135**	**20,101**	**540**
Impaired				
45 to 90 days overdue	12	604	9	50
over 90 days overdue	6,908	6,486	6,665	6,589
Total amount of impaired accounts receivable	**6,920**	**7,090**	**6,674**	**6,639**
Total accounts receivable (gross)	**484,536**	**11,936**	**209,630**	**17,315**
Impairment provision	(6,920)	(7,090)	(6,674)	(6,639)
Total accounts receivable	**477,616**	**4,846**	**202,956**	**10,676**

As at 31 December 2017 and 2016 no trade and other receivables were pledged as collateral.

Management carried out an assessment of past due but not impaired trade and other receivables, as a result of which concluded that no impairment is needed due to stable financial position and solvency of counterparties.

12 Derivative financial instruments

As at 31 December 2017, the derivative financial instruments were represented by:

	The Group pays	The Group receives	Issue	Maturity	Notional amount 31 December 2017	Notional amount 31 December 2016
Cross-currency interest rate swap	US$ at floating rate US$-ISDA+4.2%	RR at floating rate MosPrime 3m+2.59%	2013	2018	US$ 250 mln (RR 8,213 mln)	US$ 583 mln (RR 19,163 mln)
	US$ at fixed rate 3.6%	RR at fixed rate 8.8%	2017	2020	US$ 265 mln (RR 15,000 mln)	–
Interest rate swap	US$ at fixed rate 1.52%–1.54%	US$ at floating rate USD-Libor 3M	2016	2019	US$ 833 mln (RR 47,981 mln)	–
	US$ at fixed rate 1.82%–1.8425%	US$ at floating rate USD-Libor 3M	2017	2020	US$ 1,000 mln (RR 57,600 mln)	–

In 2017 in order to reduce the currency risk the Company concluded a zero-cost collar agreement (a combination of buying an option to sell and selling an option to purchase) for monthly sale of US$ 25 mln for a 12 month period. The lower limit of the agreement RR 56.00 per US dollar and the upper limit is RR 76.25– 79.9 per US dollar.

In these consolidated financial statements derivative financial instruments were as follows:

	31 December 2017	31 December 2016
ASSETS		
Current derivative financial assets	16,783	–
Non-currentderivative financial assets	6,047	–
Total derivative financial assets	**22,830**	**–**
LIABILITIES		
Current derivative financial liabilities	109,815	153,372
Non-current derivative financial liabilities	11,609	123,753
Total derivative financial liabilities	**121,424**	**277,125**

Movements of the carrying amounts of derivative financial assets and liabilities were as follows:

	Note	2017	2016
Balance as at 1 January		**277,125**	**585,603**
Cash proceeds from derivatives		12,710	14,671
Cash paid for derivatives		(151,792)	(215,620)
Changes in the fair value	28	(51,662)	(184,983)
Effect of translation to presentation currency		12,213	77,454
Balance as at 31 December		**98,594**	**277,125**

13 Cash and cash equivalents

	Interest rates	31 December 2017	31 December 2016
Cash on hand and bank balances			
RR denominated cash on hand and bank balances		73,165	47,176
US$ denominated bank balances		856,422	1,035,325
EUR denominated bank balances		32,387	45,281
Other currencies denominated balances		110	12,390
Highly liquid risk-free bonds		**70,158**	**–**
Term deposits			
US$ term deposits	0.60% p.a. – 1.38% p.a. (31 December 2016: 0.51% p.a. – 1.73% p.a.)	39,134	312,000
RR term deposits	5.70% p.a. – 6.52% p.a. (31 December 2016: 5.21% p.a. – 9.40% p.a.)	1,233	33,349
Total cash and cash equivalents		**1,072,609**	**1,485,521**

As at 31 December 2017 and 31 December 2016, all term deposits have maturity within three months.

In 2017, the Group purchased US government bonds. These bonds are short-term, highly liquid with AAA rating from Fitch and Moody's agencies and are considered risk-free.

14 Equity

	Number of ordinary shares (in millions)	Number of treasury shares (in millions)	Ordinary shares	Treasury shares	Total
As at 1 January 2016	**2,936**	**(1,425)**	**35,762**	**(23,953)**	**11,809**
Treasury shares purchased	–	(171)	–	(2,956)	(2,956)
As at 1 January 2017	**2,936**	**(1,596)**	**35,762**	**(26,909)**	**8,853**
Treasury shares purchased	–	(11)	–	(192)	(192)
As at 31 December 2017	**2,936**	**(1,607)**	**35,762**	**(27,101)**	**8,661**

The number of unissued authorised ordinary shares is 1,730 million (31 December 2016: 1,730 million) with a nominal value per share of 0.868 US cents (0.5 RR) (31 December 2016: 0.824 US cents (0.5 RR)). All shares stated in the table above have been issued and fully paid.

The number of unissued authorised preference shares is 150 million (31 December 2016: 0) with a nominal value per share of 0.868 US cents (0.5 RR) (31 December 2016: 0). At the reporting date preference shares were not issued.

Treasury shares
On 23 November 2015, the Company's Board of Directors approved an open market buyback programme in respect of shares and GDRs. The programme commenced on 24 November 2015 and expired on 31 March 2016. Since the launch of the Company's open market buyback programme, an aggregate of 101,117,702 shares and 8,506,136 GDRs representing 4.9% of the Company's share capital have been purchased (including 28,428,735 shares and 8,430,936 GDRs that were purchased during November-December 2015).

On 18 May 2016 the Company's Board of Directors approved another open market buyback programme in respect of Company's ordinary shares. This programme included the purchase of GDRs in privately negotiated transactions. The programme was open from 19 May to 19 September 2016. During this period the Group purchased 92,272,796 shares and 1,215,191 GDRs that in aggregate constitute 3.4% of the Company's share capital.

During 2016 and 2017 the Company purchased 46,211 and 11,109,568 ordinary shares correspondingly as a result of redemption right exercise pursuant to Joint Stock Company Law.

The total amount spent on purchase of ordinary shares and GDRs of the Company during 2017 was US$ 26,104 (2016: US$ 506,134). All transaction costs were included into the purchase price of shares and GDRs. The difference between the purchase price of US$ 26,104 and the nominal value of the shares of US$ 192 was accounted for as a decrease in Share premium.

Treasury shares as at 31 December 2017 comprise 1,607,926,530 ordinary shares (31 December 2016: 1,596,816,962) represented by shares and GDRs of the Company owned by JSC "UK-Technologia", wholly owned subsidiary of the Group.

Preference shares
On 18 December 2017 the extraordinary general shareholders' meeting (the "EGM") made decision to increase the share capital of the Company by way of issuance of 150,000,000 non-convertible preferred shares, which will be placed by way of closed subscription to major shareholders of the Company at a price to be determined by the Board of Directors prior to the offering.

Delisting
The listing and admission to trading of the Company's Rule 144A and Regulation S GDRs on the London Stock Exchange have been cancelled with effect from start of trading on 22 December 2015. The Company's Rule 144A GDR programme has been terminated with effect from 12 January 2016.

The Moscow Stock Exchange made decision to downgrade the listing of Company's shares from Level 1 to Level 3 effective from 26 June 2017 following the decrease of the free float of the Company's shares to 7.5% of the issued capital for a period longer than 6 months. Taking into account this fact and the reduced volume of trading in the Company's shares on the stock exchange, the Board of Directors unanimously recommended to the Company's shareholders to approve the delisting of the Company's shares from the Moscow Exchange. On 18 December 2017 EGM made decision on delisting of the Company's shares from Moscow stock exchange.

Dividends
All dividends are declared and paid in RR. The current dividend policy provides flexibility to the Board of Directors in determining the amount of dividend payments.

In 2017 and 2016, at the General Meeting of Shareholders of the Company Shareholders resolved not to pay any dividends.

15 Borrowings

	31 December 2017	31 December 2016
Bank loans	**4,773,344**	**6,409,114**
Short-term bank loans	1,291,857	1,827,100
Long-term bank loans	3,481,487	4,582,014
Finance lease payable	**9,197**	**8,760**
Short-term finance lease payable	18	101
Long-term finance lease payable	9,179	8,659
Total borrowings	**4,782,541**	**6,417,874**

Bank loans

	2017	2016
Balance as at 1 January	**6,409,114**	**5,897,427**
Bank loans received, denominated in US$	1,603,010	1,370,533
Bank loans repaid, denominated in US$	(3,056,349)	(714,065)
Bank loans repaid, denominated in RR	(187,651)	(196,912)
Interest accrued	278,922	294,949
Interest paid	(293,041)	(296,476)
Recognition of syndication fees and other financial charges	(13,486)	(19,831)
Amortisation of syndication fees and other financial charges	20,727	12,338
Foreign exchange gain, net	(292,516)	(1,055,914)
Effect of translation to presentation currency	304,614	1,117,065
Balance as at 31 December	**4,773,344**	**6,409,114**

The table below shows interest rates as at 31 December 2017 and 31 December 2016 and the split of bank loans into short-term and long-term.

Short-term bank loans	Interest rates	31 December 2017	31 December 2016
Bank loans in US$: floating interest	From 1 month Libor + 2.2% to 3 month Libor + 3.55% (31 December 2016: From 1 month Libor +2.15% to 6 month Libor +4.65%)	1,145,987	1,641,788
Bank loans in US$: fixed interest	From 3,8% to 4.61%	1,852	–
Bank loans in RR: floating interest	MosPrime 3M + 2.59% (31 December 2016: MosPrime 3M + 2.59%)	144,018	185,312
Total short-term bank loans		**1,291,857**	**1,827,100**
Long-term bank loans			
Bank loans in US$: floating interest	From 1 month Libor +2.2% to 3 month Libor +3.55% (31 December 2016: From 1 month Libor +2.15% to 6 month Libor +4.65%)	2,731,858	4,447,492
Bank loans in US$: fixed interest	From 3,8% to 4.61%	749,629	–
Bank loans in RR: floating interest	31 December 2016: MosPrime 3M + 2.59%	–	134,522
Total long-term bank loans		**3,481,487**	**4,582,014**

As at 31 December 2017 and 2016 no equipment or inventories were pledged as security for bank loans.

As at 31 December 2017, bank loans amounting US$ 2,025,340 (31 December 2016: US$ 2,138,964) were collateralised by future sales proceeds of the Group under export contracts with certain customers.

In March 2016 a credit line agreement with PJSC "Sberbank" was signed in the amount of up to US$ 3.9 billion for the purpose of refinancing of other loans received from the bank as well as for other general corporate purposes, which, together with related agreements, were secured by way of pledge to PJSC "Sberbank" of the Company shares and GDRs constituting 28.6% of the Company's issued ordinary shares (equivalent of 389,981,286 ordinary shares and 89,959,526 GDRs). In 2017 amendments to Sberbank facilities were signed – the term of the credit facility was extended and the interest rate was decreased. Funds under the committed credit line in the amount of US$ 2.0 billion are available to be drawn down from 1 January 2019 till 31 December 2020; funds in the amount of US$ 1.9 billion are available to be drawn down from 23 November 2019 till 19 June 2020. As at 31 December 2017, the Company has not yet used the facility.

On 29 August 2016 the Extraordinary General Meeting of the Company's shareholders approved a number of interrelated transactions in respect of the placement of the Company's Exchange Traded Bonds in favor of JSC "Uralkali-Technologia" with a total nominal value of US$ 800 mln and with a value of US$ 1 per one bond. The purpose of this placement was to replace the Company's shares/GDRs with the Exchange Traded Bonds in the US$ 800 mln REPO agreement signed on 23 September 2015 between JSC "Uralkali-Technologia" and JSC "VTB Capital". JSC "Uralkali-Technologia" terminated the pledge over the Company's GDRs and released the Company's ordinary shares from REPO, constituting totally 20% of the Company's issued ordinary shares. In October 2017 the liability under the REPO agreement between JSC "Uralkali-Technologia" and JSC "VTB Capital" was repaid.

In April 2017 the Company signed a revolving credit line agreement in the amount of up to US$ 750 mln with PJSC Sberbank of Russia, Sberbank AG (Switzerland) and SIB LIMITED (CYPRUS). The availability period of the credit line is 3 years, during which the Company can borrow funds in tranches and with different maturities within the limit and the tenor of the credit line availability. The funds raised can be used for the Company's general corporate purposes, including refinancing of its current debt obligations. As at 31 December 2017 the credit line was fully utilised in two tranches, each for a period of 3 years.

On 16 August 2017 the Company signed a US$ 850 mln 5-year pre-export facility with 11 international banks. The interest rate is 1M LIBOR + 2.2%. The loan was used for refinancing of the Company's existing loans including PXF facilities of 2013 and 2015 and for general corporate purposes.

In October 2017 the Company signed up to US$ 500 mln revolving facility agreement with Gazprombank with the availability period from the signing date to and including 23 months from the signing date. The borrower shall apply all amounts borrowed by it under the facility towards its general corporate purposes (including, but not limited to, refinancing of its existing indebtedness). As at 31 December 2017 the line was not utilized.

In January 2018 the Company signed an uncommitted revolving credit facility in the amount of up to $100 mln with Credit Agricole, which is available for one year (Note 30).

During 2016 the Group signed amendments to change the definition of Net Debt/Net Worth in several facilities. The amendments changed the calculation of Net Worth by excluding from the calculation foreign exchange losses/gains and fair value loss/gain on derivatives from 1 January 2013. Under several other amendments Net Worth was adjusted to exclude treasury shares and share premium.

The Group was in compliance with all financial and non-financial covenants as at 31 December 2017.

16 Bonds

In April 2013 the Group issued US$ denominated Eurobonds at the nominal value of US$ 650 million bearing a coupon of 3.723% p.a. maturing in 2018.

In May 2017 the Company issued ruble bonds in the amount of RR 15 billion under its exchange bond programme. The coupon rate was 8.80% p.a., coupon period is 182 days. Nominal value of the bond is RR 1,000. The bond matures in 3 years.

The Group has concluded the cross-currency interest rate swap agreements to translate to dollars debt and interest payments (Note 12).

In October 2017 JSC "Uralkali-Technologia" sold bonds issued by the Company to JSC "VTB Capital". At the same time the Company entered into an interest rate swap to exchange the coupon rate with the interest rate of financing (Note 12).

	2017	2016
Balance as at 1 January	**584,907**	**584,668**
Issuance of bonds	1,070,181	–
Interest accrued	44,125	21,325
Interest paid	(32,480)	(21,215)
Recognition of syndication fees and other financial charges	(745)	–
Amortisation of syndication fees	604	476
Foreign exchange gain	(31,019)	(107,001)
Effect of translation to presentation currency	25,618	106,654
Balance as at 31 December	**1,661,191**	**584,907**

	31 December 2017	31 December 2016
Short-term bonds		
Short-term bonds quoted on Irish Stock Exchange	585,329	2,550
Short-term bonds quoted on Moscow Stock Exchange	15 908	–
Total short-term bonds	**601,237**	**2,550**
Long-term bonds		
Long-term bonds quoted on Irish Stock Exchange	–	582,357
Long-term bonds quoted on Moscow Stock Exchange	1,059,954	–
Total long-term bonds	**1,059,954**	**582,357**
Total bonds	**1,661,191**	**584,907**

17 Provisions

	Note	Provision for filling cavities	Restructuring provision	Resettlement provision	Mine flooding provision	Legal provision	Provision for asset retirement obligations	Total
Balance as at 1 January 2016		**58,296**	**5,611**	**–**	**7,823**	**14,244**	**35,084**	**121,058**
Recognition of asset retirement obligations and changes in estimates added to property, plant and equipment	7	31,094	–	–	–	–	16,216	47,310
Changes in estimates		–	(703)	–	207	140	–	(356)
Accrual of provision		–	–	9,792	–	–	–	9,792
Utilisation of provision		(11,997)	(318)	–	(1,219)	–	–	(13,534)
Unwinding of the present value discount		6,345	611	–	850	1,570	3,818	13,194
Effect of translation to presentation currency		14,444	1,086	1,030	1,562	3,052	9,172	30,346
Current liabilities		**11,639**	**200**	**10,822**	**1,460**	**19,006**	**–**	**43,127**
Non-current liabilities		**86,543**	**6,087**	**–**	**7,763**	**–**	**64,290**	**164,683**
Balance as at 31 December 2016		**98,182**	**6,287**	**10,822**	**9,223**	**19,006**	**64,290**	**207,810**
Changes in estimates added to property, plant and equipment	7	77,675	–	–	–	–	(19,952)	57,723
Changes in estimates		–	(32)	(817)	(3,152)	–	–	(4,001)
Accrual of provision		–	–	10,084	–	6,084	613	16,781
Reversal of provision		–	–	–	–	(21,476)	–	(21,476)
Utilisation of provision		(18,079)	(140)	(3,397)	(896)	(66)	–	(22,578)
Unwinding of the present value discount		8,522	555	54	799	808	5,724	16,462
Effect of translation to presentation currency		6,100	339	652	447	817	3,234	11,589
Current liabilities		**23,314**	**297**	**11,179**	**1,033**	**5,173**	**–**	**40,996**
Non-current liabilities		**149,086**	**6,712**	**6,219**	**5,388**	**–**	**53,909**	**221,314**
Balance as at 31 December 2017		**172,400**	**7,009**	**17,398**	**6,421**	**5,173**	**53,909**	**262,310**

18 Trade and other payables

	31 December 2017	31 December 2016
Financial payables		
Trade payables	66,334	61,098
Accrued liabilities	90,552	77,990
Salary payable and related accruals	53,798	50,493
Other payables	37,716	32,232
Total financial payables	**248,400**	**221,813**
Non-financial payables		
Other taxes payable	19,342	24,097
Other non-financial payables	5,176	1,446
Total non-financial payables	**24,518**	**25,543**
Total trade and other payables	**272,918**	**247,356**

As at 31 December 2017 trade and other payables of US$ 42,716 (31 December 2016: US$ 13,437) were denominated in foreign currencies: 38% of this balance was denominated in US$ (31 December 2016: 79%) and 54% was denominated in Euro (31 December 2016: 8%).

19 Revenues

	2017	2016
Potassium chloride	1,710,530	1,482,803
Potassium chloride (granular)	959,164	736,041
Other revenues	91,180	59,405
Total revenues	**2,760,874**	**2,278,249**

20 Cost of sales

	Note	2017	2016
Depreciation	7	169,512	130,724
Employee benefits		168,708	138,381
Materials and components		123,929	89,526
Fuel and energy		108,085	81,471
Repairs and maintenance		43,526	36,054
Amortisation of licences	9	45,327	40,671
Change in work in progress, finished goods and goods in transit		36,951	4,578
Transportation between mines by railway		12,228	9,061
Other costs		30,810	19,300
Total cost of sales		**739,076**	**549,766**

21 Distribution costs

	Note	2017	2016
Railway tariff and rent of wagons		301,033	214,641
Freight		248,343	183,318
Transport repairs and maintenance		31,892	25,055
Transshipment		28,817	29,320
Commissions and marketing expenses		23,003	11,148
Employee benefits		10,855	16,468
Depreciation	7	8,567	7,398
Storage expenses		4,872	13,722
Other costs		90,422	46,606
Total distribution costs		**747,804**	**547,676**

Depreciation in the amount of US$ 3,280 is included into Transport repairs and maintenance and Transshipment costs (2016: US $3,321).

22 General and administrative expenses

	Note	2017	2016
Employee benefits		89,953	87,354
Depreciation	7	7,862	6,784
Security		6,475	6,041
Mine rescue crew		6,134	5,123
Materials and fuel		5,182	4,263
Communication and information system services		4,413	4,016
Consulting, audit and legal services		4,349	8,713
Amortisation of intangible assets	9	3,264	4,368
Repairs and maintenance		3,167	3,059
Other expenses		26,591	24,361
Total general and administrative expenses		**157,390**	**154,082**

23 Other operating income and expenses

	Note	2017	2016
Other operating expenses/(income) related to non-current assets			
Loss on disposals of property, plant and equipment and intangible assets		8,318	9,322
(Reversal)/accrual of impairment loss on property, plant and equipment and assets under construction		(2,849)	3,773
Other operating expenses/(income) related to non-current assets		1,812	(1,904)
Other operating expenses/(income) related to accounting estimates and accrued liabilities			
Accrual of resettlement provision	17	9,267	9,792
(Reversal)/accrual of legal provision	17	(15,392)	140
Other operating income related to provisions and accrued liabilities		(1,848)	(7,241)
Other operating expenses/(income)			
Social cost and charity		6,242	7,742
Other income, net		(11,954)	(8,883)
Total other operating (income)/expenses, net		**(6,404)**	**12,741**

24 Finance income and expenses

	Note	2017	2016
Foreign exchange gain		271,908	888,967
Fair value gain on derivative financial instruments, net	12	51,662	184,983
Interest income		25,600	17,260
Gain on disposal of other financial assets		862	–
Dividend income		104	172
Gain from discounting and unwinding, net		–	1,694
Income from associate		–	279
Total finance income		**350,136**	**1,093,355**
Interest expense		(286,767)	(289,685)
Syndication fees and other financial charges		(50,243)	(30,407)
Loss from discounting and unwinding, net		(14,590)	–
Letters of credit fees		(4,349)	(4,043)
Loss from associate		(1,463)	–
Finance lease expense		(915)	(797)
Fair value losses on investments		(61)	(297)
Other finance expenses		(33)	–
Total finance expenses		**(358,421)**	**(325,229)**
Total finance (expenses)/income, net		**(8,285)**	**768,126**

The syndication fees and other financial charges include the write-off of the prepaid commission in the amount of US$ 16,641 related to a US$ 1.5 billion credit line from PJSC "Sberbank of Russia". The credit line was available for utilisation till 3 March 2017. This credit line has not been used due to it being more costly as compared to other funding options.

