



INTEGRATED REPORT 2016

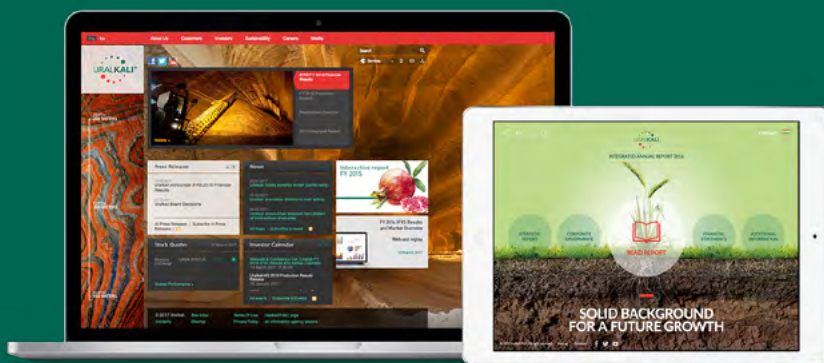


**SOLID FOUNDATIONS  
FOR FUTURE GROWTH**

# 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 in accordance with the G4 Global Reporting Initiative sustainability reporting standard (hereinafter the "GRI G4 Standard") and The Mining and Metals Sector Disclosures. The level of disclosure is Core. There have been no significant changes in the scope or aspect boundaries in the reporting period.

The report covers the entire Uralkali Group, including PJSC Uralkali and companies that are included in the consolidation perimeter. A supplementary GRI table containing additional information on GRI indicators disclosure is available on our website.



For more information about Uralkali please visit our corporate website: [www.uralkali.com](http://www.uralkali.com)

Interactive version of this Integrated Report 2016 also available at our corporate website: [ar2016.uralkali.com](http://ar2016.uralkali.com)

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# Uralkali at a Glance

**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 accounted for **18% of global potash sales in 2016**. It effectively manages its entire production chain, from potash ore mining to supply of potassium chloride to customers.

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## Mission Statement

We produce potash fertilisers to ensure that people all over the world are provided with food, and also to support the growth of our Company and the welfare of our employees and local communities, through efficient and responsible development of unique potash deposits.

## Our Values

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



### SAFETY

We strictly observe safety rules and do not tolerate violations



### RESPONSIBILITY

We always complete what we promised to complete on time



### EFFICIENCY

We aim to attain the highest results at the lowest cost



### TEAMWORK

We respect and trust one another and know that only by working together will we achieve high results

## Our Vision

- › Uralkali is one of the world's leading potash producers
- › We are expanding our production capacity to satisfy demand for our products
- › Our production priorities remain 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 the most attractive employer in the Perm Territory and, potentially, in the Russian mining industry as a whole
- › We attach a great importance to our people: we develop and promote our best employees
- › We play an active role in the development of Berezniki and Solikamsk
- › The Company operates transparently for all stakeholders