Capitalised interest expense and foreign exchange gain/loss in the cost of assets under construction were as follows:

	2017	2016
Capitalised interest expenses	36,280	26,949
Capitalised foreign exchange losses	600	–
Total capitalised borrowing costs	**36,880**	**26,949**

25 Income tax expense

	2017	2016
Current income tax expense	156,527	197,124
Adjustments recognised in the period for current income tax of prior periods	(6,187)	(449)
Deferred income tax expense	68,049	132,875
Income tax expense	**218,389**	**329,550**

Income before taxation and non-controlling interests for consolidated financial statements purposes is reconciled to income tax as follows:

	2017	2016
Profit before income tax	**(1,093,017)**	**(1,756,696)**
Theoretical tax charge at a rate of 16.5% (2016: 15.5%)	180,348	272,288
Corrections of profit tax for prior years	(6,187)	(449)
Tax effect of expenses which are not deductible, net	14,567	13,721
Effect of different tax rates in countries and regions	(3,565)	176
Effect of changes in tax rate	457	39,452
Write-off of deferred tax asset	27,779	6,006
Effect of previously unrecognised tax losses for disposed entities	5,501	–
Other	(511)	(1,644)
Income tax expense	**218,389**	**329,550**

As at 31 December 2017 and 2016, most companies of the Group were registered in the Russian Federation, Perm region and were taxed at a rate from 16.5% to 19.5% on taxable profits as at 31 December 2017 and at a rate from 15.5% to 17.0% as at 31 December 2016. However, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the end of the reporting period. In 2015, a new law was adopted by Legislative Assembly of Perm region which determined the income tax rate of 17.0% in 2016 up to 20.0% in 2018 and further. However, for those taxpayers which make significant capital investments and/or donate to charity on the territory of Perm region, the tax rate can be decreased by a certain percentage (which is calculated using the formula stated in the law). The decreased tax rate cannot be lower than 15.5% in 2016 and 16.5% starting from 2017.

Management of the Group performed an analysis using the forecasts of capital expenditure and profits based on which they expect to utilize the tax benefit for some of the entities of the Group registered in Perm region, including the Company.

In 2017 and 2016, foreign subsidiaries were taxed applying respective national income tax rates.

The tax effect of the movements in the temporary differences for the year ended 31 December 2017 was the following:

	31 December 2016	Recognised in profit or loss	Effect of translation to presentation currency	31 December 2017
Tax effects of taxable and deductible temporary differences				
Property, plant and equipment	(153,573)	(27,356)	(8,507)	(189,436)
Intangible assets	(473,305)	7,840	(25,015)	(490,480)
Inventories	6,029	(4,054)	267	2,242
Borrowings	(6,290)	51	(333)	(6,572)
Trade and other receivables	(2,027)	6,489	(14)	4,448
Prepaid transaction costs on bank facilities	(13,432)	2,498	(689)	(11,623)
Derivative financial instruments	45,726	(31,463)	2,015	16,278
Trade and other payables	1,510	(2,025)	54	(461)
Tax loss carry-forward	19,651	(18,687)	798	1,762
Provisions	34,294	8,942	1,937	45,173
Other	9,588	(10,284)	375	(321)
Total net deferred tax liability	**(531,829)**	**(68,049)**	**(29,112)**	**(628,990)**

The tax effect of the movements in the temporary differences for the year ended 31 December 2016 was the following:

	31 December 2015	Recognised in profit or loss	Effect of translation to presentation currency	31 December 2016
Tax effects of taxable and deductible temporary differences				
Property, plant and equipment	(104,222)	(25,647)	(23,704)	(153,573)
Intangible assets	(374,959)	(20,604)	(77,742)	(473,305)
Inventories	30,487	(27,691)	3,233	6,029
Borrowings	(3,869)	(1,485)	(936)	(6,290)
Trade and other receivables	(3,173)	1,617	(471)	(2,027)
Prepaid transaction costs on bank facilities	(408)	(11,711)	(1,313)	(13,432)
Derivative financial instruments	90,762	(57,305)	12,269	45,726
Trade and other payables	590	725	195	1,510
Tax loss carry-forward	23,215	(7,459)	3,895	19,651
Provisions	18,756	10,639	4,899	34,294
Other	2,410	6,046	1,132	9,588
Total net deferred tax liability	**(320,411)**	**(132,875)**	**(78,543)**	**(531,829)**

Deferred tax balances presented in the consolidated statement of financial position were as follows:

	31 December 2017	31 December 2016
Deferred income tax asset	16,615	47,408
Deferred income tax liability	(645,605)	(579,237)
Deferred income tax liability, net	**(628,990)**	**(531,829)**

As at 31 December 2017 the Group has not recognised a deferred income tax liability in respect of taxable temporary differences associated with investments in subsidiaries in the amount of US$ 177,482 (31 December 2016: US$ 200,565). The Group controls the timing of the reversal of these temporary differences and does not expect their reversal in the foreseeable future.

26 Contingencies, commitments and operating risks

26.1 Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, Management is of the opinion that there are no current legal proceedings or other claims outstanding that could have a material effect on the results of operations or financial position of the Group which have not been disclosed in these consolidated financial statements.

26.2 Tax legislation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the consolidated financial statements could be significant.

According to the amendments introduced into the Russian tax legislation, the undistributed profits of the Group foreign subsidiaries, recognised as controlled foreign companies, may result in an increase of the tax base of the controlling entities. According to current forecasts the profits of controlled foreign companies does not increase the taxable profits of the Company due to application of appropriate norms of tax legislation of the Russian Federation. Despite the fact that the Group has developed a tax planning strategy with regard to the legislation on controlled foreign companies applicable to the Group foreign subsidiaries, Management of the Group does not exclude the fiscal approach of regulating authorities to the order of determination of taxable profits in controlling entities of the Group in Russia.

26.3 Insurance

The Company generally enters into insurance agreements when it is required by statutory legislation. The insurance agreements do not cover the risks of damage to third parties' property resulting from the Group's underground activities and the risks reflected in Note 4.

26.4 Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. In the current enforcement climate under existing legislation, Management believes that there are no significant liabilities for environmental damage due to legal requirements except for those mentioned in Note 4. The Group's mining activities and the recent mine flooding may cause subsidence that may affect the Group's facilities, and those of the cities of Berezniki and Solikamsk, State organisations and others.

26.5 Operating environment of the Group

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014, the oil price decreased significantly.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

26.6 Capital expenditure commitments

As at 31 December 2017 the Group had contractual commitments for the purchase of property, plant and equipment and intangible assets for US$ 485,160 (31 December 2016: US$ 426,016) from third parties. As at 31 December 2017 and 31 December 2016, the Group had no contractual commitments for the purchase of property, plant and equipment from related parties.

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

26.7 Operating lease commitments

As at 31 December 2017 and 2016 the Group leased property, plant and equipment, mainly land plots. The future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2017	31 December 2016
Not later than 1 year	3,139	3,198
Later than 1 year and not later than 5 years	8,724	9,958
Later than 5 years	9,355	16,074
Total operating lease commitments	**21,218**	**29,230**

27 Financial risk management

27.1 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital.

27.2 Categories of financial instruments

	Note	31 December 2017	31 December 2016
Financial assets			
Loan issued	5	379,232	188,762
Trade and other receivables	11	482,462	213,632
Derivative financial assets	12	22,830	–
Other financial assets		1,927	68,267
Cash and cash equivalents	13	1,072,609	1,485,521
Financial liabilities			
Borrowings	15	4,782,541	6,417,874
Bonds	16	1,661,191	584,907
Derivative financial liabilities	12	121,424	277,125
Trade and other payables	18	248,400	221,813

27.3 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. Market risk is the possibility that currency exchange rates, reduction in the prices of potash products and changes in interest rates will adversely affect the value of assets, liabilities or expected future cash flows. Overall risk management procedures adopted by the Group focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is different from the functional currency of the companies of the Group.

The Group operates internationally and exports significant part of potash fertilizers sales. As a result the Group is exposed to foreign exchange risk arising from various currency exposures. Export sales are primarily denominated in US$ or Euro. The Group is exposed to the risk of significant RR/US$ and RR/Euro exchange rates fluctuations. The Group's operating profit benefits from the weak exchange rate of the RR against the US$ and Euro, since all the Group major operating expenses are denominated in RR. The net profit suffers from the weak Rouble exchange rate mainly due to the foreign exchange differences on the Group's loans which are predominantly denominated in USD.

For the year ended 31 December 2017, if during the year the US$ and Euro had strengthened by 10% against the RR with all other variables held constant, the net profit for the year would have been US$ 386,626 lower (31 December 2016: US$ 416,066 lower), if during the year the US$ and Euro had weakened by 10% against the RR with all other variables held constant, the net profit for the year would have been US$ 392,556 higher (31 December 2016: US$ 416,066 higher), mainly as a result of foreign exchange gains/losses on the translation of US$ and Euro denominated trade receivables, cash in bank, deposits, foreign exchange losses/gains on the translation of US$ denominated borrowings and bonds issued and changes of fair value of derivative financial assets and liabilities.

(ii) Price risk

The Group is not exposed to commodity price risk, since the Group does not enter in any operations with financial instruments whose value is exposed to the value of commodities traded on the public market.

(iii) Interest rate risk

The Group's income and operating cash flows are exposed to market interest rates changes. The Group is exposed to fair value interest rate risk through market value fluctuations of interest bearing short- and long-term borrowings, whose interest rates comprise a fixed component. Borrowings issued at variable rates expose the Group to cash flow interest rate risk (Notes 15, 16). The Group uses cross-currency interest rate and interest rate swaps to reduce interest payments (Note 12). The objective of managing interest rate risk is to prevent losses due to adverse changes in market interest rates. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, the renewal of existing positions and alternative financing.

For the year ended 31 December 2017, if LIBOR and ISDA rates on US$ denominated borrowings had been 200 basis points higher/lower with all other variables held constant, net profit for the year would have been US$ 98,430 lower/higher (year ended 31 December 2016: net profit for the year would have been US$ 106,299 lower/higher).

The effect is mainly as a result of higher/lower interest expense on floating rate borrowings and changes in the fair value of derivative financial assets and liabilities with floating rates terms.

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. The objective of managing credit risk is to prevent losses of liquid funds deposited in counterparties.

Financial assets, which potentially subject Group entities to credit risk, consist primarily of loan issued, trade receivables, cash and bank deposits.

The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets of US$ 1,959,060 (31 December 2016: US$ 1,956,182).

The Group is not exposed to significant concentrations of credit risk. As at 31 December 2017 the Group had 63 counterparties (31 December 2016: 28 counterparties), each of them having receivables balances above US$ 1,000. The total aggregate amount of these balances was US$ 462,644 (31 December 2016: US$ 181,529) or 98% of the total amount of financial trade and other receivables (31 December 2016: 85%). Cash and short-term deposits are placed in banks and financial institutions, which are considered at the time of deposit to have optimal balance between rate of return and risk of default. The Group has no other significant concentrations of credit risk.

As at 31 December 2017 the Group has a loan issued to a related party which gives exposure to credit risk at the amount of US$ 379,232.

Loans to related parties and pledge agreements (Note 5) involve related parties without publicly available credit ratings. Management therefore prepared financial models to assess the credit risk associated with loans to related parties and pledged agreements which involved a number of judgements as described in Note 4. Management does not expect to recognise any credit losses in relation to loans to related parties and pledge agreements within the next 12 months.

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

The effective monitoring and controlling of credit risk is performed by the Group's corporate treasury function. The credit quality of each new customer is analysed before the Group enters into contractual agreements. The credit quality of customers is assessed taking into account their financial position, past experience, country of origin and other factors. Management believes that the country of origin is one of the major factors affecting a customer's credit quality and makes a corresponding analysis (Note 11). Most customers from developing countries are supplied on secured payment terms, including letters of credit or factoring arrangements. These terms include deliveries against opened letters of credit and arrangements with banks on non-recourse discounting of promissory notes received from customers.

Although the collection of receivables could be influenced by economic factors, Management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 11).

The table below shows the credit quality of cash, cash equivalents, deposits and restricted cash balances neither past due nor impaired on the reporting date, based on the credit ratings of independent agencies as at 31 December 2017 and 2016, if otherwise not stated in table below:

Rating — Moody's, Fitch, Standard&Poor's	31 December 2017	31 December 2016
From AAA / Aaa to A- / A3	172,577	255,146
From BBB+ / Baa1 to BBB- / Baa3	836,201	629,599
From BB+ / Ba1 to B- / B3	7,716	133,211
Unrated*	56,115	467,565
Total cash and cash equivalents, not past due nor impaired	**1,072,609**	**1,485,521**

* Unrated balance contains cash on hand and other cash equivalents.

(c) Liquidity risk

In accordance with prudent liquidity risk Management, the Management of the Group aims to maintain sufficient cash in order to meet its obligations. Group treasury aims to maintain sufficient level of liquidity based on monthly cash flow budgets, which are prepared for the year ahead and continuously updated during the year.

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the time remaining from the reporting to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows at spot rates.

	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2017					
Trade and other payables	18	248,400	–	–	**248,400**
Borrowings		1,485,196	3,631,248	60,509	**5,176,953**
Bonds		662,368	1,119,912	–	**1,782,280**
Finance lease liabilities		941	3,765	34,416	**39,122**
Derivative financial liabilities		106,987	1,851	–	**108,838**
Total		**2,503,892**	**4,756,776**	**94,925**	**7,355,593**
As at 31 December 2016					
Trade and other payables	18	221,813	–	–	**221,813**
Borrowings		2,149,567	5,050,662	79,925	**7,280,154**
Bonds		26,397	658,679	–	**685,076**
Finance lease liabilities		894	3,576	33,576	**38,046**
Derivative financial liabilities		146,923	114,248	–	**261,171**
Total		**2,545,594**	**5,827,165**	**113,501**	**8,486,260**

28 Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets and liabilities carried at fair value. Derivatives (Level 2) are carried in the consolidated statement of financial position at their fair value. Fair values of derivative financial assets and liabilities were determined using discounting cash flows valuation techniques with inputs (discount rates for RR and US$, exchange and interest rates) observable in markets.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of trade and other financial receivables approximate fair values. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

			31 December 2017		31 December 2016	
	Stated at	Level	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Loan issued	Amortised cost	3	379,232	383,413	188,762	188,762
Derivative financial assets	Fair value	2	16,783	16,783	–	–
Trade and other receivables	Amortised cost	3	482,427	482,427	213,632	213,632
Other financial assets	Amortised cost	3	1,912	1,912	68,267	68,770
Total			**880,354**	**884,535**	**470,661**	**471,164**
Financial liabilities						
Borrowings	Amortised cost	3	4,782,541	4,771,134	6,417,874	6,417,874
Bonds	Amortised cost	1	1,661,191	1,645,938	584,907	580,084
Derivative financial liabilities	Fair value	2	121,424	121,424	277,125	277,125
Trade and other payables	Amortised cost	3	248,402	248,402	221,813	221,813
Total			**6,813,558**	**6,786,898**	**7,501,719**	**7,496,896**

29 Principal subsidiaries

The Group had the following principal subsidiaries as at 31 December 2017:

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
LLC "SMT "BSHSU"	Construction	100.00%	100.00%	Russia
LLC "Vagon Depo Balahonzi"	Repair and maintenance	100.00%	100.00%	Russia
LLC "Uralkali-Remont"	Repair and maintenance	100.00%	100.00%	Russia
LLC "Avtotranskali"	Transportation	100.00%	100.00%	Russia
JSC "Baltic Bulker Terminal"	Sea terminal	100.00%	100.00%	Russia
LLC "Satellit-service"	IT services	100.00%	100.00%	Russia
JSC "NII Galurgii"	Scientific institute	100.00%	100.00%	Russia
JSC "VNII Galurgii"	Scientific institute	85.25%	85.25%	Russia
Uralkali Trading SIA	Trading	100.00%	100.00%	Latvia
Uralkali Trading Chicago	Trading	100.00%	100.00%	USA

30 Events after reporting date

In January 2018 the Company signed an uncommitted revolving credit facility in the amount of up to US$100 mln with Credit Agricole, which is available for one year. Amounts borrowed can be used to finance working capital, capital expenditures or to refinance existing indebtedness.

In February 2018, the loan issued to a related party was prolonged till 2023 (Note 5).

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board of Directors, which approved this responsibility statement at its meeting held on 22 May 2018.

Dmitry Osipov,
CEO

REPORT ON COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CODE OF CORPORATE GOVERNANCE

This report on compliance with the principles and recommendations of the Code of Corporate Governance was reviewed by the Company's Board of Directors at the Meeting on 22 May 2018. The Board of Directors confirms that this report contains complete and reliable information regarding the Company's compliance with the principles and recommendations of the Code of Corporate Governance for 2017.

Uralkali consistently follows the main principles of the Code of Corporate Governance and its recommendations by steadily complying with requirements of the relevant legislation and using best corporate governance practices. The Company's corporate governance structure (model) is a traditional one: the General Shareholders Meeting is a superior management body, the Board of Directors is responsible for general guidance, the Management Board is a collegial executive body, and the CEO is a sole executive body. The Board of Directors established four committees which are consultative and advisory bodies headed by independent directors. The committees and commissions (working groups) to the CEO were established for advancing Uralkali's various activities. Decisions of such working groups are offered in the format of recommendation. The Company has a corporate secretary who guarantees observance of the national legislation rules and procedures, participates in information disclosure, as well as ensures cooperation between the Company's governing bodies, shareholders, and regulators. The Company established an internal audit division as well, which reports to the Audit Committee. Other significant aspects of the Company's corporate governance models and practices are described in section Corporate Governance of the Annual Report.

The Company performed the assessment of compliance with the principles of corporate governance in accordance with the methodology that can be described as follows. Since the main principles and recommendations of the Code of Corporate Governance are related to activities of the Company's management bodies and the procedure of performing such activities, the Company, represented by the Corporate Secretary and the Corporate Governance's members in cooperation with the Company's management bodies, continuously monitors, collects and evaluates information in the form recommended by the Bank of Russia (as follows). Information on the Company's key events is disclosed in accordance with the established procedure in a form of material facts or, in some cases, in a form of press releases, and quarterly reports. The Company has a reporting system for its individual departments that regularly submit reports to meetings of the Board's relevant committees; the CEO also regularly submit reports on the results of the Company's operations at the Meeting of the Board of Directors. By determining the status of compliance with the principle of corporate governance and explaining deviations from the criteria for assessing compliance with the principle of corporate governance, the Company describes the existing practices, and the Board of Directors discusses the Report and assesses its completeness and reliability. At present, the Company doesn't plan to bring significant changes in the established system of the corporate governance and deems it to be relevant to the Company's needs at the current stage of its development. At the same time, the Company constantly keeps up to date with the development of corporate governance both in Russia and in the world, looking for opportunities to apply new practices in the Company.

No.	Principles of corporate governance	Criteria for assessment of the principles observance	Status of compliance with the principle of corporate governance	Explanation for deviation from compliance/non-compliance with the principles of corporate governance
1.1	**The company shall ensure the equal and fair treatment of all its shareholders in the course of exercising their rights to participate in the management of the company.**			
1.1.1	The company shall create the most favourable conditions possible for its shareholders, enabling them to participate in general meetings and develop informed positions on the agenda issues, as well as providing them with the opportunity to coordinate their actions and express their opinions regarding issues under discussion.	1. The company's internal document which regulates the procedure for holding general shareholders meetings, and which was approved by the general shareholders meeting, shall be available within the public domain. 2. During the period of meetings preparation, the company provides a special telephone line (hotline), a special email address, and a forum on its website for communication with shareholders, enabling them to express their opinion and pose questions concerning agenda items. The above-mentioned actions were performed by the company on days before meetings that were held in the reporting period.	observed observed	
1.1.2	Procedures for notification of general shareholders meetings and provision of relevant materials shall enable the company's shareholders to properly prepare for participation therein.	1. An announcement of general shareholders meetings shall be published on the company's website at least 30 days before the date of meetings. 2. The announcement shall contain information about the meeting's location and documents required for access therein. 3. Shareholders were provided with the information about the persons having proposed agenda items or nominated a particular candidate to the board of directors or the revision commission.	observed observed not observed	The comments below are relevant to paragraph 3 of the assessment criteria. The shareholders are not informed about the persons having proposed agenda items for the General Shareholders Meeting (GSM) or nominated a particular candidate to Company's bodies. This is due to the fact, that most of the questions to be considered by the GSM are stipulated in the Federal Law on Joint-Stock Companies (hereinafter — FL on JSC), or, in accordance with the provisions of the FL on JSC and the Charter of Company, are presented for consideration of the GSM by the proposal of the Board of Directors with a recommendation to approve them. For the Company it does not matter who've proposed the relevant item because all members of the Board of Directors accept proposals, and extracts from the meeting minutes with recommendations are provided to the shareholders as part of the materials on GSMs agenda items. As far as candidates nominated for election are concerned, the Company discloses detailed biographical data about the candidates, their current places of employment, and their positions, as well as their current status (independent, non-executive or executive director). In our opinion, this data is sufficient for the shareholders to make a decision and elect certain candidates to the Board of Directors. The Company considers that there are no reasons to change the current approach in the near future.
1.1.3	When preparing and holding a general shareholders meeting, shareholders shall be able to freely and in a timely manner receive information about the meeting and its materials, pose questions to members of the company's executive bodies and the board of directors, and communicate with each other.	1. During the reporting period, the shareholders were provided with the opportunity to pose questions to members of the company's executive bodies and the board of directors before and during the annual general meeting. 2. The materials to the general shareholders meeting set out the stands of the board of directors regarding agenda, as well as dissenting opinions of board members on each item included in the minutes. 3. The company is recommended to provide authorised shareholders with an opportunity to review the list of persons entitled to participate in general shareholders meetings starting from the date when the company receives such information.	partially observed partially observed observed	Comment to paragraph 1 of the assessment criteria. The obligation of the members of the Board of Directors to attend the Annual General Meeting is neither stipulated in the legislation nor in the Charter of the Company, nevertheless, they could be invited to participate in it. The Company has an e-mail address for shareholders to submit their questions to the Board of Directors. Traditionally, attendance at general shareholders meetings in presentia is very low, despite the fact that these meetings are held at the location of most Company's shareholders (Berezniki, Perm Region), so the presence of Board members seems unnecessary. Some of the Board members, including the CEO, attend meetings and they are ready to answer any questions that the shareholders may have.

No.	Principles of corporate governance	Criteria for assessment of the principles observance	Status of compliance with the principle of corporate governance	Explanation for deviation from compliance/non-compliance with the principles of corporate governance
				Comment to paragraph 2 of the assessment criteria. The stand of the Board of Directors on agenda items is stated in the decisions adopted by the Board of Directors themselves. Notices of significant facts disclosed by the Company reflect the number of votes in support of a particular decision given by Board members present at the Meeting. There were no dissenting opinions of Board members which had to be recorded in the minutes and subsequently disclosed. The Company discloses the stand of the Board of Directors regarding all issues, which, in accordance with the legislation, the General Shareholders Meeting's decision may only be made upon the proposal of the Board of Directors. In other instances, the Company has a right to disclose the stand and does so in some cases. We believe that disclosing the opinion of the Board of Directors regarding all issues to be reviewed by the General Shareholders Meetings is not expedient as the Company generally discloses the information on the entire agenda voting of the Board of Directors, indicating that the decision is made by the required majority of voices. We consider it unnecessary to disclose more precise information upon items that are not subjects to disclosure according to the law.
1.1.4	There were no unjustified difficulties preventing the shareholders from exercising their right to demand that a general shareholders meeting is convened, to nominate candidates to the company's management bodies, and to place proposals on the meeting's agenda.	1. The shareholders had the opportunity to propose items to be included in the agenda of its annual general meeting within a 60-day period following the end-date of the respective calendar year. 2. In case of any typos and other insignificant flaws in shareholders' proposals, the company did not refuse to include these proposals on the agenda or refuse to allow proposing a candidate to the company's bodies.	1. observed 2. observed	
1.1.5	Each shareholder should be able to freely exercise the right to vote in a straightforward and most convenient way.	1. The internal documents of the company include a provision whereby a person filling out a voting ballot may, until the end of the general meeting, request a copy of the ballot certified by the company's counting commission.	not observed	The Company considers that the principle of an unhindered exercise of the voting right in the simplest and the most convenient manner for the shareholders is generally observed. However, the Company does not follow the specified assessment criterion of the principle observance as the internal Company documents do not contain any provisions, according to which each General Shareholders Meeting participant may request a copy of the ballot certified by the counting commission that he filled out prior to the closing of the corresponding meeting. Holding of the General Shareholders Meetings is regulated by the Company's Charter and Regulation on General Shareholders Meetings (hereinafter – the Regulation) approved by the shareholders. The most recent Charter and Regulation do not contain any provisions stipulating a possibility for the Company shareholder to request a copy of the ballot that he filled out certified by the counting commission. There is no legislative requirement to introduce such provision to the internal Company documents. Taking into account that no shareholder was refused to obtain a copy of the ballot that he filled out should a shareholder applied for the one, the Company did not consider necessary to additionally regulate this issue. However, in order to ensure compliance with the specified assessment criterion of the Code of Corporate Governance's principle, the Company is planning to introduce the required provision to the Regulation when the next amendments or a new version of the document will be approved.

No.	Principles of corporate governance	Criteria for assessment of the principles observance	Status of compliance with the principle of corporate governance	Explanation for deviation from compliance/non-compliance with the principles of corporate governance
1.1.6	Procedures for holding a general meeting set by the company should provide equal opportunity to all persons present at the general meeting to express their opinions and ask questions that might be of interest to them.	1. In the reporting period, general shareholders meetings in presentia (when shareholders were present) were conducted in such a way that all reports on agenda items were announced and all items were discussed. 2. The candidates nominated for management bodies attended the meetings and were ready to answer shareholders' questions. 3. The board of directors considered the use of telecommunication systems to provide the shareholders with remote access to their general shareholders meetings (for example, by broadcasting its proceedings via the company's website or by using video conferencing).	1. observed 2. partially observed 3. not observed	Comments to paragraph 2 of the assessment criteria: See the comment to assessment criteria 1 p. 1.1.3 Comments to paragraph 3 of the assessment criteria: See the comment to assessment criteria 1 p. 1.1.3 Many of the Company shareholders live in the city of Berezniki, where the Company's fixed productive assets are, and, on the Company's opinion, holding General Shareholders Meetings in presentia in the city of Berezniki is convenient. It is also worth mentioning that shareholders attendance at the meeting is generally low. Taking the aforesaid into account, the Company believes that to date, the costs of telecommunication facilities and providing the shareholders with the possibility to remotely participate are not justified.
1.2	**Shareholders should have equal and fair opportunities to participate in the profits of the company by means of receiving dividends.**			
1.2.1	The company should develop and implement a transparent and clear mechanism for determining the number of dividends and their payment.	1. The company developed and disclosed the dividend policy, which was approved by the board of directors. 2. If the dividend policy of the company applies indicators from the financial statements of the company to determine the size of the dividend, the relevant provisions of the dividend policy should include the consolidated indicators of financial statements.	1. observed 2. partially observed	Comments to paragraph 2 of the assessment criteria. In spite the Company's Dividend Policy does not specify that the consolidated indicators shall be taken into account when defining the size of the dividends, the Regulation on Dividend Policy stipulates that possibility of dividend payment upon the results of the reporting period has to be preliminarily reviewed by the Board of Directors basing on the achieved financial results of the Company. By default, the Company normally assumed that the consolidated indicators of Financial Statements were meant in particular.
1.2.2	The company should not make a decision on the payment of dividends in case such decision, without formally violating limits set by the law, is nevertheless unjustified from the economic point of view and might lead to the formation of false assumptions about the company's activity.	1. The dividend policy of the company contains clear indications of financial/economic circumstances which prohibit the company from paying dividends.	observed	
1.2.3	The company should not allow deterioration of dividend rights of its existing shareholders.	1. The company has not taken any actions which would allow for the deterioration of dividend rights of existing shareholders in the reporting period.	observed	
1.2.4	The company should strive to rule out any means through which the shareholders can obtain profit or gain at the company's expense, except dividends, and distributions of its liquidation value.	1. In order to prevent from receiving the profit (income) by the shareholders at the company's expense apart from dividends and liquidation value, the internal documents contain the control mechanisms, which ensure timely detection and approval procedure for the transactions with entities affiliated (connected) to substantial shareholders (entities entitled to control votes attached to voting shares) in cases when the legislation does not formally recognise such transactions as interested-party transactions.	observed	

No.	Principles of corporate governance	Criteria for assessment of the principles observance	Status of compliance with the principle of corporate governance	Explanation for deviation from compliance/non-compliance with the principles of corporate governance
1.3	**The system and practices of corporate governance should ensure equal terms and conditions for all shareholders owning shares of the same class (category) in the company, including minority and foreign shareholders. Equal treatment should be unilateral and beyond dispute.**			
1.3.1	The company created conditions which would force the management bodies and controllers of the company to treat each shareholder fairly, including conditions ensuring that there is no abuse of minor shareholders by major shareholders.	1. During the reporting period, the procedures adopted for the management of potential conflict between major shareholders were effective, and the board of directors paid sufficient attention to conflicts between shareholders if there were any.	observed	
1.3.2	The company should not perform any acts which would or could result in a reallocation of corporate control by third parties therein.	1. There were no quasi-treasury shares or they did not participate in voting during the reporting period.	not observed	In September 2016, the size of the quasi-treasury block of the company exceeded 50% of the share capital. In this regard, holding the General Shareholders Meeting (securing a quorum that makes the Meeting eligible), as well as taking decisions on a number of issues related to the Company activities (in particular, approval of the revised Company Charter due to the need to obtain a qualified majority of votes of at least 75% of shareholders registered for participation in the general meeting, as well as de-listing decision and cancellation of the earlier decision on the Company's reorganisation) became impossible without using the quasi-treasury block. At the same time, considering the fact that the quasi-treasury block is divided into several blocks, the Company used part of the quasi-treasury shares required to ensure eligibility of the meeting and making the abovementioned decisions. Please note that the Board of Directors of the Company recommended General Shareholders Meeting to adopt the related decisions.
1.4	**The shareholders should be provided with reliable and efficient means of recording their rights in shares as well as with the opportunity to freely dispose of such shares in the non-onerous manner.**			
1.4	The shareholders are provided with reliable and efficient means of recording their rights for shares, as well as with the opportunity to freely dispose of such shares in a non-onerous manner.	1. The quality and reliability of the work on administering the shareholder's registry performed by the registrar of the company comply with the requirements of the company and its shareholders.	observed	
2.1	**The board of directors is in charge of strategic management of the company, determines major principles of and approaches to the creation of a risk management and internal control system within the company, monitors the activity of the company's executive bodies, and carries out other key functions.**			
2.1.1	The board of directors should be responsible for decisions to appoint and remove members of executive bodies, including taking action in response to the failure of the latter to properly perform their duties. The board of directors also controls that the company executive bodies act in accordance with the approved development strategy and main business goals of the company.	1. According to the charter of the company, the board of directors has the authority to appoint, dismiss and determine the terms and conditions of contracts with members of executive bodies of the company. 2. The board of directors reviewed report(s) of the sole executive body and members of the collective executive body on the implementation of the company strategy.	partially observed partially observed	The Company believes that the specified approach is generally observed. As for the specified assessment criteria of compliance with the principles, each of such criteria is observed partially. Comment to paragraph 1 of the assessment criteria. According to the Charter of the Company, the Board of Directors has the authority to appoint, terminate the appointment, and to determine the terms and conditions of the employment contract only in relation to the CEO (Sole Executive Body) of the Company. The matter of forming the Management Board and early termination of authorities of its members also falls within the authority of the Board of Directors.

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				Persons that are included in the Company Management Board upon the decision of the Board of Directors are the Company employees. According to the Company's Charter, approval of employment contract terms with the employees and issuing orders for dismissal fall within the authority of the CEO. The terms of employment contracts with the employees are determined in accordance with the company's internal documents (hereinafter — the remuneration policy) that regulates the payment of remuneration (including salaries and bonuses) of the relative employee category. The authority to determine the terms of the contracts with the Management Board members (excluding CEO) does not fall within the authorities of the Board of Directors as the Management Board members are acting in accordance with the Regulation On the Management Board existing in the Company and stipulating the working procedure of the Management Board. The members of the Management Board are not remunerated for participation in the Management Board operation (the information is appropriately disclosed in this Annual Report). The Company does not have plans to change the attitude in terms of who has to be authorised to determine the contract terms for members of the Executive Bodies any time soon, due to: 1) any employee may any time become a member of the Management Board or be terminated from it, the Company's Charter does not stipulate which positions have to participate in the Management Board (traditionally, the Management Board includes heads of the Company's key operations, at the same time, the number of members of the Management Board may vary); 2) members of the Management Board perform their activity as such based on the Regulation on the Management Board and they are not remunerated for performing their responsibilities; 3) employment contracts with such persons are signed and terminated by the CEO in compliance with the authority stipulated by the Company's Charter, at the same time, the terms of the contracts are determined according to the existing internal documents of the Company. Comment to paragraph 2 of the assessment criteria. The Board of Directors regularly reviews reports on the results of the Company's activities, which also include information on the strategy implementation progress. The reports are presented by the CEO of the Company. Members of the Company's Management Board do not develop reporting on the strategy implementation issues. The CEO of the Company is the Chairman of the Management Board who represents the entire Management Board. The Company considers that such reporting is the most appropriate. Individual members of the Management Board may be invited to present reports or comment on matters related to the areas which they head or other matters in the framework of separate meetings of the Board of Directors, committees of the Board of Directors or strategic sessions which the Company holds annually. The Company does not foresee any risks for the Company or its shareholders implied by the current practice, and does not plan to change the current practice any time soon, as considers it reasonable and relevant to the Company and its shareholders. The Board of Directors approves the Company's strategy, and the management headed by the CEO implements it. The Company believes that it's him who should present official reports to the Board of Directors.

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2.1.2	The board of directors sets main long-term goals, evaluates and approves key performance indicators as well as business objectives, the strategy, and business plans on the key operation areas of the company.	1. In the reporting period, the board of directors reviewed items related to execution of the company's strategy, approval of its financial plan (budget), in line with the criteria and indicators (including interim) pertaining to the execution of the company's strategy and business plans.	observed	
2.1.3	The board of directors determines principles of and approaches to developing the risk management and internal control system of the company.	1. The board of directors determined principles of and approaches to developing the risk management and internal control system of the company. 2. The board of directors evaluated the risk management and internal control system in the reporting period.	observed partially observed	Comment to paragraph 2 of the assessment criteria. Pursuant to the Regulation on the Audit Committee, monitoring of reliability and effectiveness of the risk management and internal control system's operation, assessment of the Company's internal control procedures effectiveness including proposals on their improvement, analysis and assessment of the risk management and internal control policies implementation, as well as preparation of recommendations for approval of the Company's key risks map, monitoring of effectiveness of the measures aimed at minimising key risks and giving recommendations on amendments to such measures fall within the authority of the Committee. During 2017, the Audit Committee devoted considerable time to assess the state of the risk management and internal control system and improve it, as well as regularly informed the Board of Directors of the performed work.
2.1.4	The board of directors determines the company's policy on remuneration and (or) reimbursement of costs incurred by its board members, members of the executive bodies, and other key managers.	1. The company developed and implemented a policy (policies) on remuneration and/or reimbursement of costs incurred by its board members, members of the executive bodies and other key managers. 2. During the reporting period, the board of directors reviewed items related to the indicated policy (policies).	observed not observed	Comment to paragraph 2 of the assessment criteria. During the reporting year, the items related to the indicated policies were not reviewed by the Board of Directors, as it did not see necessary to change the existing policies and believed they were efficient. The Board of Directors does not consider that the failure to follow this assessment criteria implies additional risks.
2.1.5	The board of directors plays a key role in prevention, detection, and resolution of internal conflicts between the company's bodies, shareholders, and employees.	1. The board of directors plays a key role in prevention, detection, and resolution of internal conflicts. 2. The company developed a system of identification of transactions related to conflicts of interest, and a system of measures intended to resolve such conflicts.	observed observed	
2.1.6	The board of directors plays a key role in ensuring that the company is transparent, discloses information in full and in due course, and provides its shareholders with unhindered access to its documents.	1. The board of directors approved a regulation on the information policy. 2. The company appointed persons in charge of the implementation (enforcement) of the information policy.	observed observed	
2.1.7	The board of directors should monitor the company's corporate governance practices and play a key role in its material corporate events.	1. During the reporting period, the board of directors reviewed the corporate governance practices in the company	observed	

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2.2	**The board of directors should be accountable to the company's shareholders.**			
2.2.1	Information about the board of directors' work should be disclosed and provided to the shareholders.	1. The company's annual report for the reporting period contains information regarding the attendance of individual directors at the board of directors and committee meetings. 2. The annual report contains information about key results of the evaluation of the board of directors' performance in the reporting period.	observed observed	
2.2.2	The chairman of the board of directors should be available for communication with shareholders.	1. The company has a transparent procedure allowing its shareholders to send questions to the board of directors' chairman and clarify their position on them.	observed	
2.3	**The board of directors is an efficient and professional management body of the Company, capable of making objective and independent judgments and pass resolutions in the best interests of the Company and its shareholders.**			
2.3.1	Only persons with impeccable business and personal reputation should be elected to the board of directors; such persons should also have knowledge, skills, and experience necessary to make decisions that fall within the jurisdiction of the board of directors and to perform all such functions efficiently.	1. The assessment procedure of the board of director's effectiveness also includes the assessment of the professional qualifications of members of the board of directors. 2. In the reporting period, the board of directors (or its nominations committee) evaluated candidates nominated to the board in terms of their experience, knowledge, business and personal reputation, absence of conflicts of interest etc.	not observed not observed	Comment to paragraph 1 of the assessment criteria. The Company has put a procedure in place to assess the performance of the Board of Directors; however, it does not include an assessment of professional qualifications of the Board members. The Company considers that the actual assessment of professional qualifications of the Board members is carried out by the shareholders when a candidate is presented and when he or she is elected to the Board of Directors. The Company provide its shareholders with the detailed biographies of members of the Board of Directors, including their professional experience, which allows the shareholders to elect candidates to the Board of Directors. Comment to paragraph 2 of the assessment criteria. During the reporting period, the Board of Directors did not assess the candidates from the perspective of them having the necessary experience, knowledge, and business reputation. The shareholders propose and elect candidates to the Board of Directors; the procedure of refusal to accept candidates or refusal to elect candidates to the Board of Directors does not exist in the legislation due to the absence of particular knowledge and skills. With regard to a potential conflict of interest: 1) such conflict is identified at the stage of nomination of candidates due to the fact that candidates are obliged to provide certain information about themselves including information about any persons with whom the candidate is affiliated, 2) the possibility of a conflict of interest after a candidate's election to the Board is minimised by the fact that members of the Board of Directors who are interested parties for the purpose of the Company's transactions do not take part in voting on these transactions and the fact that the law provides for the obligation of a Board member to inform the company of his/her being an interested party, 3) in 2017, the Appointments and Remuneration Committee assessed the compliance of candidates for election to the Board of Directors against the independence criteria of the Moscow Exchange Listing Rules. The information on compliance with the independence criteria and absence of conflict of interests is acknowledged by the members a the Board of Directors. As part of their AGM information package shareholders received data on the nominated candidates, who had independent director's status.