## Our Strengths

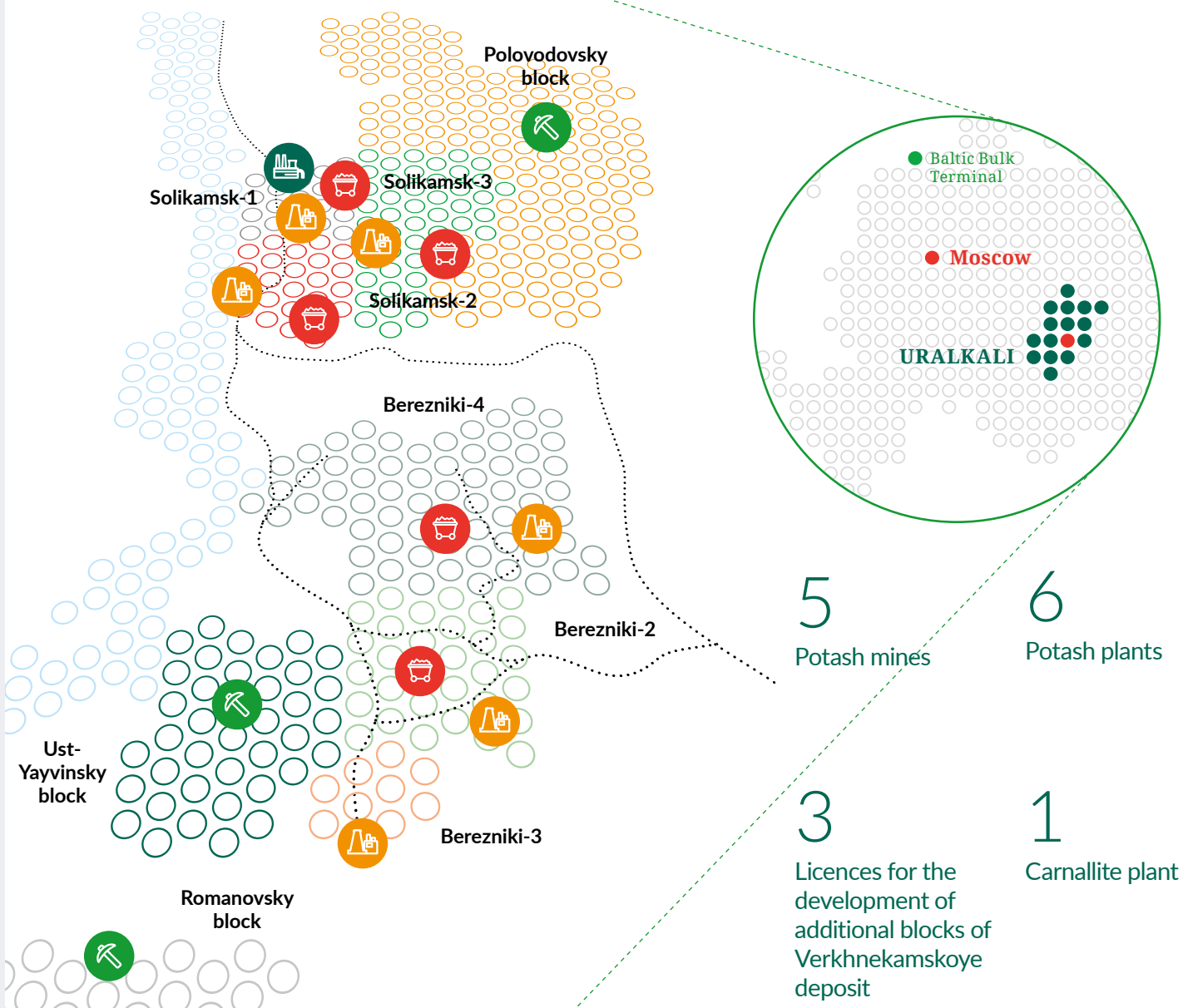
- › Global scale of the business
- › Low cost leadership
- › Strong asset base
- › Global reach to markets

## Uralkali at a Glance CONTINUED

### Our Assets

The Verkhnekamskoye deposit of potassium and magnesium salts, which is being developed by the Company, is the world's second-largest deposit in terms of 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 Territory of Russia. The Company has licences for the development of three additional blocks of the deposit: Ust-Yayvinsky, Romanovsky and Polovodovsky. Uralkali employs around 11,000 people in its main production unit.

-  Potash mines
-  Potash processing plants
-  Carnallite Plant
-  Greenfield licences
-  Railways



## What We Produce



### Standard White MOP

MOP is applied directly to the soil and used to produce compound NPK fertilisers, as well as for other industrial needs. We supply this product mainly to China, Russia and Europe. White MOP is produced in the following concentrations: 95% and 98%.

### Standard Pink MOP

Pink MOP is applied directly to the soil and we supply it primarily to India and South East Asia.

### Granular MOP

Granular MOP is a premium product bought in countries using 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 and EMEA, where it is applied directly to the soil or blended with nitrogen and phosphate fertilisers.