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2.3.2	Board members should be elected pursuant to a transparent procedure enabling the shareholders to obtain information about respective candidates sufficient for them to get an idea of the candidates' personal and professional qualities.	1. Biographical data on all candidates nominated to the board of directors, the results of the evaluation of such candidates conducted by the board of directors (or its nominations committee), as well as information regarding a candidate's conformity with independence criteria in accordance with recommendations 102–107 of the Code, and the candidates' written consent to be elected to the board, were provided to shareholders in preparation for all meetings where the election of board members was on the agenda.	observed	
2.3.3	The membership of the board of directors should be balanced, in particular in terms of qualifications, expertise, and the business skills of its members. The board of directors should enjoy the confidence of the shareholders.	1. During the procedure of assessment of the work of the board of directors conducted in the reporting period, the board analysed its members in terms of the qualifications and expertise.	not observed	See the comment to p. 2.3.1
2.3.4	The membership of the company's board of directors should enable the board to organise its activities in the most efficient way possible, in particular, to create committees of the board of directors, as well as enable substantial minority shareholders of the company to put forth a candidate to the board of directors for whom they would vote.	1. During the procedure of assessment of the board of directors' performance conducted in the reporting period, the board of directors analysed the conformity of its membership to the needs of the company and its shareholders.	not observed	Such assessment procedure was not carried out by the Board of Directors. The question of whether the number of members of the Board of Directors corresponds to the Company's needs has never been raised, as there were no requests from any interested parties for changing the number. The Company has no information on the matter that the number of members of the Board of Directors does not correspond to interests of the Company and its shareholders. The number of Board members is in line with the law, and the Company sees no reason to change it.
2.4	**The board of directors should include a sufficient number of independent directors.**			
2.4.1	An independent director is any person who has the required professional skills and expertise and is sufficiently able to have his/her own position and make objective and fair judgments free from the influence of the company's executive bodies, any individual group of its shareholders or other stakeholders. It should be noted that under the usual circumstances, a candidate (or an elected director) may not be deemed to be independent if he/she is associated with the company, any of its substantial shareholders, material trading partners or competitors, or the government.	1. During the reporting period, all independent board members met all the requirements of recommendations 102–107 of the Code or were deemed independent pursuant to a decision of the board of directors.	observed	

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2.4.2	It is recommended to evaluate whether candidates nominated to the board of directors meet the independence criteria as well as to review on a regular basis whether or not independent board members meet the independence criteria. When carrying out such evaluation, substance should take precedence over form.	1. During the reporting period, the board of directors (or its nominations committee) issued an opinion regarding the independence of each candidate nominated to the board and provided the shareholders with an appropriate conclusion.	observed	
		2. At least once in the reporting period, the board of directors (or its nominations committee) evaluated the independence of its current members indicated by the company in the annual report as independent directors.	observed	
		3. The company developed procedures indicating the actions which should be taken by a board member once he/she ceases to be independent, including their obligation to inform the board of directors of these circumstances in a timely manner.	observed	
2.4.3	Independent directors should account for at least one-third of all directors elected to the board of directors.	1. Independent directors should account for at least one-third of all directors elected to the board of directors.	observed	
2.4.4	Independent directors should play a key role in the prevention of internal conflicts in the company and performance by the latter of material corporate actions.	1. Independent directors (with no conflict of interest) should preliminarily review material corporate actions related to a potential conflict of interest, and a document setting out the results of such evaluation should be made available as part of materials to be provided in connection with a board meeting where a respective matter is to be considered.	observed	
2.5	**The chairman of the board of directors should help to carry out the functions imposed thereon in a most efficient manner.**			
2.5.1	An independent director is elected as the chairman of the board of directors, or a senior independent director is appointed from the independent directors who coordinates work of the independent directors and interacts with the chairman of the board of directors.	1. The chairman of the board of directors is an independent director or a senior independent director who is appointed from the independent directors 39.	observed	Comments to paragraph 2 of the assessment criteria: The Company acknowledges partial observance of criterion 2 of compliance with the principle. The role, rights, and obligations of the Chairman of the Board of Directors are duly set forth in the Company's documents. At the same time, the rights and obligations of the senior independent director are not indicated in the Company's internal documents. The senior (lead) independent director was appointed by the Board of Directors of the Company in December 2011. This practice was implemented as one of the examples that the Company follows the high corporate governance standards. The information on the senior independent director was regularly disclosed in the Company's annual reports. Since 2011, a member of the Board of Directors, who was elected as the senior independent director, was not re-elected, however, the Company and its shareholders consider that there is a person performing this role in the Board of Directors. After the senior independent director was mentioned in the 2014 Code of Corporate Governance, the Company did not consider necessary to change the practice established several years prior to introduction of the Code of Corporate Governance. The Company does not believe that absence in the Company of internal documents of the established role, rights, and obligations of the senior independent director implies additional risks for the Company and its shareholders, especially because since 2011, the Chairman of the Board of Directors always was an independent director of the Company. We believe that the presence of the senior independent director is a good corporate governance practice, which the Company has been successfully applying for many years. The Company intends to formalise this practice, although it will not in any way affect the way the Board is run.
		2. The role, rights, and responsibilities of the chairman of the board of directors (and, if applicable, of the senior independent director) are clearly determined in the internal documents of the company.	not observed	

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2.5.2	The chairman of the board of directors should ensure that board meetings are held in a constructive atmosphere, and that any items on the meeting agenda are discussed freely. The chairman should also monitor fulfilment of decisions made by the board of directors.	1. The performance of the board chairman was evaluated within the framework of the board performance assessment procedure in the reporting period.	not observed	The role of the Chairman was not evaluated separately within the framework of the assessment; however, the work of the board as a team and its effectiveness as a whole was evaluated. According to the law, the Chairman of the Board of Directors organises the work of the Board of Directors, and, overall, it was deemed to be effective. This is why we did not see any need to assess the work of the Chairman in 2017.
2.5.3	The chairman of the board of directors should take any necessary measures to provide the board members with information required for making decisions on agenda items in a timely manner.	1. The obligation of the chairman of the board of directors to take any necessary measures to provide the board members with information required for making decisions in a timely manner is stipulated in the company's internal documents.	observed	
2.6	**Board members should act reasonably and in good faith in the best interests of the company and its shareholders, being sufficiently informed, with due care and diligence.**			
2.6.1	Acting reasonably and in good faith means that board members should make decisions considering all available information, in the absence of a conflict of interest, treating shareholders of the company equally, and assuming normal business risks.	1. The company's internal documents stipulate that if a board member has a conflict of interest, he/she should promptly inform the board of directors (through its chairman or the company's corporate secretary) both of the existence of and grounds for such conflict of interest. In any case, such notification shall be made before the issue is discussed at a meeting of the board of directors or by any of its committees at which such board member is present. 2. According to the company's internal documents, if a board member has a conflict of interest, he/she may not take part in decision-making. He/she should abstain from voting on any issues in which he/she has a conflict of interest. 3. The company should provide for a procedure (and a related budget) enabling board members to receive, at the expense of the company, professional advice on issues relating to the jurisdiction of the board of directors.	partially observed partially observed observed	Comments refer to paragraphs 1–2 of the assessment criteria, as these criteria are interrelated. According to p. 3.3 of the Regulation on the Board of Directors, the Board members should inform the Board of Directors, the Revision Commission, and the authority of the Company about information specified in Article 82 of the FL on Joint-Stock Companies, as well as inform the Board of Directors of any changes in the indicated information in a timely manner. At the same time, there is no separate notion that if a board member has a conflict of interest, he/she should abstain from voting on any issues in which he/she has a conflict of interest. There were no cases of voting in the Company when a conflict of interests was present. The absence of such provision in the Company's internal documents is, in our opinion, compensated by provision p. 3.3 of the Regulation on the Board of Directors of PJSC Uralkali, which obliges Board members to act reasonably, in good faith, and with appropriate consideration for the Company.
2.6.2	Rights and duties of board members should be clearly stated and documented in the company's internal documents.	1. The company adopted and published an internal document whereby the rights and duties of board members are clearly stated.	observed	
2.6.3	Members of the board of directors should be given sufficient time to perform their duties.	1. Individual attendance at the board and committee meetings and time devoted to preparation for participation in meetings were considered during the procedure of assessment of the board of directors in the reporting period. 2. In accordance with the internal documents of the company, board members should notify the company's board of directors that they intend to take a position in the management bodies of other entities (except for affiliates and entities controlled by the company) and also that they have been elected.	not observed not observed	Comment to paragraph 1 of the assessment criteria. During the procedure of assessment of the Board of Directors, the individual assessment of the Board members performance, including attendance, was not carried out. Typically, the meetings of the Board of Directors and Committees are attended almost by 100% of members. The Corporate Secretary administers attendance statistics in a regular fashion, which all the members of the Board of Directors are aware. The Company regularly publishes the attendance data in the Annual Report, that is why the Company considers the formal assessment of the attendance to be excessive. The Company is not intended for changing the approach to this criterion.
				Comment to paragraph 2 of the assessment criteria. The Company's internal documents do not require that Board members should notify the Board of Directors of their intention to take a position in management bodies of other entities. Board members shall inform the Board of Directors of the fact of their appointment (election) to the management bodies of other entities in compliance with the legislation and subclause 3.3 of the Regulation on the Board of Directors. We consider that charging the member of the Board of Directors with the duty to report their intentions is excessive, as: 1) up until the moment such appointment occurs such information may be confidential and the Company shall not be aware of it, 2) appointment may not occur for different reasons.
2.6.4	All board members should have equal access to the company's documents and information. Newly elected board members should be provided with sufficient information about the company and its board of directors as soon as possible.	1. In accordance with internal documents of the company, board members are given an access to documents and the right to make a request for any information on the company and legal entities controlled by the company. The duty of the company's executive bodies is to provide the board members with such information and documents. 2. The company has a formal induction programme for newly elected board members.	observed observed	
2.7	**Meetings of the board of directors, preparation for meetings, and participation of board members therein should ensure efficient work of the board.**			
2.7.1	Meetings of the board of directors should be held when needed, with due account of the company's scope of activities and its current goals.	1. The board of directors held at least six meetings in the reporting period.	observed	
2.7.2	The company's internal documents contain a set of procedures for preparation and arrangement of the board of directors' meetings, enabling its members to prepare for them properly.	1. The company has an internal document regulating the procedure for preparation and holding of board meetings, which also requires that the notification of a meeting shall be made, as a rule, at least five days before the date of the meeting.	observed	Note: The Company's internal documents require that notifications of meetings and materials thereto shall be provided to board members at least three business days before the meeting (five calendar days at the most). In exceptional cases, materials may be provided one business day before the meeting.
2.7.3	The form of a meeting of the board of directors should be determined with due account of the importance of issues on the meeting agenda. Most important issues should be decided at meetings held in person.	1. According to the company's charter or internal document, the most important issues (in accordance with the list provided in recommendation 168 of the Code) should be considered and decided at meetings held in person.	partially observed	The Company considers this principle to be generally and substantially observed. As for the compliance/non-compliance with the principle, the Company informs about the partial compliance with the criterion. The issues that cannot be decided at a meeting in absentia are determined in the Company's internal document Regulation on the Board of Directors. The above-mentioned list of issues is shorter than the list of recommendation 168 of the Code, which contains 19 issues. The Company believes that the Chairman of the Board of Directors or his deputy, who calls a meeting, has a right to determine a form of the meeting taking into account the agenda, especially because the legislation does not stipulate the restrictions for reviewing one or another agenda item during the meeting by correspondence. The key issues of the Company and its affiliate operations are actually reviewed during the face-to-face meetings of the Board of Directors.

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				It is worth mentioning as well that the decision of the Board of Directors, that is made by correspondence, frequently is a continuation and logical closing of the discussion held for a long time during previous meetings and committees of the Board of Directors, and on which the members of the Board of Directors have formed a common opinion. In such situation, the Company does not consider that restricting the Board of Directors in terms of selection of the form of a meeting is correct. Moreover, a meeting by correspondence does not exempt the Company from the obligation to present exhaustive information on the agenda items to the members of the Board of Directors, as well as does not prevent the directors to ask additional questions on the item put to vote. The Company does not plan to change the established practice as it considers that the current attitude of the Board of Directors towards holding meetings is in the best interest of the Company and its shareholders and does not imply additional risks.
2.7.4	The decisions on the most important aspects of the company's operations are adopted in a meeting of the board of directors by qualified majority or majority of all elected members of the board of directors.	1. According to the Charter of the company, the most important issues described in recommendation 170 of the Code should be decided at a meeting of the board of directors by a qualified majority vote, at least three-quarters of the votes or by a majority vote of all elected board members.	not observed	The Company's Charter does not presuppose that the issues listed in recommendation 170 of the Code shall be decided by a qualified majority. According to the law, all members of the board of directors must vote unanimously to adopt decisions pertaining to the conclusion of major transactions which fall within the purview of the board of directors. Other matters (except interested-party transactions) are decided by a majority vote of board members present at the respective meeting, as required by the law. This approach conforms to the law and it seems excessive to establish another quorum for decision-making at Board meetings. Considering the fact that board meetings attend almost 100% of all board members, almost all decisions are adopted by the majority vote of all elected board members.
2.8	**The board of directors should form committees for preliminary consideration of the most important issues of the company's business.**			
2.8.1	For the purpose of preliminary consideration of any matters of control over the company's financial and business activities, it is recommended to form an audit committee comprised of independent directors.	1. The board of directors established an audit committee comprised exclusively of independent directors.	observed	
		2. The objectives of the audit committee, including the objectives listed in recommendation 172 of the Code, are determined in the internal documents of the company.	observed	
		3. At least one member of the audit committee, being an independent director, should have the experience and knowledge in the field of preparation, analysis, assessment, and audit of accounting (financial) statements.	observed	
		4. Meetings of the audit committee were held at least once in a quarter during the reporting period.	observed	
2.8.2	For the purpose of preliminary consideration of any matters of developing efficient and transparent remuneration practices, a remuneration committee should be established comprised of independent directors and chaired by an independent director who is not the board of director's chairman.	1. The board of directors established a remuneration committee comprised exclusively of independent directors.	partially observed	Comment to paragraph 1 of the assessment criteria. Most members of the Appointments and Remuneration Committee are independent directors which was in compliance with the Moscow Exchange Listing Rules applicable to the Company in H1 2017. Currently the Regulations on the Appointments and Remuneration Committee comply with the recommendations of the Code and requirements of the Moscow Exchange Listing Rules, which are, however no longer applicable to the Company.
		2. The committee is chaired by an independent director who is not the chairman of the board of directors at the same time.	observed	
		3. The objectives of the remuneration committee, including the objectives listed in recommendation 180 of the Code, are determined in the internal documents of the company	observed	

No.	Principles of corporate governance	Criteria for assessment of the principles observance	Status of compliance with the principle of corporate governance	Explanation for deviation from compliance/non-compliance with the principles of corporate governance
2.8.3	For the purpose of preliminary consideration of any items related to the human resources planning (plans regarding succession), highly-qualified personnel and efficiency of the board of directors, it is recommended to form a nominating committee (a committee on nominations, appointments, and human resources) with a majority of its members being independent directors.	1. The board of directors formed a nominating committee (or its objectives, indicated in recommendation 186 of the Code, are implemented by a different committee), with a majority of its members being independent directors. 2. The objectives of the nominating committee (or a relevant committee performing its functions), including the objectives indicated in recommendation 186 of the Code, are determined in the internal documents of the company.	observed	Combined with the Appointments and Remuneration Committee. See the comment to p. 2.8.2.
2.8.4	Taking into account the company's scope of activities and level of risks, the board of directors should be assured that members of the committees fully comply with goals of the company's business. The company should form other committees or consider them to be unnecessary (a strategy committee, a corporate governance committee, an ethics committee, a risk management committee, a budget committee or a committee on health, safety, and environment, etc.).	1. In the reporting period, the board of directors considered the conformity of the members of its committees to the goals of the company and its board of directors. Additional committees were either established or deemed unnecessary.	observed	
2.8.5	The membership of the committees should be determined in such a way that it would allow a comprehensive discussion of issues being stated on a preliminary basis with due consideration of different opinions.	1. Board committees are chaired by independent directors.	observed	Comment to paragraph 2 of the assessment criteria. The Board Committees are chaired by independent directors. Other Board members, who are not included in any particular committee, are always welcomed to attend committee meetings. This is a standard practice for the Board Committees despite the fact that this is not specified in the Company's internal documents.
		2. According to the regulations of the company's internal documents (policies), persons who are not members of the audit committee, the nominating committee, and the remuneration committee, can attend meetings of the committees mentioned above only at the invitation of their chairpersons.	partially observed	
2.8.6	Chairpersons of the committees should inform the board of directors and its chairman about the work of the committees on a regular basis.	1. During the reporting period, chairpersons of the committees presented regular reports on their activities to the board of directors.	observed	
2.9	**The board of directors should make an assessment of the quality of its work and that of its committees and board members.**			
2.9.1	Assessment of quality of the board of directors' performance is aimed at determining operating efficiency level of the board of directors, committees, and members of the board of directors, and whether their work meets the company's development needs, as well as at intensifying their work and identifying areas of improvement.	1. Internal or external assessment of the board of directors' performance in the reporting period should include the assessment of the performance of the board committees, particular members of the board of directors, and the board of directors as a whole.	partially observed	The self-assessment did not include an assessment of individual Board members – at this stage the Company does not deem this to be necessary. Most of the Board of Directors' members have been taken their positions for several years. The Company's shareholders continue nominating them as candidates to the Board of Directors and electing them, which proves that work of the Board members satisfies the shareholders.
		2. The results of internal or external assessment of the board of directors, performed in the reporting period, should be reviewed at a meeting of the board of directors in presentia.	observed	

No.	Principles of corporate governance	Criteria for assessment of the principles observance	Status of compliance with the principle of corporate governance	Explanation for deviation from compliance/non-compliance with the principles of corporate governance
2.9.2	Assessment of performance of the board of directors, committees, and members of the board of directors is regularly carried out at least once a year. An external organisation (consultant) carries out an independent assessment of the operating quality of the board of directors at least once in three years.	1. An external organisation (consultant) was retained to evaluate the work of the board of directors at least once in the last three reporting periods.	not observed	The Company did not attract an external consultant. The culture of performance assessment is being developed by the Company gradually. At this stage, retaining an external consultant seems premature.
3.1	**The company's corporate secretary shall be responsible for efficient interaction with its shareholders, coordination of the company's actions designed to protect the rights and interests of its shareholders, and support of efficient work of the board of directors.**			
3.1.1	The corporate secretary possesses the knowledge, experience, and qualifications sufficient to perform the assigned duties, as well as impeccable reputation, and enjoys the trust of the shareholders.	1. The company adopted and disclosed an internal document — regulation on the corporate secretary.	observed	
		2. The company disclosed on its website and in its annual report information on the corporate secretary which is as detailed as that required to be disclosed in relation to board members and members of the executive bodies of the company.	observed	
3.1.2	The corporate secretary is sufficiently independent from the company's executive bodies and has the necessary powers and resources for achieving the objectives.	1. The board of directors approves the appointment, termination of employment, and additional remuneration of the corporate secretary.	observed	
4.1	**The level of remuneration paid by the company should be sufficient to enable it to attract, motivate, and retain persons having required skills and qualifications. Remuneration due to board members, the executive bodies, and other key managers of the company should be paid in accordance with a remuneration policy approved by the company.**			
4.1.1	The level of remuneration paid by the company to members of the board of directors, executive bodies, and other key managers is sufficient to motivate them to work efficiently enabling the company to attract and retain knowledgeable, skilled, and duly qualified persons. At the same time, the company avoids paying higher remuneration than needed, as well as creating a big unjustified gap between the remuneration for individual persons and the company's employees	1. The company adopted an internal document (documents) – a remuneration policy (policies) in relation to members of the board of directors, executive bodies, and other key managers whereby the approaches to the remuneration of the specified persons are clearly determined.	observed	
4.1.2	The company's remuneration policy is developed by the remuneration committee and approved by the board of directors of the company. The board of directors, supported by the remuneration committee, follows up on introduction and implementation of the remuneration policy in the company, and, if necessary, revises and amends it.	1. During the reporting period, the remuneration committee reviewed the remuneration policy (policies) and the practice of its (their) implementation and, when it was necessary, provided the board of directors with relevant recommendations.	not observed	The Committee saw no necessity in revision of the policy related to the Company's executive bodies and top managers in 2017.
4.1.3	The company's remuneration policy contains transparent mechanisms for defining the size of remuneration for members of the board of directors, executive bodies, and other key managers of the company, as well as regulates all types of benefits paid to indicated persons.	1. The remuneration policy (policies) of the company contains (contain) transparent mechanisms for defining the size of remuneration for members of the board of directors, executive bodies, and other key managers of the company and regulates (regulate) all types of benefits paid to indicated persons.	observed	
4.1.4	The company determines the policy of reimbursement (compensation) of costs which details the list of costs for reimbursement. and the service level which members of the board of directors , executive bodies, and other key managers of the company may claim for. Such policy may become a part of the remuneration policy of the company.	1. The remuneration policy (policies) of the company or other internal documents of the company set forth the rules of reimbursement of expenses of board members, members of executive bodies, and other key managers of the company.	observed	
4.2	**The remuneration system for members of the board of directors ensures that financial interests of directors get closer to the long-term financial interests of the shareholders.**			
4.2.1	The company pays out a fixed annual remuneration to members of the board of directors. The company does not compensate participation in individual meetings of the board of directors or its committees. The company does not apply short-term motivation and additional material motivation tools in relation to members of the board of directors.	1. A fixed annual fee was the only form of monetary remuneration for members of the board of directors for their work during the reporting period.	observed	
4.2.2	Long-term possession of the company's shares the most efficiently contributes to bringing the financial interests of members of the board of directors closer to the long-term interests of the shareholders. At the same time, the company does not restricts the right to sell shares by achievement of certain KPIs , and members of the board of directors do not participate in stock option plans.	1. If an internal document (documents) – remuneration policy (policies) – stipulates provision of the company's shares to members of the board of directors, there shall be set forth and disclosed clear rules regulating the ownership of shares by the members of the board of directors aimed at motivating them to keep possessing such shares on a long-term basis.	does not apply to the Company	The Company's internal document does not stipulate provision of the company's shares to members of the Board of Directors. Members of the Board of Directors do not possess the Company's shares. The information about share ownership by the Company's directors is disclosed in the Annual Report.
4.2.3	No additional pay outs or compensations are provided in the company in case of early termination of powers of members of the board of directors in connection with change of control of the company or other circumstances.	1. No additional pay outs or compensations are provided in the company in case of early termination of powers of members of the board of directors in connection with change of control of the company or other circumstances.	observed	

No.	Principles of corporate governance	Criteria for assessment of the principles observance	Status of compliance with the principle of corporate governance	Explanation for deviation from compliance/non-compliance with the principles of corporate governance
4.3	**The system of remuneration for the executive bodies and other key managers of the company should provide that their remuneration is dependent on the company's performance results and their personal contributions to the achievement thereof.**			
4.3.1	Remuneration of members of the executive bodies and other key managers of the company is determined in a way that it ensures reasonable and justified ratio of a fixed and variable parts of remuneration, where variable depends on the company's operating results and personal (individual) contribution of an employee to the final result.	1. During the reporting period, the performance indicators approved by the board of directors were used to determine the size of variable remuneration for members of the executive bodies and other key managers of the company. 2. In the course of the last assessment of the remuneration system for the members of executive bodies and other key managers of the company, the board of directors (remuneration committee) made sure that the company applied an effective ratio of the fixed and variable remuneration parts. 3. There is a procedure in the company which ensures that any bonus payouts wrongfully obtained by members of the executive bodies or other key managers are repaid to the company.	observed not observed not observed	Comments to paragraph 2 of the assessment criteria: The system of remuneration was not reviewed by the Board of Directors (Nomination Committee) in 2017. In the opinion of the Board of Directors, there was no need to revise this system in 2017. Comment to paragraph 2 of the assessment criteria. The Company does not have a formalised procedure for having wrongfully obtained award/bonus funds returned to the Company by members of the executive bodies and key managers, because bonuses are paid on the basis of approved performance charts where the real KPI result is shown making wrongful payments impossible. There were no cases of wrongful payouts in the Company. Should any such error occur in the future, the necessary repayments will be made in compliance with the law.
4.3.2	The company introduced a long-term motivation programme for members of the executive bodies and other key managers of the company involving the company's shares (or options or other derivative financial instruments, the underlying assets for which are the company's shares).	1. The company introduced a long-term motivation programme for members of the executive bodies and other key managers of the company involving the company's shares (or options or other derivative financial instruments, the underlying assets for which are the company's shares). 2. The long-term motivation programme for members of the executive bodies and other key managers of the company provides that the right to sell shares or other financial instruments shall arise no earlier than after three years from the date when such shares were provided. At the same time, the right to sell them is restricted by a condition that the company achieves certain performance indicators.	not observed not observed	Comments to paragraphs 1 and 2 of the assessment criteria. The Company does not observe the specified principle and assessment criteria for observing the principle. The company does not have a long-term motivation programme due to financial instability in Russia in general and a number of financial constraints in the Company; we believe that development of a long-term motivation programme is untimely. The current Remuneration Policy for members of the executive bodies and key managers includes payment of salaries and annual bonuses based on the achievement of objectives in the performance charts (which the Company reports of in the Annual Report). The Company does not consider this policy as a mechanism or a tool that replace a long term motivation programme. The Company does not apply any other mechanisms or tools of the corporate governance which replace a long term motivation programme. The Company does not plan to introduce a long-term motivation programme for members of the executive bodies and key managers any time soon.
4.3.3	The amount of compensation (golden parachute), paid by the company in case of early termination of authorities of members of the executive bodies or key managers upon the company's initiative and in case there is no frauds from their side, does not exceed its two-fold fixed annual remuneration.	1. The amount of compensation (golden parachute), paid by the company in case of early termination of authorities of members of the executive bodies or key managers upon the company's initiative and in case there is no frauds from their side, did not exceed its two-fold fixed annual remuneration in the reporting period.	observed	The Company's policies do not provide for payment of "golden parachutes".

No.	Principles of corporate governance	Criteria for assessment of the principles observance	Status of compliance with the principle of corporate governance	Explanation for deviation from compliance/non-compliance with the principles of corporate governance
5.1	**The company developed an effective risk management and internal control system aimed at providing reasonable confidence that the company goals will be achieved.**			
5.1.1	The board of directors determined principles of and approaches to arrangement of the risk management and internal control system in the company.	1. The functions of various management bodies and subdivisions of the company in the risk management and internal control system are clearly determined in the internal documents/corresponding policy of the company approved by the board of directors.	observed	
5.1.2	The executive bodies of the company ensure development and maintenance of functioning of the effective risk management and internal control system in the company.	1. The executive bodies of the company provided distribution of functions and authority related to the risk management and internal control between subdivision and department managers (heads) that report to the executive bodies.	observed	
5.1.3	The company's risk management and internal control system ensures impartial, fair, and clear understanding of the current state and prospective of the company, integrity and transparency of the company's reporting, and rationality and eligibility of risks accepted by the company.	1. The company has a corruption prevention policy in place. 2. The company developed a procedure for informing the board of directors or the audit committee of violations of the law, internal procedures, and the ethics code of the company.	observed	
5.1.4	The board of directors of the company takes necessary measures to ensure that the risk management and internal control system of the company functions effectively and complies with the principles and approaches defined by the board of directors.	1. During the reporting period, the board of directors or its audit committee reviewed the efficiency of the risk management and internal control system of the company. Information on the results of such assessment are included in the annual report of the company.	observed	
5.2	**To independently evaluate the reliability and efficiency of the risk management and internal control system and corporate governance practices on a regular basis, the company should arrange for internal audits.**			
5.2.1	The company established an individual structural subdivision or engaged an independent external organisation in order to carry out internal audit in the company. Functional and administrative reporting lines of the internal audit subdivision are separated. The internal audit subdivision functionally reports to the board of directors.	1. An individual structural internal audit subdivision functionally reporting to the board of directors or the audit committee was established in the company or an independent external organisation with the same reporting line was engaged to conduct the internal audit.	observed	
5.2.2	The internal audit subdivision carries out assessment of efficiency of the internal control, the risk management, and the corporate governance systems. In the area of internal audit, the company applies common operational standards.	1. During the reporting period, the efficiency of the internal control and the risk management systems was assessed within the framework of internal audit procedures. 2. The company uses generally accepted approaches to internal control and risk management.	observed	

No.	Principles of corporate governance	Criteria for assessment of the principles observance	Status of compliance with the principle of corporate governance	Explanation for deviation from compliance/non-compliance with the principles of corporate governance
6.1	**The company and its activities should be transparent to the shareholders, investors, and other stakeholders.**			
6.1.1	The company developed and implemented an information policy enabling the information exchange between the company and its shareholders, investors, and other stakeholders.	1. The board of directors approved the information policy of the company, developed in compliance with the recommendations of the Code. 2. The board of directors (or one of its committees) reviewed the company's compliance with the information policy at least once in the reporting period.	observed observed	
6.1.2	The company discloses information on the corporate governance system and practices including detailed information on observance of the principles and recommendations of the Code.	1. The company discloses information on the corporate governance system and general principles of the corporate governance applied in the company and its website. 2. The company discloses information regarding the composition of the executive bodies and the board of directors, independence of the board members and their membership in the committees of the board of directors (in compliance with the Code). 3. If there is a person who controls the company, that person sets their plans with respect to the company in a special memorandum which is then disclosed.	observed observed observed	Note: The company does not have a controlling person. Criterion 3 did not apply to the Company in 2017, as over 50% of the company's shares are represented by quasi-treasury shares.
6.2	**The company should disclose full, updated, and reliable information about itself on a timely basis so as to enable its shareholders and investors to make informed decisions.**			
6.2.1	The company discloses information in accordance with the principles of regularity, consistency, and timeliness, as well as accessibility, reliability, completeness, and comparability of disclosed data.	1. The information policy of the company determines the approaches and criteria of identifying information, which may substantially affect the standing of the company and the value of its securities and the procedures, which ensure that such information is disclosed in a timely fashion. 2. If the company's securities are traded on international organised markets, material information is disclosed both in the Russian Federation and on such markets simultaneously and equally within the reporting year. 3. If foreign shareholders own a substantial number of the company's shares, the company discloses information not only in Russian, but in one of the most common foreign languages as well.	observed observed observed	
6.2.2	The company avoids formal approach when disclosing information and discloses the information on its operations even if such disclosure is not stipulated by the legislation.	1. During the reporting period, the company disclosed annual and semi-annual financial statements prepared in compliance with IFRS. Annual reports of the company for reporting years contain annual financial IFRS statements and a relevant audit report. 2. The company discloses full information about the capital structure of the company in the annual report and on the corporate website in compliance with recommendation 290 of the Code.	observed partially observed	Comments to paragraph 2 of the assessment criteria. The Company's disclosure of information upon the share capital structure does not fully comply with Recommendation 290 of the Code, but the Company considers that it fully characterises the share capital structure of the Company and does not require any additional details.
6.2.3	The annual report, being one of the most important tools of information exchange with the shareholders and other stakeholders, contains information allowing to evaluate annual performance of the company.	1. The annual report of the company contains information about key aspects of the company's operating activities and its financial results. 2. The annual report of the company contains information about the environmental and social aspects of the company's activities	observed observed	
6.3	**The company should provide information and documents upon requests of its shareholders in accordance with the principle of equal and unhindered accessibility.**			
6.3.1	Providing the shareholders with information and documents upon their request is performed in compliance with the principle of equal and unhindered access.	1. The company's information policy determines the unhindered procedure of providing the shareholders with an access to information, including information of the legal entities affiliated with the company, upon their request.	observed	
6.3.2	When providing the shareholders with information, the company ensures reasonable balance between individual interests of its shareholders and the company's own interests, as the company is committed to keep the confidentiality of the important commercial information that can significantly affect its competitiveness.	1. During the reporting period, the company did not deny shareholders' requests to provide information or such refusals were justified. 2. In cases, specified in the information policy of the company, shareholders are warned of the confidential nature of the information and undertake to protect its confidentiality.	observed observed	
7.1	**Any actions which can significantly affect the company's share capital structure and its financial position and, accordingly, the position of its shareholders ("significant corporate actions") should be taken on fair terms and conditions ensuring that the rights and interests of the shareholders as well as other stakeholders are observed.**			
7.1.1	Material corporate actions shall be deemed to include reorganisation of the Company, acquisition of 30 or more percent of the company's voting shares (takeover), entering by the company into any material transactions, increasing or decreasing the share capital, listing and delisting of shares, as well as other actions, which may result in material changes in the rights of the shareholders or violation of their interests. The company's charter determines the list (criteria) of transactions or other actions that are significant corporate actions, and such actions are attributed to the competence of the board of directors of the company.	1. The company's charter determines the list of transactions or other actions recognised as significant corporate actions, and criteria for their identification. Decisions related to significant corporate actions are attributed to the competence of the board of directors of the company. In cases when the given corporate actions are carried out within the purview of the general shareholders meeting in compliance with the legislation requirements, the board of directors issues corresponding recommendations to the shareholders. 2. The Charter of the company determines as significant corporate actions at least the following: reorganisation of the company, acquisition of 30% and more of voting shares (takeover), major transactions, increase or reduction of the company share capital, listing or delisting of the company's shares.	not observed	Comments to paragraphs 1 and 2 of the assessment criteria. The Company believes that the outlined principle is partially observed. At the same time, the Company does not observe the indicated criteria as the Charter of the Company does not specify the list of the significant corporate actions. The Charter of the Company does not provide a list of material corporate actions and transactions. In addition: • a decision on the Company's reorganisation is attributed to the competence of the General Shareholders Meeting, nonetheless, the decision can only be made by the General Meeting upon the proposal of the Board of Directors (cl. 3 art. 49 of the FL on JSC)[1]; • a decision on purchasing of the Company's outstanding shares is attributed to the competence of the Board of Directors (subcl. 8, cl. 1, art. 65 of FL on JSC) regardless of the size of the purchased block; • the matters of authorisation of transaction or recognition of the certain major transactions and related party transactions falls within the competence of the Board of Directors (subcl. 15–16, cl. 1, art. 65 of FL on JSC). In any other case such decisions shall be made by the General Shareholders Meeting;

[1] The Federal Law on Joint-Stock Companies

No.	Principles of corporate governance	Criteria for assessment of the principles observance	Status of compliance with the principle of corporate governance	Explanation for deviation from compliance/non-compliance with the principles of corporate governance
				• decision on listing is attributed to the competence of the Board of Directors (subcl. 17.2 cl. 1 art. 65 FZ on JSC). As for delisting, such decisions are attributed to the competence of the General Shareholders Meeting, although may only be made upon a proposal of the Board of Directors of the Company (subcl. 19.2, cl. 1, art. 48 of FL on JSC). The Company considers that regardless of whether the specified transactions are attributed to the list of the significant corporate transactions by the Charter of the Company, they certainly are the ones. Moreover, the Regulation on the Audit Committee in 2017 provided for a special procedure for items related to the strategic transactions, criteria of which are described in the Regulation. Additionally, the Company's Charter attributes the review of programmes of purchasing the Company's shares and GDRs to the competence of the Board of Directors. At the same time, the Company approves such transactions regardless of whether the acquisition is carried out by the Company or its affiliates. The Company considers the additional regulation of significant corporate transactions to be excessive. The Company also believes that there is no need to lower the transaction threshold and attribute the transactions valued below 25% of the book value of the assets in terms of size and below RUB 500 million in terms of interest (as stipulated by the law) to the competence of the Board of Directors of the Company. The established practice of approval of transaction and significant corporate actions shows that the Company approves significant corporate actions with utmost responsibility and makes transactions in compliance with the existing legislation and the best corporate governance standards.
7.1.2	The board of directors plays a key role in approving decisions or giving recommendations related to significant corporate activities; the board of directors rely upon opinion of the company's independent directors.	The company has a procedure according to which independent directors state their position regarding significant corporate activities before their approval.	observed	

No.	Principles of corporate governance	Criteria for assessment of the principles observance	Status of compliance with the principle of corporate governance	Explanation for deviation from compliance/non-compliance with the principles of corporate governance
7.1.3	When taking any significant corporate actions which would affect the rights or legitimate interests of the company's shareholders, equal terms and conditions should be ensured for all of the shareholders; if statutory mechanisms designed to protect the shareholder rights prove to be insufficient for that purpose, additional measures should be taken with a view to protecting the rights and legitimate interests of the company's shareholders. In such instances, the company should not only seek to comply with the formal requirements of the law but should also be guided by the principles of corporate governance set out in this Code.	1. The criteria considering the categorisation of the company's transactions as significant corporate actions, listed in the charter of the company, are lower than those specified by the law. 2. During the reporting period, all significant corporate actions were subject to approval prior to their execution.	1. partially observed 2. observed	The Company believes that the specified principle is generally observed. Comments to paragraph 1 of the assessment criteria. The Charter of the Company does not provide for lower, than stipulated by the legislation, criteria of attributing the transactions to the significant corporate actions as: 1) most of the significant corporate actions provided by the Code of Corporate Governance have already been attributed to the competence of the Board of Directors by FZ on JSC and, as the Company believes, are deemed to be material by default, regardless whether the Company Charter provides for it; 2) Regulation on the Audit Committee provides for a special procedure of strategic transactions review, which proves that the Company attitude towards approval of the transactions is not formalistic but meaningful (even those, which in certain cases do not fall under the competence of the Board of Directors stipulated by the Company Charter); 3) regulation stipulated by the legislation for performing such corporate transactions deems sufficient to the Company (more detailed explanations are provided in the above cl. 7.1.1 of the report). Notes to paragraph 2 of the assessment criteria. A list of significant corporate actions is not defined in the Company's Charter. However, in 2016, the Company performed a number of significant corporate actions, in particular: approved large transactions, as well as interested-party transactions; proposed for review by the General Shareholders Meeting an agenda item on the Company reorganisation; reviewed and approved the Company's shares and GDRs acquisition programme. All these transactions were approved according to the established procedure. The Company believes that such approach does not imply risks for the shareholders and does not have plans to change the established practice any time soon as it considers that the equal rights are ensured for all the Company's shareholders, and mechanisms of protection of rights and interests of the shareholders stipulated by the legislation are sufficient.
7.2	**The company should have in place such a procedure for taking any significant corporate actions that would enable its shareholders to receive full information about such actions in due course and thus be in a position to influence them, which would also guarantee that the shareholders' rights are observed and duly protected in the event such actions are brought.**			
7.2.1	Disclosure of information on performing significant corporate actions is accompanied with explanation of the causes, conditions, and consequences of performing such actions.	1. During the reporting period, the company disclosed information (in detail) about significant corporate actions in a timely manner, including the reasons for, conditions, and consequences of such actions.	observed	
7.2.2	Rules and procedures related to the significant corporate actions performed by the company are reflected in the company's internal documents.	1. The internal documents of the company provide for a procedure of engaging an independent appraiser to determine the value of the property subject to alienation or acquisition under a major transaction or a related party transaction. 2. 2. The internal documents of the company provide for a procedure of engaging an independent appraiser in order to determine the value of shares purchased or bought back by the company. 3. 3. The internal documents of the company provide an extended list of reasons to deem members of the board of directors and other persons specified by the law to be interested parties in the transactions of the company.	1. not observed 2. not observed 3. not observed	Comments to paragraphs 1 and 2 of the assessment criteria. The internal documents of the Company do not provide for an independent appraiser involvement procedure; the Company retains an appraiser in cases specified by the law and also, if necessary, in cases when the Company is taking significant corporate actions in line with the high standards of corporate governance adopted in the Company.

MINERAL RESOURCES REVIEW

srk consulting

SRK Consulting (UK) Limited
5th Floor Churchill House
17 Churchill Way
City and County of Cardiff
CF10 2HH, Wales
United Kingdom
E-mail: enquiries@srk.co.uk
URL: www.srk.co.uk
Tel.: + 44 (0) 2920 348 150
Fax: + 44 (0) 2920 348 199

Dear Sirs,

RE: Review of the Mineral Resources and Ore Reserves of Public Joint Stock Company "Uralkali" located in the Russian Federation

1. Introduction

This is a report to confirm that SRK Consulting (UK) Limited (SRK) has reviewed all of the key information on which the most recently (1 January 2016) reported Mineral Resource and Ore Reserve statements for the mining assets of Public Joint Stock Company Uralkali (Uralkali or the Company) are based. Specifically it sets out SRK's view regarding the tonnes and grade of rock which has the potential to be mined by the existing and planned mining operations (the Mineral Resource), the quantity of product expected to be produced as envisaged by the respective Business Plan (the Ore Reserve) and the work done to derive these.

SRK has not independently re-calculated Mineral Resource and Ore Reserve estimates for Uralkali's operations but has, rather, reviewed the quantity and quality of the underlying data and the methodologies used to derive and classify the estimates as reported by Uralkali and made an opinion on these estimates including the tonnes, grade and quality of the potash planned to be exploited in the current mine plan, based on this review. SRK has then used this knowledge to derive audited resource and reserve statements according to the guidelines and terminology proposed in the JORC Code (2012 version).

This report presents both the existing Uralkali resource estimates according to Russian standard reporting terminology and guidelines and SRK's audited JORC Code statements. All of these estimates are dated as of 1 January 2016. During 2011, Uralkali merged with JSC Silvinit (Silvinit) and the assets owned by Silvinit now fall under the ownership of Uralkali. SRK has restricted its assessment to the resources and reserves at Berezniki-2, Berezniki-4 and Ust-Yayvinsky (Uralkali's original assets) and Solikamsk-1, Solikamsk-2, Solikamsk-3 and Polovodovsky (the former Silvinit assets now under the ownership of Uralkali).

In addition to this, Uralkali acquired an exploration licence during 2014, termed Romanov, which covers an area to the south of the current Berezniki operations. SRK understands this licence area was explored historically and is currently estimated to have resources classified in the Russian P1 and P2 categories. SRK understands that Uralkali has plans in place to undertake further exploration drilling on this licence and to then re-estimate the resources based on this drilling in due course and with a view to increasing the confidence in the assigned classification. SRK considers there to be insufficient data currently available to report these P1 and P2 resources as Mineral Resources as defined by the JORC Code in this case and therefore this licence is not discussed any further in this report.

Table 1.1 below summarises the current licence status for each of the assets noted above.