# 1,363.7 mln tonnes

Total measured and indicated  
K<sub>2</sub>O reserves

# 20.5 thousand people

Total number of the Group's  
employees

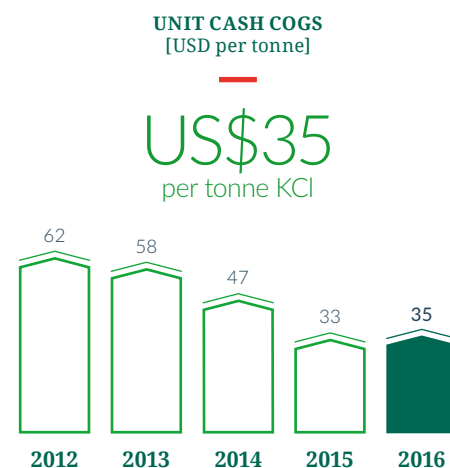
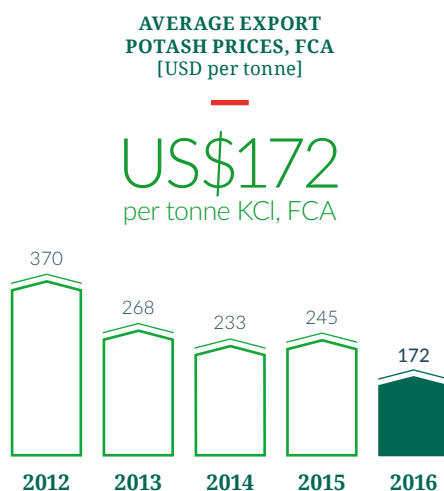
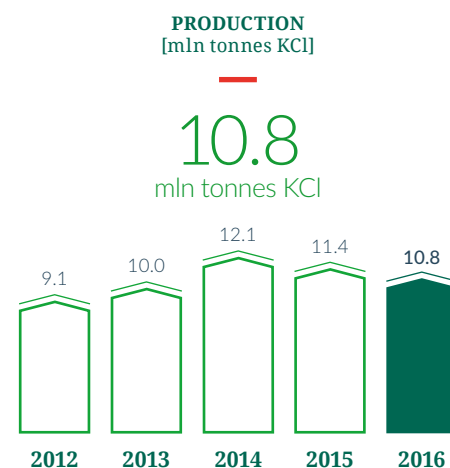
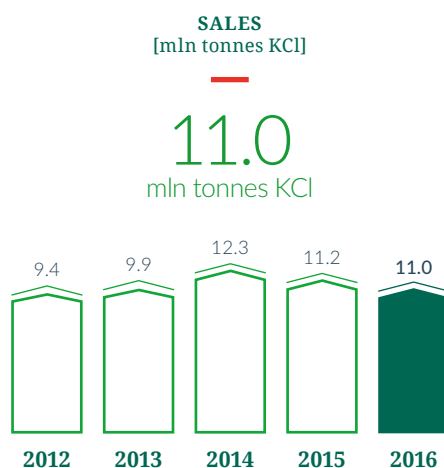
### MINERAL RESOURCE STATEMENT [AS OF 1 JANUARY 2016]

All mines	Tonnage (mln tonnes)	K <sub>2</sub> O* (%)	K <sub>2</sub> O (mln tonnes)
Measured	2,046.5	19.5	400.0
Indicated	5,230.9	18.4	963.7
<b>TOTAL MEASURED + INDICATED</b>	<b>7,277.4</b>	<b>18.7</b>	<b>1,363.7</b>
Inferred	310.3	26.8	83.3

\* Potassium oxide, 1KCl = 1,61K<sub>2</sub>O.

# Year Highlights

Despite a continuing decline in demand for potash fertilisers and an increased competition in all key markets, Uralkali managed to produce 10.8 million tonnes and sell 11.0 million tonnes of potash in 2016.