Table 1.1: Uralkali Licence Summary

Deposit	Registration No.	Expiry Date	Licence Type	Area (km²)
Berezniki-2	2546	1st January 2021*	Mining[2]	67.25
Berezniki-4	2545	1st January 2018**	Mining[1]	183.60
Ust-Yayvinsky	2543	15th April 2024	Exploration and Mining[3]	83.31
Solikamsk-1	2547	1st January 2018***	Mining[1]	44.47
Solikamsk-2	2548	1st January 2021****	Mining[2]	50.38
Solikamsk-3	2549	1st January 2018*****	Mining[2]	110.01
Polovodovsky	2551	1st July 2028******	Exploration and Mining[2]	381.01
Romanov	2550	25th July 2039	Exploration and Mining[3]	58.07
Solikamsk-1	2541	6th April 2035	Exploration and Mining[4]	8.58

[1] Potassium salts, magnesium salts and rock salt
[2] Potassium salts and rock salt
[3] Potassium and magnesium salt
[4] Magnesium salt

* The licence was extended in March 2017 until 31 December 2024
** The licence was extended in December 2016 until 1 January 2043
*** The licence was extended in December 2016 until 1 January 2047
**** The licence was extended in April 2017 until 31 December 2026
***** The licence was extended in December 2016 until 1 January 2055
****** The licence was extended in March 2017 until 31 December 2054

SRK has been provided with copies of the licences above and has confirmed that the Mineral Resources and Ore Reserves stated in this report fall within the boundaries of such licences. SRK notes that all licences have been re-issued during 2015 with new licence numbers due to a re-naming of the Company to Public Joint Stock Company Uralkali, however, Uralkali has confirmed that the expiry dates and terms and conditions of these are unchanged. Further, SRK notes that a new licence for mining of carnalite ore has been issued during 2015 (#2541) which relates to an area adjacent to Solikamsk-1 and the extreme western portion of Soliamsk-3. Uralkali has indicated that this material would be accessed for mining of carnalite from the existing infrastructure of Solikamsk-1 and therefore SRK has reported this material in the estimates given for this mine.

The licenses for all of the operating and development mines will expire within the term of the 20 year Business Plan, even though some of these mines are planned to continue operating beyond this time and have resources and reserves to support this. SRK, however, considers it reasonable to assume that Uralkali will obtain extensions to these licences in due course on application as long as it continues to fulfil its licence obligations.

2. Quantity and quality of data

2.1 Original Uralkali Operations

The resource and reserve estimates derived by Uralkali are primarily based on exploration drilling undertaken between 1972 and 1998. A specially laid out drilling programme was developed for each mine with the aim of enabling 10% of the contained resources to be assigned to the A category of resources as defined by the Russian Reporting Code, 20% to the B category and 70% to the C1 category.

The A category is the highest category in the Russian Reporting Code and only used where the stated tonnage and grade estimates are considered to be known to a very high degree of accuracy. The B, C1 and C2 categories are lower confidence categories, with C2 denoting the least level of confidence in the three categories. All of these categories, apart from C2, are acceptable for use in supporting mining plans and feasibility studies. In the case of the Uralkali assets, blocks have been assigned to the A category where the drillhole spacing is less than 1km, to the B category where the drillhole spacing is between 1 and 2km and to the C1 category where the drillhole spacing is 2km. Areas drilled at a larger spacing than this, up to a 4km spacing, have been assigned to the C2 category, although only a very small proportion of Uralkali's resources have been categorised as such.

As a result of the above process, each mine is typically drilled on a 2 km by 2 km grid or less before a decision is taken to develop the mine. This information is, however, then supplemented by underground drilling once the access development is in place. This typically creates a grid of intersections measuring 400 m by 200 m. While Uralkali does not regularly upgrade the categorisation of its resources based on this drilling, which it rather uses to optimise the mining layouts, it does periodically undertake a re-estimation calculation on specific areas and will take into account the available data from this underground drilling in doing this where relevant. The most recent update of the estimation for Berezniki-4 for example was undertaken in 2006.

The drillholes, whether drilled from surface or underground, are sampled at intervals of at least 16cm and the samples are crushed and milled under the control of the geology department to produce an approximate 100 g sample prior to submission to the laboratory.

Assaying is carried out at an in-house laboratory. Approximately 5–6% of samples are repeat assayed internally while a similar percentage are sent to an independent third party external laboratory located in Berezniki (JSC Persil) for check assaying. All assaying is by classical wet chemistry techniques.

2.2 Former Silvinit Operations

These deposits were discovered in 1925 and each has been subjected to a number of exploration and drilling campaigns as follows:

- Solikamsk-1 – 7 phases between 1925 and 1990 (including exploration outside the current mining lease);
- Solikamsk-2 – 7 phases between 1925 and 2002 (including exploration outside the current mining lease); and
- Solikamsk-3 – 7 phases between 1957 and 1975.

on exploration drilling undertaken between 1925 and 2002. There is no exploration drilling currently being undertaken from surface at the operating mines, however, exploration drilling has recently been undertaken at the Polovodovsky prospect and the resource estimate for this asset has been updated in two phases of work during 2013 and 2014 and this updated estimated supersedes the original estimate undertaken in 1975.

Exploration has generally been undertaken by State enterprises based in Solikamsk and Berezniki although the recent drilling at

Polovodovsky has been undertaken by a third party contractor.

The total number of exploration holes and metres drilled at each mine/prospect is as follows:

- Solikamsk-1 – 53 holes for some 18,600 m;
- Solikamsk-2 – 192 holes for some 5,700 m (of which some 95 are from underground);
- Solikamsk-3 – 117 holes for some 45,250 m; and
- Polovodovsky – 152 holes for some 50,800 m up to 1975 and 36 holes for some 12,650m between 2009 and 2012.

The diamond drillholes, whether drilled from surface or underground, were drilled with a diameter of either 92 mm or 112 mm for surface holes and 50–76 mm for underground holes. Holes were sampled at intervals between 10 cm and 6 m, averaging between 105 cm to 130 cm. Core recovery through the sylvinite horizons is reported to be good at an average of 84–85%, while the recovery through the carnallite horizon at Solikamsk 1 is reported to be 74%.

Core is split in half with one half retained for reference and the other half crushed, milled and split under the control of the geology department to produce a small sample (100 g) for submission to the laboratory for assay.

Assaying is carried out at an in house laboratory using classical wet chemistry techniques. Approximately 5–6% of samples are repeat assayed internally while a similar percentage are sent to an independent third party external laboratory located in Berezniki (JSC Persil) for check assaying, which SRK understands to be at the neighbouring Uralkali mine laboratory.

A total of 423 samples have to date been taken for density measurements using the water displacement method.

In the case of these former Silvinit mines, blocks have been assigned to the A category where the drillhole spacing is less than 1,200m, to the B category where the drillhole spacing is up to 2,400m and to the C1 category where the drillhole spacing is up to 4,000 m. Areas drilled at a larger spacing than this, but on average with a spacing of no less than 4,000 m have been assigned to the C2 category.

Each mine is drilled on an approximate 2.4km by 2.4km grid or less before a decision is taken to develop the mine. This information is, however, then supplemented by underground drilling once the access development is in place. This typically creates a grid of intersections measuring from 100m by 300m or in cases up to 400 m by 800 m. As is the case with Uralkali, Silvinit did not upgrade the estimation or categorisation of its resources based on this underground drilling on a regular basis but rather used this to optimise the mining layouts. Notwithstanding this, a full re-estimation calculation was undertaken by Silvinit in 2006 (see below) for the Solikamsk mines and this took into account the available data from underground drilling where relevant.

3. Resource estimation

3.1 Introduction

The most up to date resource statements produced by Uralkali are those derived for the annual 5GR reports produced this year which give the status as of 1 January 2016. The completion of 5GR reports is a statutory requirement. These estimates were produced using standard classical Russian techniques and are essentially based on calculations made in previous years and adjusted for mining during 2015. Given the current estimates reported herein are being produced before the end of 2015 and formal submission of 5GR reports by Uralkali, SRK notes that for the purposes of these estimates the depletion for mining is based on actual data for January to October inclusive and forecast data for November and December. This section therefore comments primarily on these statements.

The first resource estimates undertaken and approved for each of the former Silvinit operations were as follows:

- Solikamsk-1 and 2 – 1952;
- Solikamsk-3 – 1962; and
- Polovodovsky – 1975.

The resource estimates at each of the active mines have undergone various updates since this time, the most recent of which was in 2006. These estimates were approved by the State Committee for Reserves and take into account all surface and underground drilling data available at that time. As noted above, additional exploration drilling has recently been undertaken at Polovodovsky, and the original estimate produced in 1975 has been updated during 2013 and 2014.

3.2 Estimation Methodology

Each seam and each mine is treated separately in the resource estimation procedure. In each case the horizons are first divided into blocks such that each sub-divided block has reasonably consistent borehole spacing within it; that is more intensely drilled areas are subdivided from less intensely drilled areas. Each resulting "resource block" is then evaluated separately using the borehole intersections falling within that block only.

Specifically, composited K_2O and MgO grades are derived for each borehole that intersected each block and mean grades are then derived for each block by simply calculating a length weighted average of all of these composited intersections. No top cuts are applied and all intersections are allocated the same weighting.

A separate plan is produced for each seam showing the results of the above calculations, the lateral extent of each sub block, and any areas where the seams are not sufficiently developed. The aerial coverage of each block is then used with the mean thickness of the contained intersections to derive a block volume. The tonnage for each block is then derived from this by applying a specific gravity factor calculated by averaging all of the specific gravity determinations made from samples within that block.

The data for each resulting block is plotted on a Horizontal Longitudinal Projection (HLP). This shows the horizontal projection of the extent of each block as well as its grade and contained tonnage. The HLP also shows the block classification, this being effectively a reflection of the confidence of the estimated tonnes and grade.

3.3 Uralkali Resource Statements

Table 3.1 below summarises SRK's understanding of the sylvinite resource statements prepared by Uralkali to reflect the status of its assets as of 1 January 2016. Uralkali's statements are based on a minimum seam thickness of 2m and a minimum block grade which, dependent on the mine, varies between 11.4% K_2O (Polovodovsky) and 15.5% K_2O (Ust-Yayvinsky). Table 3.2 below summarises SRK's understanding of the carnalite resource statement prepared by Uralkali to reflect the status of its assets as of 1 January 2016. Uralkali's carnalite statements (Solikamsk-1 only) are based on a minimum seam thickness of 2m and a minimum block grade of 7.2% MgO.

Table 3.1: Uralkali Sylvinite Mineral Resource Statement at 1 January 2016

Mine	Category	Tonnage (Mt)	K_2O (%)	K_2O (Mt)
Berezniki-2	A	7.7	33.7	2.6
	B	47.6	23.2	11.0
	C1	175.5	25.1	44.1
	A+B+C1	230.8	25.0	57.7
	C2	–	–	–
Berezniki-4	A	236.8	22.1	52.3
	B	411.1	22.6	92.8
	C1	1,003.1	20.6	206.8
	A+B+C1	1,651.0	21.3	351.8
	C2	310.3	26.8	83.3
Ust-Yayvinsky	A	169.9	19.0	32.3
	B	311.0	19.8	61.7
	C1	809.7	19.8	160.4
	A+B+C1	1,290.6	19.7	254.4
	C2	–	–	–
Solikamsk-1	A	96.1	18.0	17.3
	B	13.3	15.8	2.1
	C1	165.4	17.1	28.4
	A+B+C1	274.8	17.4	47.8
	C2	–	–	–
Solikamsk-2	A	77.6	19.0	14.7
	B	77.7	13.9	10.8
	C1	842.8	17.5	147.7
	A+B+C1	998.1	17.4	173.2
	C2	–	–	–
Solikamsk-3	A	98.1	17.6	17.3
	B	196.8	16.8	33.1
	C1	1,005.0	17.2	172.8
	A+B+C1	1,299.9	17.2	223.2
	C2	–	–	–
Polovodovsky	A	–	–	–
	B	312.8	17.1	53.6
	C1	1,262.9	16.6	210.0
	A+B+C1	1,575.7	16.7	263.5
	C2	–	–	–
Total for all mines				
	A	686.3	19.9	136.5
	B	1,370.3	19.3	265.1
	C1	5,264.4	18.4	970.0
	A+B+C1	7,320.9	18.7	1,371.6
	C2	310.3	26.8	83.3

Table 3.2: Uralkali Carnalite Mineral Resource Statement at 1 January 2016

Mine	Category	Tonnage (Mt)	MgO (%)	MgO (Mt)
Solikamsk-1	A	110,3	10,1	11,1
	B	19,5	8,8	1,7
	C1	55,1	8,1	4,5
	A+B+C1	184,9	9,3	17,3
	C2	–	–	–

SRK notes that while Mineral Resources for carnalite are only shown in this report at Solikamsk-1, as this is the only operation that is currently mining and processing such and where there is a plan to mine this in the future as is reflected in the Business Plan, there is carnalite present at other Uralkali sites, in particular at Ust-Yayvinsky. This has been estimated by Urakali and been assigned generally to B and C1 classification categories, however, as there is no plan currently to exploit this material at present then this mineralisation has been excluded from this report.

3.4 SRK Audited Mineral Resource Statements

Table 3.3 and Table 3.4 below present SRK's audited Mineral Resource statements for sylvinite and carnalite respectively. SRK has re-classified the resource estimates using the terminology and guidelines proposed in the JORC Code. In doing this, SRK has reported those blocks classified as A or B by Uralkali as Measured, those blocks classified as C1 as Indicated and those blocks classed as C2 as Inferred. SRK's audited Mineral Resource statements are reported inclusive of those Mineral Resources converted to Ore Reserves. The audited Ore Reserve is therefore a sub set of the Mineral Resource and should not be considered as additional to this.

SRK has not attempted to optimise Uralkali's Business Plan. Consequently, SRK's audited resource statements are confined to those seams that both have the potential to be mined economically and which are currently being considered for mining by Uralkali only.

Table 3.3: SRK Audited Sylvinite Mineral Resource Statement at 1 January 2016

Category	Tonnage (Mt)	K_2O (%)	K_2O (Mt)
Berezniki-2			
Measured	55.3	24.6	13.6
Indicated	175.5	25.1	44.1
Measured + Indicated	230.8	25.0	57.7
Inferred	–	–	–
Berezniki-4			
Measured	647.9	22.4	145.0
Indicated	1,003.1	20.6	206.8

Table 3.3: SRK Audited Sylvinite Mineral Resource Statement at 1 January 2016 (End)

Category	Tonnage (Mt)	K_2O (%)	K_2O (Mt)
Measured + Indicated	1,651.0	21.3	351.8
Inferred	310.3	26.8	83.3
Ust-Yayvinsky			
Measured	480.9	19.5	94.0
Indicated	809.7	19.8	160.4
Measured + Indicated	1,290.6	19.7	254.4
Inferred	–	–	–
Solikamsk-1			
Measured	109.4	17.8	19.4
Indicated	165.4	17.1	28.4
Measured + Indicated	274.8	17.4	47.8
Inferred	–	–	–
Solikamsk-2			
Measured	145.3	16.5	24.0
Indicated	809.2	17.5	141.4
Measured + Indicated	954.5	17.3	165.3
Inferred	–	–	–
Solikamsk-3			
Measured	294.9	17.1	50.4
Indicated	1,005.0	17.2	172.8
Measured + Indicated	1,299.9	17.2	223.2
Inferred	–	–	–
Polovodovsky			
Measured	312.8	17.1	53.6
Indicated	1,262.9	16.6	210.0
Measured + Indicated	1,575.7	16.7	263.5
Inferred	–	–	–
Summary All Mines			
Measured	2,046.5	19.5	400.0
Indicated	5,230.9	18.4	963.7
Measured + Indicated	7,277.4	18.7	1,363.7
Inferred	310.3	26.8	83.3

Table 3.4: SRK Audited Carnalite Mineral Resource Statement at 1 January 2016

Category	Tonnage (Mt)	MgO (%)	MgO (Mt)
Solikamsk-1	110.3	10.1	11.1
Measured	129.8	9.9	12.8
Indicated	55.1	8.1	4.5
Measured + Indicated	184.9	9.3	17.3
Inferred	–	–	–

3.5 SRK Comments

SRK has reviewed the estimation methodology used by Uralkali to derive the above estimates, and the geological assumptions made, and considers these to be reasonable given the information available. SRK has also undertaken various re-calculations both of individual blocks and seams as a whole and has in all cases found no material errors or omissions.

Overall, SRK considers the resource estimates reported by Uralkali to be a reasonable reflection of the total quantity and quality of material demonstrated to be present at the assets and which has potential to be exploited as of 1 January 2016.

The audited Mineral Resource statement as at 1 January 2016 presented above is different to that presented as at 1 January 2015. This is partly a function of mining activity during 2015 and some minor re-assessments completed during the year by Uralkali. The most significant change to the Mineral Resource statement, however, relates to the inclusion of additional carnallite resources falling within the new licence (#2541) acquired during the year. For the purposes of the carnalite Mineral Resources presented above, this is now the combined total of licence #2541 and #2547.

For the purposes of SRK's reporting of the Mineral Resource in Table 3 3 in accordance with the JORC Code, it is noted that there is a difference of some 43.6Mt between this and the Mineral Resource as reported by Uralkali in Table 3 1 for Solikamsk-2. SRK has reduced the Mineral Resource of Solikamsk-2 by this amount as a result of the water inflow incident which is described further below in Section 4.4. The removal of this material relates to the area where a new inter-mine isolation pillar will be left to protect the southernmost area of Solikamsk-2.

4. Ore reserve estimation

4.1 Introduction

Uralkali does not report reserves as these are typically defined by reporting guidelines and terminology developed in Europe, North America and Australia; that is, estimates of the tonnage and grade of total material that is planned to be delivered to the various processing plants over the life of the mine. SRK has therefore derived estimates of such using historical information supplied by Uralkali and gained during its site visits regarding the mining losses and dilution experienced during mining to date. SRK has also restricted the resulting estimates to those areas planned to be mined by Uralkali in its Business Plan during the next 20 years from 2016 to 2035 inclusive. The Business Plan assumes that Uralkali will successfully re-negotiate its Licences and the Ore Reserve Statements therefore also assume this will be the case.

4.2 Modifying Factors

MThe Modifying Factors applicable to the derivation of reserves comprise estimates for ore losses and planned and unplanned dilution associated with the separation of the ore and waste. This is normally a function of the orebody characteristics and mining methods selected.

The Modifying Factors considered by SRK to be appropriate for the sylvinite and carnalite being mined at each of the assets are shown below in Table 4 1 below. The Tonnage Conversion Factor takes into account both the percentage of material left behind in pillars and the amount of dilution included when mining the ore and is applied to the in situ resource tonnage to derive the tonnage of material expected to be delivered to the plants. The K_2O/MgO Grade Conversion Factor accounts for the difference in grade between the in situ resource and the above plant feed tonnage as a result of incorporation within the latter of waste extracted along with this and is therefore applied to the in situ grade to derive the grade of ore expected to be delivered to the plants.

Uralkali undertakes an annual reconciliation to compare the ore tonnes mined each year with the resource that has been sterilised by this mining and it is these figures for the last 8 to 10 years that SRK has reviewed to derive Tonnage Conversion Factor. Similarly Uralkali keeps a record of the in situ grade of the material sterilised by mining each year and SRK has compared these with the grade of material reported to have been fed to the plants over the last 8 to 10 years to derive the Grade Conversion Factor. Given this, SRK is confident that the Modifying Factors used reflect the geometry of the orebodies being mined and the mining methods currently being used.

4.3 SRK Audited Reserve Statements

As with its audited Mineral Resource statements, SRK's Ore Reserve statements have been re-classified using the terminology and guidelines proposed in the JORC Code. To facilitate this, SRK has been provided with actual production and operating cost data for 2009 to 2015 and a revised production forecast for 2016 to 2035 inclusive reflecting Uralkali's current plans regarding the refurbishment of some existing processing facilities and also the installation of additional facilities.

SRK's audited Ore Reserve statement is therefore confined to those seams that are currently being considered for mining within the next 20 years only. Specifically, SRK has classed that material reported in the tables above as a Measured Mineral Resource, and which is planned to be exploited within the first ten years of the Business Plan, as a Proved Ore Reserve; and that material reported in the tables above as an Indicated Mineral Resource, and which is planned to be exploited within the Business Plan, and also that material reported above as a Measured Mineral Resource, but which is planned to be mined during the second 10 years of the Business Plan, as a Probable Ore Reserve.

BSRK's Ore Reserve statement does not include any material from Polovodovsky, however, it does include an Ore Reserve for Ust-Yayvinsky which is currently under construction. In the case of Polovodovsky, the feasibility studies are on-going. In the case of Ust-Yayvinsky, however, the work has been completed to an advanced stage, detailed project documentation has been completed and the necessary permits are in place. Furthermore, work on shaft construction has commenced and is in progress. SRK has derived Ore Reserve estimates for Ust-Yayvinsky using information obtained from Uralkali but also taking cognisance of the historical information regarding the mining losses and dilution experienced during mining to date at Uralkali's existing operations.

Table 4.1: SRK Modifying Factors

Description	Tonnage Conversion Factor (%)	Grade Conversion Factor (%)
Solikamsk-1 (sylvinite)	41%	92%
Solikamsk-1 (sylvinite)	31%	97%
Solikamsk-2	46%	88%
Solikamsk-3	51%	88%
Berezniki-2	36%	82%
Berezniki-4	44%	88%
Ust-Yayvinsky	37%	85%

SRK can confirm that the Ore Reserve Statements presented in Table 4.2 and Table 4.3 below, for sylvinite and carnalite respectively, have been derived from the resource blocks provided to SRK and incorporate sufficient estimates for ore losses and dilution based on actual historical data. The break-even price required to support this statement over the period of the business plan is between USD60-75/ tonne product produced, in January 2016 terms. This is calculated as the price required to cover all cash operating costs but excluding distribution costs (i.e. all on site mining, processing, maintenance and G&A operating costs). SRK notes that the break-even price has reduced significantly in USD terms from that estimated historically by SRK and this is a result of the significant change in inflation and exchange rates during the course of 2014 and 2015. SRK estimates that if these both returned to levels seen before 2014 then the break- even price would be in the region of USD90-110/tonne product.

Table 4.2: SRK Audited Sylvinite Ore Reserve Statement at 1 January 2016

Category	Tonnage (Mt)	K_2O (%)	K_2O (Mt)
Berezniki-2			
Proven	19.9	20.2	4.0
Probable	61.8	20.6	12.7
Total	81.7	20.5	16.8
Berezniki-4			
Proven	162.1	19.7	31.9
Probable	163.0	19.3	31.5
Total	325.1	19.5	63.4
Ust-Yayvinsky			
Proven	53.8	16.6	8.9
Probable	110.0	16.7	18.4
Total	163.8	16.7	27.3
Solikamsk-1			
Proven	44.9	16.3	7.3
Probable	47.1	15.8	7.4
Total	91.9	16.1	14.8

Table 4.2: SRK Audited Sylvinite Ore Reserve Statement at 1 January 2016 (End)

Category	Tonnage (Mt)	K_2O (%)	K_2O (Mt)
Solikamsk-2			
Proven	66.8	14.5	9.7
Probable	101.6	15.4	15.6
Total	168.4	15.1	25.3
Solikamsk-3			
Proven	133.6	15.0	20.1
Probable	137.4	15.1	20.8
Total	271.0	15.1	40.9
Polovodovsky			
Proven	–	–	–
Probable	–	–	–
Total	–	–	–
Summary All Mines			
Proven	481.1	17.0	82.0
Probable	620.8	17.1	106.4
Total	1,102.0	17.1	188.4

Table 4.3: SRK Audited Carnalite Ore Reserve Statement at 1 January 2016

Category	Tonnage (Mt)	MgO (%)	MgO (Mt)
Solikamsk-1			
Proven	12.8	9.6	1.2
Probable	–	–	–
Total	12.8	9.6	1.2

SRK can also confirm that no Inferred Mineral Resources have been converted to Ore Reserves and notes that the Mineral Resource statements reported above are inclusive of, and therefore include, those Mineral Resources used to generate the Ore Reserves.

The large difference between SRK's audited Mineral Resource statement and its audited Ore Reserve statement is partly a function of the relatively low mining recovery inherent in the Room and Pillar mining method employed and partly a function of the fact that SRK has limited the Ore Reserve statement to that portion of the Mineral Resource on which an appropriate level of technical work has been completed. In this case this relates to the period covered by the 20 years of Uralkali's Business Plan.

Notwithstanding this, SRK considers that the actual life of some of the mines will extend beyond the current 20 year period covered by the Business Plan. In particular, at the currently assumed production rates, the following mines have the potential to extend beyond that covered by the current 20 year Business Plan approximately as follows:

- Berezniki-4: 22 years;
- Solikamsk-1: 5 years;
- Solikamsk-2: 27 years;
- Solikamsk-3: 28 years.

Furthermore, Ust-Yayvsinky is assumed to commence production in 2020, and while it is therefore operational over 16 years of the 20 years covered by the Business Plan, at the currently assumed forecast steady state production rates it has the potential to continue production for an additional 16 years beyond this.

4.4 SRK Comments

While the overall audited Ore Reserve statement as at 1 January 2016 presented above has a similar total tonnage to that presented as at 1 January 2015, individual differences at each individual mine are as a result of mining during 2015, the extension of, and revisions to, the forecast mined tonnages in the Uralkali Business Plan to 2035 and the revisions to the Mineral Resource statements commented upon earlier in this report.

While the previous Ore Reserve statement as at 1 January 2015 had a significant change compared to the prior statement as at 1 January 2014, due to the water inflow incident at Solikamsk-2, SRK understands that this is now under control and as such the Business Plan which influences the current Ore Reserve statement is largely the same as the Business Plan which influenced the previous Ore Reserve statement. The current Business Plan reflects a reduction in the assumed mined tonnages between 2016 and 2021 to account for this incident.

With regards to the reduction in mined tonnages at Solikamsk-2 noted above, on 18 November 2014, a sudden water inflow event occurred underground in Solikamsk-2 associated with a collapse in the overlying strata and development of a sinkhole at surface. This occurred in the northern extremity of the Solikamks-2 licence area. A number of responses by Uralkali included:

- Revisions to the overall mine planning and scheduling;
- Installation of a groundwater dewatering ring at surface (commissioned February 2015);
- A change in the mine development plan at Solikamsk-2 with a "new Solikamsk-2" mine now planned to be established which will be fully separated from the Solikamsk-2 mine by an inter-mine isolation pillar. This has resulted in the requirement for a new shaft to service the "new Solikamsk-2" mine;
- Further measures to reinforce the existing bulkheads between Solikamsk-2 and Solikamsk-1 mines to prevent water ingress between the two in the event of complete flooding of the former;
- Backfilling measures in order to minimise potential future subsidence impacts to surface infrastructure including railway lines;
- Measures to minimise water inflow including the installation of a surface conveyor delivering clay material in to the sinkhole to fill the void to a certain level and the drilling of additional holes around the sink hole into which a mixture of clay and cement is pumped to fill voids; and
- Increased surface monitoring of the collapse zone and new underground seismograph monitoring stations.

On-going monitoring during 2015 has indicated that the measures put in place have controlled the inflow and that with these measures in place, Uralkali is confident it can continue mining the Solikamsk-2 mine from the existing infrastructure for another 6 to 7 years. Although SRK understands that the Solikamsk-2 sinkhole has occurred in an area of old workings and has not directly affected the production areas currently located in the southern part of the licence area, production capacity has been impacted by:

- The installation of emergency pumping facilities at the shaft;
- Working areas being restricted to those panels located immediately north of inter-mine isolation pillar noted above;
- Stopping development into new working areas located south of the southern barrier pillar; and
- A preference to mitigate against future production losses in the event that production from Solikamsk-2 has to be halted completely.

For the purposes of the current Business Plan, Uralkali has therefore assumed that for the next 6 years, mine production from Solikamsk-2 will be restricted to 4.8Mtpa compared to a potential current capacity of 10Mtpa. By 2022 it is assumed that the mine production will increase to 10Mtpa following the sinking of a new shaft complex to service the "'new Solikamsk-2" mine. While SRK accepts the changes made to the current Business Plan to reflect this issue, SRK considers there remains a risk that the flooding event cannot be fully controlled over the full duration of the next 6 years which would result in the current shaft at Solikamsk-2 becoming inoperable. Were this to occur, then the Ore Reserve at Solikamsk-2 could reduce further than reported herein and no production would be able to occur from this mine until the new shaft complex has been constructed, which will take some 6–7 years to complete. Uralkali has assumed that a new shaft complex can be constructed and be operational by 2022, which while SRK considers to be aggressive, could be achievable assuming no issues arise during the design, permitting and construction process and given that Uralkali can apply its recent experience on such undertakings for the construction of the Ust-Yayvinsky mine which is currently underway.

In addition to the above, the 20 year Business Plan includes a number of expansions to both the Uralkali and former Silvinit operations (the capital costs of which have been taken into account in Uralkali's Business Plan and which SRK has taken account of in determining the economics of the operations) and as such the Ore Reserve reported here takes into account the additional amount of material planned to be mined over this period. SRK notes that the forecast production assumptions at some of the mines and processing facilities are somewhat higher than that actually achieved in the last few years but understands that this reduced production rate has primarily been driven by the prevailing market conditions rather than capacity constraints at the various operations. SRK therefore assumes that the forecast increase in production levels at each of the facilities is warranted and justified based on Uralkali's market expectations going forward.

SRK has reviewed the expansions proposed by Uralkali and considers the work proposed and the timeline assumed for the work to be completed to be generally reasonable and achievable. Further, while SRK has not reviewed the capital cost estimates in detail, SRK is confident that these are justified based on Uralkali's current price forecasts. In some cases, the expansion projects are already underway and some of the increases to processing capacities are assumed to be achieved by de-bottlenecking the existing facilities in addition to upgrading and adding new equipment and processing lines. SRK notes that in order to achieve these increases in production, Uralkali will need to ensure that sufficient resources, management and staffing are available given that many of these expansions are forecast to take place simultaneously and alongside major construction projects, such as that underway at Ust-Yayvinsky.

5. Concluding remarks

In SRK's opinion the Mineral Resource and Ore Reserve statements as included herein are materially compliant with the JORC Code and are valid as at 1 January 2016. In accordance with additional reporting requirements of the latest version of the JORC Code (2012), included in an Appendix to this report are the JORC checklist tables which include additional details and commentary on "Sampling Techniques and Data", "Estimation and Reporting of Mineral Resources" and "Estimation and Reporting of Ore Reserves"

SRK considers that should the Ore Reserves as presented herein be re-stated in accordance with the reporting requirements of the United States Securities and Exchange Commission (the "SEC"), specifically Securities Act Industry Guide 7 ("Industry Guide 7"), such Ore Reserves would not be materially different. SRK however notes that certain terms as used in this letter, such as "resources" are prohibited when reporting in accordance with Industry Guide 7.

Yours Faithfully,

Dr Mike Armitage
Chairman & Corporate Consultant
(Resource Geology),
SRK Consulting (UK) Limited

Nick Fox,
Principal Consultant
(Geology/Mineral Economics),
SRK Consulting (UK) Limited

APPENDIX. JORC Checklist Tables

Section 1 Sampling Techniques and Data

Criteria	JORC Code explanation	Commentary
Sampling techniques	• Nature and quality of sampling (e.g. cut channels, random chips, or specific specialised industry standard measurement tools appropriate to the minerals under investigation, such as down hole gamma sondes, or handheld XRF instruments, etc.). These examples should not be taken as limiting the broad meaning of sampling • Include reference to measures taken to ensure sample representivity and the appropriate calibration of any measurement tools or systems used • Aspects of the determination of mineralisation that are material to the Public Report • In cases where 'industry standard' work has been done this would be relatively simple (e.g. 'reverse circulation drilling was used to obtain 1 m samples from which 3 kg was pulverised to produce a 30 g charge for fire assay'). In other cases more explanation may be required, such as where there is coarse gold that has inherent sampling problems. Unusual commodities or mineralisation types (e.g. submarine nodules) may warrant disclosure of detailed information	The Mineral Resource and Ore Reserve estimates derived for Berezniki projects are primarily based on surface exploration drilling undertaken between 1972 and 1998. The Mineral Resource and Ore Reserve estimates derived for Solikamsk projects are primarily based on surface exploration drilling undertaken between 1925 and 2012. Exploration was generally undertaken by State enterprises based in Solikamsk and Berezniki. Further underground drilling is taking place at the operating mines and data from this is also used to update the Resource Estimates from time to time.
Drilling techniques	Drill type (e.g. core, reverse circulation, open-hole hammer, rotary air blast, auger, Bangka, sonic, etc.) and details (e.g. core diameter, triple or standard tube, depth of diamond tails, face- sampling bit or other type, whether core is oriented and if so, by what method, etc.)	The diamond drillholes drilled from surface and underground were drilled with a diameter of either 92 mm or 112 mm for surface holes and 50–76 mm for underground holes. In all cases holes were sampled at intervals between 10 cm and 6 m, averaging between 105 cm and 130 cm.
Drill sample recovery	• Method of recording and assessing core and chip sample recoveries and results assessed • Measures taken to maximise sample recovery and ensure representative nature of the samples • Whether a relationship exists between sample recovery and grade and whether sample bias may have occurred due to preferential loss/gain of fine/coarse material	Core recovery through the sylvinite horizons is reported to be good at an average of 84–85%, while the recovery through the carnallite horizon at Solikamsk 1 is reported to be 74%.
Logging	• Whether core and chip samples have been geologically and geotechnically logged to a level of detail to support appropriate Mineral Resource estimation, mining studies and metallurgical studies • Whether logging is qualitative or quantitative in nature. Core (or costean, channel, etc.) photography • The total length and percentage of the relevant intersections logged	ODrill core samples are subject to the follow analysis: • detailed description based on visual identification of units, seams and layers • field identification of mineral and lithological composition; • photography (recent years) • assaying (see below) • geophysical logging (for all holes since 1952) During drilling from the surface, the following geophysical analysis is undertaken: • gamma-logging • neutron gamma-logging • caliper logging • inclinometer survey • electric logging • resistivity metering • thermometric measurements • gas logging For Berezniki operating mines some 76,600m of core from exploration holes have been logged. For Solikamsk operating mines some 69,600m of core from exploration holes have been logged.

Criteria	JORC Code explanation	Commentary
Sub-sampling techniques and sample preparation	• If core, whether cut or sawn and whether quarter, half or all core taken • If non-core, whether riffled, tube sampled, rotary split, etc. and whether sampled wet or dry • For all sample types, the nature, quality and appropriateness of the sample preparation technique • Quality control procedures adopted for all sub-sampling stages to maximise representivity of samples • Measures taken to ensure that the sampling is representative of the in situ material collected, including for instance results for field duplicate/second-half sampling • Whether sample sizes are appropriate to the grain size of the material being sampled	Core is split in half with one half retained for reference and the other half crushed, milled and split under the control of the Company geology department to produce a small sample (100 g) for submission to the laboratory for assay. Assaying is carried out at an in house laboratory using classical wet chemistry techniques. Approximately 5–6% of samples are repeat assayed internally while a similar percentage are sent to an external laboratory for check assaying.
Quality of assay data and laboratory tests	• The nature, quality and appropriateness of the assaying and laboratory procedures used and whether the technique is considered partial or total • For geophysical tools, spectrometers, handheld XRF instruments, etc., the parameters used in determining the analysis including instrument make and model, reading times, calibrations factors applied and their derivation, etc. • Nature of quality control procedures adopted (e.g. standards, blanks, duplicates, external laboratory checks) and whether acceptable levels of accuracy (i.e. lack of bias) and precision have been established	See comments above.
Verification of sampling and assaying	• The verification of significant intersections by either independent or alternative company personnel • The use of twinned holes • Documentation of primary data, data entry procedures, data verification, data storage (physical and electronic) protocols. • Discuss any adjustment to assay data	See comments above. Given that most of the quoted Mineral Resource and Ore Reserve relates to operating mines, verification is undertaken by means of annual reconciliations of actual production compared to the resource model. This informs the modifying factors used to derive the Ore Reserves (see Section 4).
Location of data points	• Accuracy and quality of surveys used to locate drill holes (collar and down-hole surveys), trenches, mine workings and other locations used in Mineral Resource estimation • Specification of the grid system used • Quality and adequacy of topographic control	Since 1939, topographic and geodesic surveys have been undertaken to generate topographic maps scales 1:10,000 and 1:5,000. Topographic and geodesic surveys are performed by specialist organisations under the instruction of Uralkali. At present, the hole coordinate location is performed using satellite double-frequency and single-frequency instruments based on the State Geodesic Polygonal Grid Class 4, in static mode, within 20 minutes, under plane accuracy 5 mm and height accuracy 10 mm.
Data spacing and distribution	• Data spacing for reporting of Exploration Results • Whether the data spacing and distribution is sufficient to establish the degree of geological and grade continuity appropriate for the Mineral Resource and Ore Reserve estimation procedure(s) and classifications applied • Whether sample compositing has been applied	The general drill spacing of surface drill holes relative to Russian Resource classification categories (see Section 3 below) is as follows: **Berezniki Mines** A Category: less than 1,000m B Category: between 1,000m and up to 2,000m C1 Category: between 2,000m and 4,000m C2 Category: ~4,000m (or greater) spacing **Solikamsk Mines** A Category: less than 1,200m B Category: between 1,200m and up to 2,400m C1 Category: between 2,400m and 4,000m C2 Category: ~4,000m (or greater) spacing In addition to the above, underground drilling is undertaken at the operating mine on a general spacing of approximately 400m.
Orientation of data in relation to geological structure	• Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type • If the relationship between the drilling orientation and the orientation of key mineralised structures is considered to have introduced a sampling bias, this should be assessed and reported if material	All drill holes have been drilled vertically through a flat lying/ gently dipping and undulating orebody, which SRK considers is appropriate.
Sample security	• The measures taken to ensure sample security	Core samples taken from surface holes are kept in covered storage, until the state Examination is passed, after which this is discarded. Of the core material taken from underground holes, samples are prepared for chemical assays and physical and mechanic studies. Sample duplicates are kept in underground storages and are discarded after panels (blocks) are completely mined out.
Audits or reviews	• The results of any audits or reviews of sampling techniques and data	The work undertaken by SRK represents an audit of the Mineral Resource estimates derived by Uralkali. SRK considers the sample collection and assaying techniques to be appropriate for the style of geometry and style of mineralisation and the data is suitable for use in the Mineral Resource and Ore Reserve estimates. The Russian State authority RosGeoFond also reviews reports on resource re-estimations (via the 5GR statement submitted annually by Uralkali). The Russian State Reserves Commission (GKZ) also undertakes audits and reviews of the resources statements.

Section 2 Estimation and Reporting of Mineral Resources

Criteria	JORC Code explanation	Commentary
Database integrity	• Measures taken to ensure that data has not been corrupted by, for example, transcription or keying errors, between its initial collection and its use for Mineral Resource estimation purposes • Data validation procedures used	SRK has reviewed the drill logs/assay results, plan view geological and resource block interpretations and resulting block listings and resource calculations and undertaken check calculations and found no material errors or omissions.
Site visits	• Comment on any site visits undertaken by the Competent Person and the outcome of those visits • If no site visits have been undertaken indicate why this is the case	SRK has undertaken an annual site visit since 2007 to the operating mines, processing plants and associated surface infrastructure facilities.
Geological interpretation	• Confidence in (or conversely, the uncertainty of) the geological interpretation of the mineral deposit • Nature of the data used and of any assumptions made • The effect, if any, of alternative interpretations on Mineral Resource estimation • The use of geology in guiding and controlling Mineral Resource estimation • The factors affecting continuity both of grade and geology	High confidence in the geological interpretation of the deposit based on various phases of exploration and first hand observation from underground mining operations. The upper and lower limits of the mineralisation are well defined.

Criteria	JORC Code explanation	Commentary
Dimensions	• The extent and variability of the Mineral Resource expressed as length (along strike or otherwise), plan width, and depth below surface to the upper and lower limits of the Mineral Resource	Each deposit is flat lying/gently dipping and with minor undulations: **Berezniki Mine 2** (Durmanski Licence Area). This licence extends some 7.9km north-south and 7.7km east-west and covers an area of about 67km2. The average depth of the seams mined is about 345m and the average thickness between 2.5m and 4.5m. **Berezniki Mine 4** (Bygelso-Troitski Licence). This licence extends some 12km north-south and 17km east-west and covers an area of about 183km2. The average depth of the seams mined is about 320m and they have an average thickness of 3m. **Ust-Yayvinksy Mine** (Ust-Yayvinsky Licence). This is currently under construction. The licence extends up to some 10.8km by 10.3km and covers an area of about 83 km2. The average depth of the seams to be mined is about 390 m and they have an average thickness of between 3 and 5 m. **Solikamsk Mine 1** (Solikamsk Lease Northern Part). This licence extends some 6.3km by 6.3km and covers an area of about 44 km2. The depth of the seams mined is between 260 and 350 m with they have a thickness of between 3 and 5.5 m. **Solikamsk Mine 2** (Solikamsk Lease Southern Part). This licence extends some 8.6km by 7.3km and covers an area of about 50 km2. The depth of the seams mined is between 200 and 300m and they have a thickness of between 4.5 and 6m. **Solikamsk Mine 3** (Novo-Solikamsk Licence). This licence extends some 16.4km by 8.9km and covers an area of about 110 km2. The depth of the seams mined is between 250 and 380m with they have a thickness of between 3 and 4 m. **Polovodovsky.** This licence extends up to some 30km by 29km and covers an area of about 381km2. The average depth of the seams is about 270 m and they have a thickness of between 3.4–4.2m. The Polovodovsky licence contains Mineral Resources only while all other licences have declared Ore Reserves (see Section 4 below).
Estimation and modeling techniques	• The nature and appropriateness of the estimation technique(s) applied and key assumptions, including treatment of extreme grade values, domaining, interpolation parameters and maximum distance of extrapolation from data points. If a computer assisted estimation method was chosen include a description of computer software and parameters used • The availability of check estimates, previous estimates and/or mine production records and whether the Mineral Resource estimate takes appropriate account of such data • The assumptions made regarding recovery of by-products • Estimation of deleterious elements or other non-grade variables of economic significance (e.g. sulphur for acid mine drainage characterisation) • In the case of block model interpolation, the block size in relation to the average sample spacing and the search employed • Any assumptions behind modelling of selective mining units • Any assumptions about correlation between variables • Description of how the geological interpretation was used to control the resource estimates • Discussion of basis for using or not using grade cutting or capping • The process of validation, the checking process used, the comparison of model data to drill hole data, and use of reconciliation data if available	Each seam and each mine is treated separately in the resource estimation procedure. In each case the horizons are first divided into blocks such that each sub-divided block has reasonably consistent borehole spacing within it; that is more intensely drilled areas are subdivided from less intensely drilled areas. Each resulting "resource block" is then evaluated separately using the borehole intersections falling within that block only. Specifically, composited K O and MgO grades are derived for each borehole that intersected each block and mean grades are then derived for each block by simply calculating a length weighted average of all of these composited intersections. No top cuts are applied and all intersections are allocated the same weighting. A separate plan is produced for each seam showing the results of the above calculations, the lateral extent of each sub-block, and any areas where the seams are not sufficiently developed. The aerial coverage of each block is then used with the mean thickness of the contained intersections to derive a block volume. The tonnage for each block is then derived from this by applying a specific gravity factor calculated by averaging all of the specific gravity determinations made from samples within that block. The data for each resulting block is plotted on a Horizontal Longitudinal Projection (HLP). This shows the horizontal projection of the extent of each block as well as its grade and contained tonnage. The HLP also shows the block classification, this being effectively a reflection of the confidence in the estimated tonnes and grade. SRK considers the Mineral Resource estimation methodology to be appropriate for the geometry and style of mineralisation and available data.