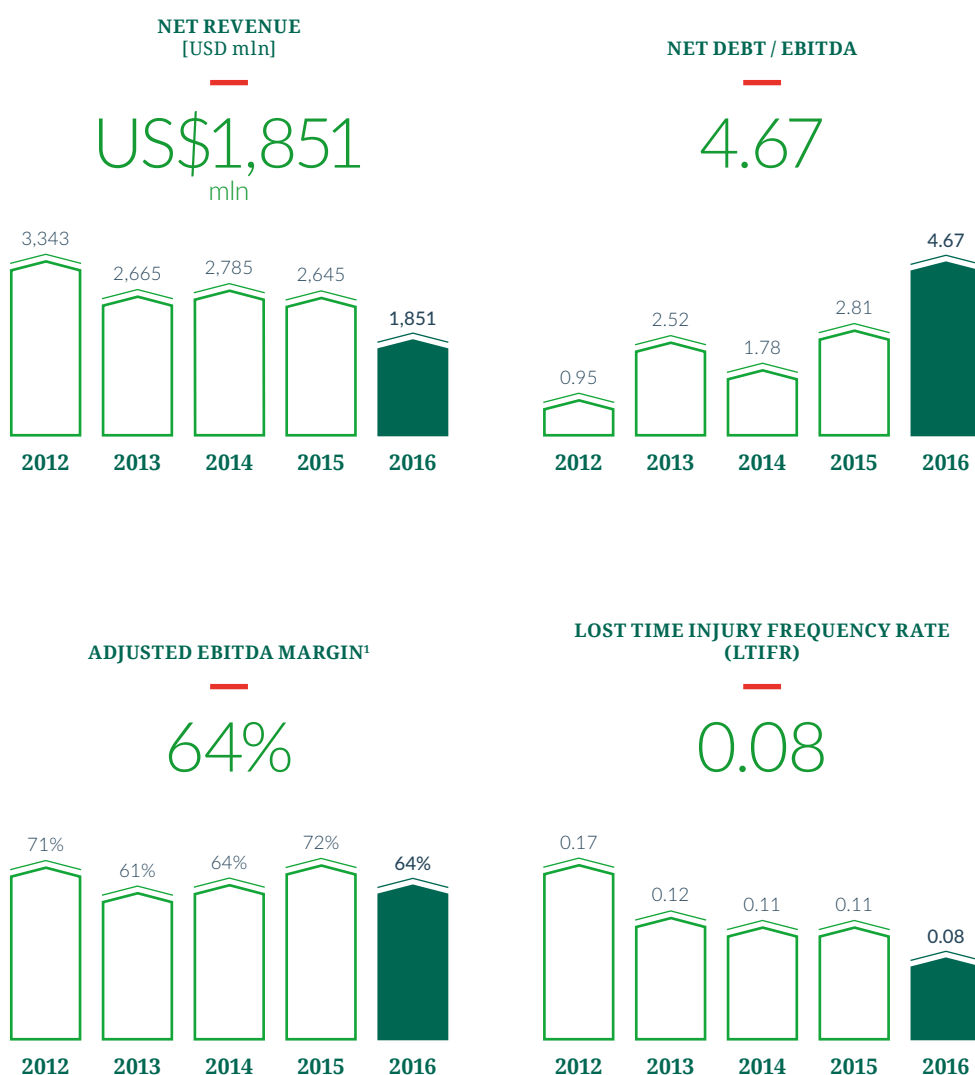




## MORE ABOUT ABOUT OUR KEY PERFORMANCE INDICATORS

Read on page 34-40

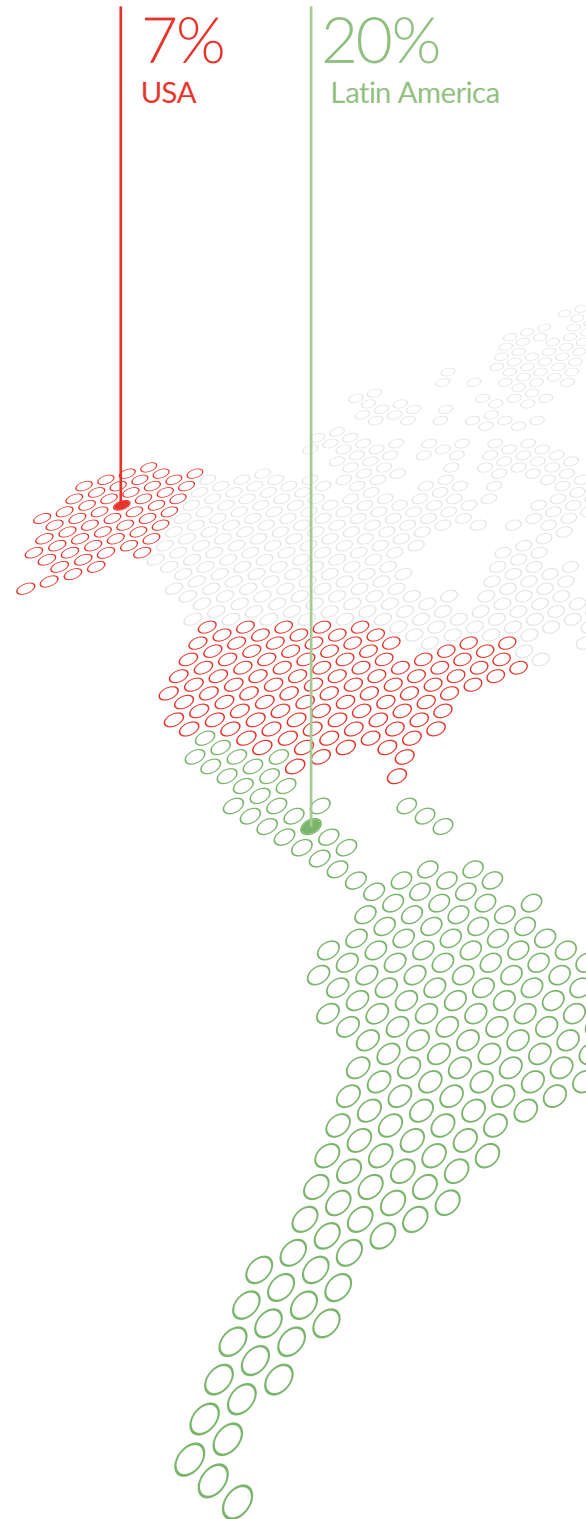
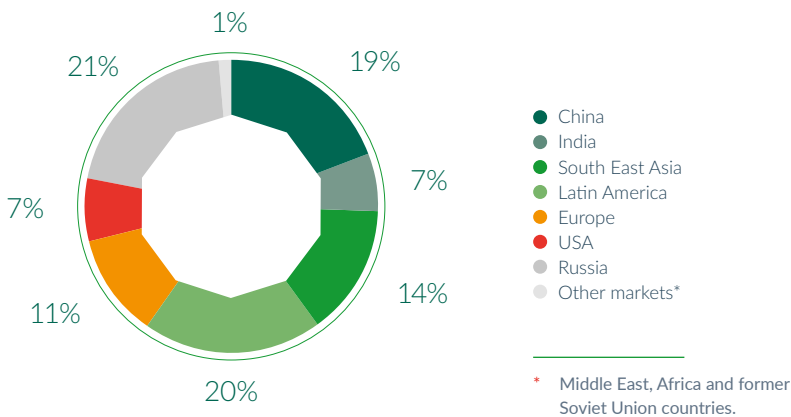
However, due to a 30% drop in the average export potash price (FCA), the Company's net revenue decreased by 30% to US\$1.85 billion. Last year, the Company paid special attention to optimising internal business processes and increasing the efficiency of its business model.



<sup>1</sup> Calculated to net revenue.

# Our Markets

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 in all key markets.