Criteria	JORC Code explanation	Commentary
Moisture	• Whether the tonnages are estimated on a dry basis or with natural moisture, and the method of determination of the moisture content	The resource estimates are expressed on a dry tonnage basis and in-situ moisture content is not estimated.
Cut-off parameters	• The basis of the adopted cut-off grade(s) or quality parameters applied	Uralkali's sylvinite Mineral Resource statements are based on a minimum seam thickness of 2m and a minimum block grade which dependent on the mine varies between 11.4% and 15.5% K O. Uralkali's carnalite Mineral Resource statements are based on a minimum seam thickness of 2m and a minimum block grade of 7.2% MgO.
Mining factors or assumptions	• Assumptions made regarding possible mining methods, minimum mining dimensions and internal (or, if applicable, external) mining dilution. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider potential mining methods, but the assumptions made regarding mining methods and parameters when estimating Mineral Resources may not always be rigorous. Where this is the case, this should be reported with an explanation of the basis of the mining assumptions made	Five of the seven areas with a reported Mineral Resource are underground mines (room and pillar) which have been operating for a number of years. Ust-Yayvinsky is under construction and studies have been undertaken to determine the economic viability of this. A Room and Pillar mining method is also planned for this mine. Refer to Section 4 for mining factors and assumptions for conversion to Ore Reserves. Polovodovsky is currently reported as a Mineral Resource only and feasibility studies are underway for the development of this.
Metallurgical factors or assumptions	• The basis for assumptions or predictions regarding metallurgical amenability. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider potential metallurgical methods, but the assumptions regarding metallurgical treatment processes and parameters made when reporting Mineral Resources may not always be rigorous. Where this is the case, this should be reported with an explanation of the basis of the metallurgical assumptions made	Refer to comment above regarding mining factors and assumptions and also to Section 4 regarding Ore Reserves.
Environmental factors or assumptions	• Assumptions made regarding possible waste and process residue disposal options. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider the potential environmental impacts of the mining and processing operation. While at this stage the determination of potential environmental impacts, particularly for a greenfields project, may not always be well advanced, the status of early consideration of these potential environmental impacts should be reported. Where these aspects have not been considered this should be reported with an explanation of the environmental assumptions made	Existing infrastructure is in place at the operating mines including facilities to dispose of salt and slimes waste. Expansion of these facilities or construction of new ones can take place as required.
Bulk density	• Whether assumed or determined. If assumed, the basis for the assumptions. If determined, the method used, whether wet or dry, the frequency of the measurements, the nature, size and representativeness of the samples • The bulk density for bulk material must have been measured by methods that adequately account for void spaces (vugs, porosity, etc.), moisture and differences between rock and alteration zones within the deposit • Discuss assumptions for bulk density estimates used in the evaluation process of the different materials	Bulk density measurements are taken from historical drill core samples and also actual measurements during the course of operations
Classification	• The basis for the classification of the Mineral Resources into varying confidence categories • Whether appropriate account has been taken of all relevant factors (i.e. relative confidence in tonnage/grade estimations, reliability of input data, confidence in continuity of geology and metal values, quality, quantity and distribution of the data) • Whether the result appropriately reflects the Competent Person's view of the deposit	SRK has reclassified the Russian classification categories in accordance with the JORC Code. Generally, SRK has reported those blocks classified as A or B per the Russian classification system as Measured, those blocks classified as C1 as Indicated and those blocks classed as C2 as Inferred. SRK considers the quantity and quality of data that underpins the estimation and classification given to be appropriate for the categories used.

Criteria	JORC Code explanation	Commentary
Audits or reviews	• The results of any audits or reviews of Mineral Resource estimates	The work undertaken by SRK represents an audit of the Mineral Resource estimates derived by Uralkali. SRK considers the sample collection and assaying techniques to be appropriate for the style of geometry and style of mineralisation and the data is suitable for use in the Mineral Resource and Ore Reserve estimates. The Russian State authority RosGeoFond also reviews reports on resources re-estimations (via the 5GR statement submitted annually by Uralkali). The Russian State Reserves Commission (GKZ) also undertakes audit and reviews of the resources statements.
Discussion of relative accuracy/ confidence	• Where appropriate a statement of the relative accuracy and confidence level in the Mineral Resource estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the resource within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors that could affect the relative accuracy and confidence of the estimate • The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used • These statements of relative accuracy and confidence of the estimate should be compared with production data, where available	The Mineral Resource estimates have been prepared and classified in accordance with the Russian system of reporting resources and have been re-classified by SRK using the terminology and guidelines of the JORC Code (2012). The resource quantities should be considered as global estimates. Five of the seven areas with Mineral Resources are operating mines and also have Ore Reserves declared. Uralkali undertakes annual reconciliations and SRK has used this information in deriving appropriate Modifying Factors for conversion to Ore Reserves (Refer to Section 4 below).

Section 3 Estimation and Reporting of Ore Reserves

Criteria	JORC Code explanation	Commentary
Mineral Resource estimate for conversion to Ore Reserves	• Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve • Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves	The Mineral Resource estimates as presented in Table 3 3 and Table 3 4 of this report have been used as the basis for conversion to Ore Reserves as presented in Table 4 2 and Table 4 3 respectively. The Mineral Resources presented are inclusive of those Mineral Resources converted to Ore Reserves. SRK has restricted the Ore Reserves to the material planned to mined during the next 20 years
Site visits	• Comment on any site visits undertaken by the Competent Person and the outcome of those visits • If no site visits have been undertaken indicate why this is the case	SRK has undertaken an annual site visit since 2007 to the operating mines, processing plants and associated surface infrastructure facilities.
Study status	• The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves • The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically viable, and that material Modifying Factors have been considered	Berezniki Mines 2 and 4 and Solikamsk Mines 1, 2 and 3 are all operating mines and have a 20 year mine plan. SRK has verified that the mine plans are both technically and economically feasible for each mine. Ust-Yayvinsky is currently under construction and has been the subject of Feasibility Studies to determine the technical and economic viability of this. No Ore Reserves are declared for the Polovodovsky site
Cut-off parameters	• The basis of the cut-off grade(s) or quality parameters applied	Refer to Section 3 above.

Criteria	JORC Code explanation	Commentary
Mining factors or assumptions	• The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by preliminary or detailed design) • The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as pre-strip, access, etc. • The assumptions made regarding geotechnical parameters (eg pit slopes, stope sizes, etc),grade control and pre-production drilling • The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate) • The mining dilution factors used • The mining recovery factors used • Any minimum mining widths used • The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion • The infrastructure requirements of the selected mining methods	All mines are operated by room and pillar methods using continuous miners which is a proven method for this type of deposit and has been used at these operations for many years. The Modifying Factors applicable to the derivation of Ore Reserves comprise estimates for ore losses and planned and unplanned dilution associated with the separation of the ore and waste. This is normally a function of the orebody characteristics and mining methods selected. The Modifying Factors considered by SRK to be appropriate for the sylvinite and carnalite being mined at each of the assets are shown in Table 4 1 of this report. These have been derived by SRK from analysis of actual production data. No Inferred Mineral Resources are included within the Mine Plan Each mine requires access via shafts and is supported by appropriate surface infrastructure. A new shaft complex is currently under construction for the Ust-Yayvinsky mine.
Metallurgical factors or assumptions	• The metallurgical process proposed and the appropriateness of that process to the style of mineralisation • Whether the metallurgical process is well-tested technology or novel in nature • The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied • Any assumptions or allowances made for deleterious elements • The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the orebody as a whole • For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications	There are 6 processing facilities in operation to process the mined material from the various mining operations. These utilise existing and proven technology and have been operating for a number of years. This gives a high level of confidence in the assumed plant feed tonnages and recoveries to final product assumed in the 20 year mine plans. Mined material from Ust-Yayvinsky will be processed in one of the existing processing facilities located in Berezniki.
Environmental	• The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported	Waste in the form of salt residue and slimes waste are disposed of in existing waste storage facilities and have remaining capacity and/or can be expanded as necessary. Uralkali has confirmed that all environmental permits required for all current and future operations are in place. This includes permits related to: • Harmful (polluting) emissions into atmospheric air • Discharges of polluting substances and micro-organisms into water bodies • Resolutions regarding use of water bodies • Documents establishing limits of wastes generation and wastes disposal When the validity of issued permits expires, new permits are obtained as required
Infrastructure	• The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed	The area around the Berezniki and Solikamsk mines and processing facilities are serviced with adequate power, water, transportation and accommodation infrastructure for existing and planned future operations.
Costs	• The derivation of, or assumptions made, regarding projected capital costs in the study • The methodology used to estimate operating costs • Allowances made for the content of deleterious elements • The source of exchange rates used in the study • Derivation of transportation charges • The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc. • The allowances made for royalties payable, both Government and private	Forecast operating costs are based on actual costs incurred and adjusted as required. Project capital costs are derived on a project by project basis in- house from first principles by a team of experienced engineers.

Criteria	JORC Code explanation	Commentary
Revenue factors	• The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc. • The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products	For the purpose of the 20 year Business Plan, Uralkali assumes a long term commodity price of USD235/t (weighted average of domestic and export prices).
Market assessment	• The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future • A customer and competitor analysis along with the identification of likely market windows for the product • Price and volume forecasts and the basis for these forecasts • For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract	Detailed analysis on demand, supply and stocks for the potash sector are widely available in the public domain. Uralkali has been successfully producing and selling potash products for a number of years.
Economic	• The inputs to the economic analysis to produce the net present value (NPV) in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc. • NPV ranges and sensitivity to variations in the significant assumptions and inputs	Uralkali has produced a real terms 20 year Business Plan in USD for the existing operations and the new Ust-Yayvinsky mine and this has been reviewed by SRK to confirm the economic viability of the operations. Forecast operating costs are based on operating experience and actual historical costs, adjusted as required. Project capital costs have been derived from first principles in-house
Social	• The status of agreements with key stakeholders and matters leading to social licence to operate	Uralkali's social obligations are established by subsoil use terms and conditions (license agreements) to subsoil use licenses. Uralkali complies to the subsoil use terms and conditions established.
Other	To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves: • Any identified material naturally occurring risks • The status of material legal agreements and marketing arrangements • The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent	The main technical risk to underground potash mines is through water ingress. Uralkali has historically closed two mines due to previous flooding incidents. Berezniki Mine 1 operated from 1954 but flooded late in 2006 while Berezniki 3 operated from 1973 until flooding in 1986. Solikamsk-2 experienced water ingress in November 2014 and this has been taken into account of in the current Business Plan. Measures put in place by Uralkali in late 2014 and during 2015 indicate this incident is currently under control. Uralkali sells its product on both the domestic and international markets. The majority of sales are performed through off-take agreements with customers and these are typically renegotiated on an annual basis in terms of both quantity and price. Uralkali has an established marketing team that is responsible for all legal and marketing issues related to off-take agreements with customers. The status of each Exploration and Mining Licence is summarised in Table 1 1 of this report. The licenses for the operating and development mines will expire within the term of the 20 year Business Plan, even though some of these mines are planned to continue operating beyond this time and have Mineral Resources and Ore Reserves to support this. SRK considers it reasonable to expect that Uralkali will obtain extensions to these licences in due course on application as long as it continues to fulfil its licence obligations.

Criteria	JORC Code explanation	Commentary
Classification	• The basis for the classification of the Ore Reserves into varying confidence categories • Whether the result appropriately reflects the Competent Person's view of the deposit • The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any)	SRK's audited Ore Reserve statement is confined to those seams that are currently being considered for mining within the next 20 years only. Specifically, SRK has classed that material reported as a Measured Mineral Resource, and which is planned to be exploited within the first ten years of the Business Plan, as a Proved Ore Reserve; and that material reported as an Indicated Mineral Resource, and which is planned to be exploited within the Business Plan, and also that material reported as a Measured Mineral Resource, but which is planned to be mined during the following 10 years of the Business Plan, as a Probable Ore Reserve.
Audits or reviews	• The results of any audits or reviews of Ore Reserve estimates	SRK has derived the Ore Reserve estimates presented in this report.
Discussion of relative accuracy/confidence	• Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate • The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation • Documentation should include assumptions made and the procedures used • Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage • It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available	SRK can confirm that the Ore Reserve defined in Table 4 2 and Table 4 3 of this report, for sylvinite and carnalite respectively, have been derived from the resource blocks provided to SRK and incorporate sufficient estimates for ore losses and dilution based on actual historical data. The break-even price required to support this statement is between USD60-75/tonne in January 2016 terms and based on current expectation of inflation and exchange rates. This is calculated as the price required to cover all cash operating costs excluding distribution. Finally, SRK can also confirm that no Inferred Mineral Resources have been converted to Ore Reserves. The large difference between SRK's audited Mineral Resource statement and its audited Ore Reserve statement is partly a function of the relatively low mining recovery inherent in the Room and Pillar mining method employed. It is also partly a function of the fact that SRK has limited the Ore Reserve statement to that portion of the Mineral Resource on which an appropriate level of technical work has been completed. In this case this relates to the period covered by the remaining 20 years of Uralkali's Business Plan. Notwithstanding this, SRK considers that the actual life of some of the mines will extend beyond the current 20 year period covered by the Business Plan.

GLOSSARY

BBT	Baltic Bulk Terminal, St. Petersburg, Russia
Berezniki-1, 2, 3, 4	Potash production units in Berezniki
Bushel	A unit of dry measure in England (equal to 36.3 litres) and in the USA (equal to 35.2 litres); in agricultural commodity markets, bushel corresponds to a different weight, depending on the product type
EGM	Extraordinary General Meeting
GDR	Global Depositary Receipt
AGM	Annual General Meeting
The Group	PJSC Uralkali, its subsidiaries and affiliates
USD	US dollar
Carnallite	A hydrated potassium magnesium chloride with formula KMgCl3 x 6H2O
Headframe	A structural frame above an underground mine shaft
KPI	Key Performance Indicator
CSR	Corporate Social Responsibility
LSE	London Stock Exchange
IFRS	International Financial Reporting Standards
Mln	Million
Bln	Billion
Moscow Exchange	Moscow Exchange Group, Russia
Soil subsidence	A section of the earth's surface, at which, under the influence of underground mineral mining, shifts (horizontal and vertical) and deformations (inclination, curvature, tension, compression) occurred
VAT	Value added tax
GSM	General Shareholders Meeting
HSE	Health, Safety and Environment
LS	Labour Safety
IS	Industrial Safety
RAFP	Russian Association of Fertiliser Producers
RAS	Russian Accounting Standards
RUB	Russian rouble, RF
ICS	Internal Control System
CIS	Commonwealth of Independent States
Solikamsk-1, 2, 3	Potash production units in Solikamsk
EGM	Extraordinary General Meeting
CDP	Carbon Disclosure Project
CFR	Cost and Freight, title transfers when goods pass the rail of the ship in the port of shipment
COSO ERM	Enterprise Risk Management Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission
CUSIP	Committee on Uniform Security Identification Procedures
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
FAO	Food and Agriculture Organization

FCA	Free Carrier, title transfers when goods are loaded on the first carrier (railway carriages)
Fertecon	Fertiliser Economic Market Analysis and Consultancy, UK, provider of market information and analysis of the fertiliser market
FIFR	Work related fatal injury frequency rate
FMB	Fertiliser Market Bulletin, FMB Limited, UK
FOB	Free On Board, title to goods transfers as soon as goods are loaded on the ship
FSU	Former Soviet Union
GRI	Global Reporting Initiative
IFA	International Fertilizer Industry Association, France
IPNI	International Plant Nutrition Institute, USA
ISIN	International Securities Identification Number
JORC	Joint Ore Reserves Committee standards for public reporting on mineral resources and mineral (ore) reserves, Australia
K	Potassium, chemical element
K_2O	Potassium oxide
KCl	Potassium chloride (1 KCl = 1.61 K_2O)
LDR	Lost days rate
LTIFR	Lost time injury frequency rate
MSCI Russia	Morgan Stanley Capital International Russia Index
NPK	Nitrogen-phosphorus-potassium fertiliser
TSR	Total shareholder return

DISCLAIMER

This Annual Report has been prepared on the basis of the information available to the Public Joint-Stock Company Uralkali and its subsidiaries (hereinafter — Uralkali) as at the date hereof. This Annual Report contains forward looking statements. All forward looking statements contained herein and all subsequent oral or written forward looking statements attributable to Uralkali or any persons acting on its behalf are expressly qualified in their entirety by the cautionary statements below. All statements included in this Annual Report, other than statements of historical facts, may be forward looking statements. Words such as "forecasts", "believes", "expects", "intends", "plans", "prediction", "will", "may", "should", "could", "anticipates", "estimates", "seeks", "considers", "assumes", "continues", "strives", "projects", or any expression or word with similar meaning or the negative thereof, usually indicate the forward looking nature of the statement. Forward looking statements may include statements relating to Uralkali's operations, financial performance, earnings, economic indicators, results of operation and production activities, dividend policies, capital expenditures, as well as trends relating to commodity prices, production and consumption volumes, costs, expenses, development prospects, useful lives of assets, reserves, the commencement and completion dates of certain production projects, and the acquisition, liquidation or disposal of certain entities, and other similar factors and economic projections with respect to Uralkali's business, as well as the industry and markets in which it operates. Forward looking statements are not guarantees of future performance. They involve numerous assumptions regarding the present and future strategies of Uralkali and the environment in which it operates and will operate in the future and involve a number of known and unknown risks, uncertainties, and other factors that could cause Uralkali's or its industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward looking statements. Uralkali provides no assurance whatsoever that its or its industry's actual results, levels of activity, performance or achievements will be consistent with the future results, levels of activity, performance or achievements expressed or implied by any forward looking statements contained in this Annual Report or otherwise. Uralkali accepts no responsibility for any losses whatsoever that may result from any person's reliance on any such forward looking statements. Except where required by the applicable law, Uralkali expressly disclaims any obligation or undertaking to disseminate or publish any updates or amendments to forward looking statements to reflect any change in expectations or new information or subsequent events, conditions or circumstances.

Verification of PJSC Uralkali Integrated Report 2017

D. Osipov
CEO

E. Kalinina
Chief Accountant

PJSC Uralkali Annual Report is approved by the decision of the Company's Board of Directors of 22 May 2018 (the Board of Directors' Meeting Minutes No. 348 dated 23 May 2018).

Data validity of the Annual Report is confirmed by the Revision Commission of PJSC Uralkali.

CONTACTS

Registrar

Joint Stock Company Independent VTB Registrar
Address: 23 Pravdy Street, Moscow, Russian Federation, 127015
Tel: +7 (495) 787-44-83
Fax: +7 (499) 257-17-00
E-mail: info@vtbreg.ru
Website: http:// www.vtbreg.ru/

Perm branch

Address: 94 Sibirskaya Street, Perm, Russian Federation, 614002
Tel: +7 (342) 257-57-61,
+7 (342) 257-57-62

Operating licence to maintain share register

Licence number: 045-13970-000001
Date of issue: 21.02.2008
Date of expiry: Perpetual
Issuing authority: Federal Financial Markets Service of the Russian Federation

Depository Bank

The Bank of New York Mellon Corporation
101 Barclay Street, 22 floor
New York
NY 10286
United States of America

Olena Smirnova
Customer Relations Manager
BNY Mellon Depositary Receipts
Tel: +1 (212) 815-25-10

IR Contacts

Angelina Verba
Head of Investor Relations and Capital Markets
Tel: +7 (495) 730-23-71
E-mail: Ir@msc.uralkali.com

Media Contacts

Andrey Sidorov
Head of Public Relations

Filipp Gritskov
Head of Media Relations
Tel: +7 (495) 730-23-71
E-mail: pr@msc.uralkali.com

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