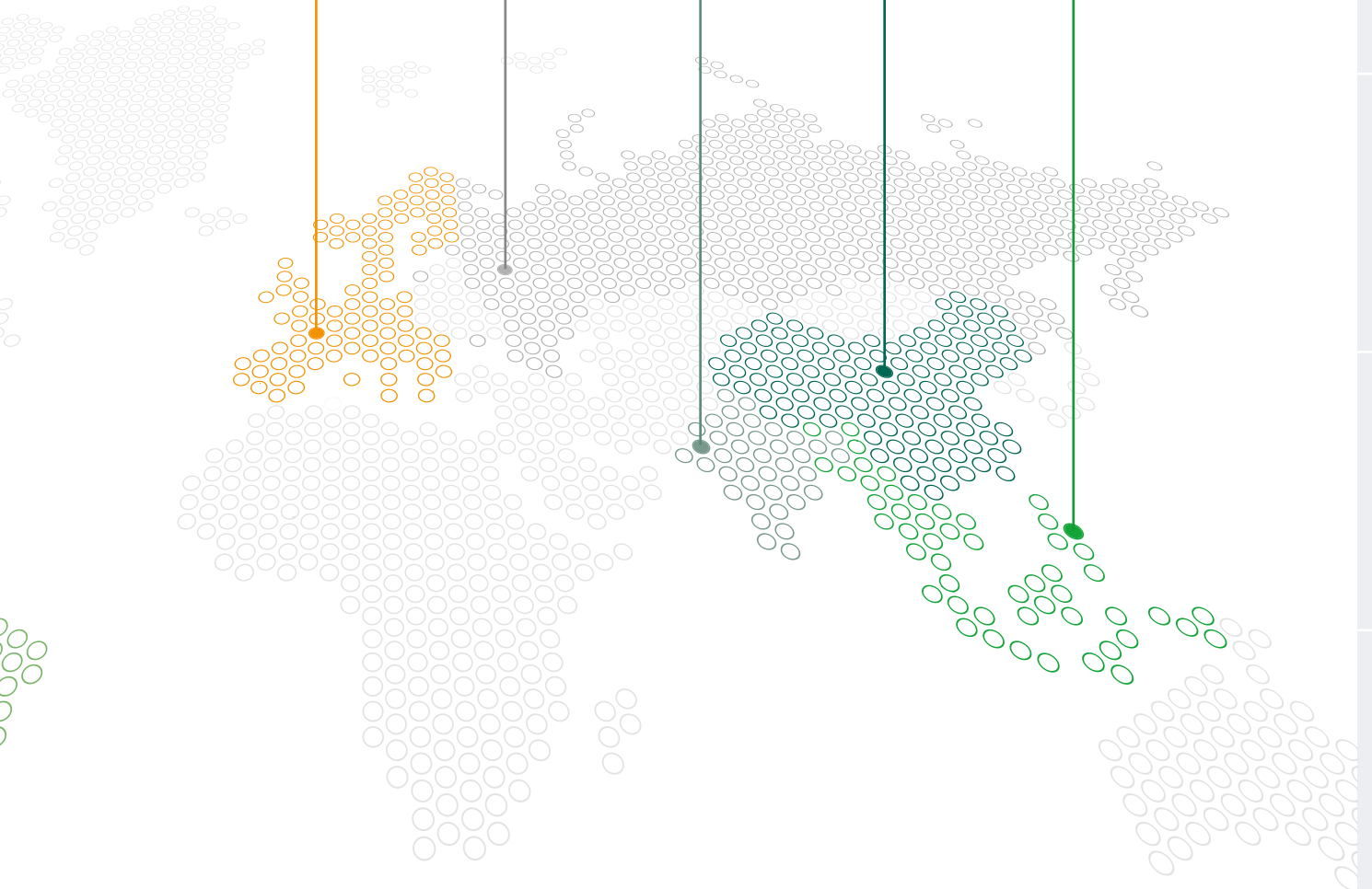


Uralkali's sales geography covers over 60 countries. The main markets are China, South East Asia, Brazil, India, Russia, the United States and Europe. Traditionally, exports account for the majority of Uralkali's sales (79% in 2016).

**11** mln tonnes KCl  
Total sales in 2016

**MORE ABOUT SALES**  
Read on page 19-21

1% Other\*  
11% Europe  
21% Russia  
7% India  
19% China  
14% South East Asia



# Chairman's Statement

Dear shareholders,

Uralkali saw a number of important developments over the reporting period that had a significant impact on the Company's operating and financial activities. These developments included the arrival of a new major shareholder, changes in the Board of Directors and the completion of two open-market share and GDR buyback programmes, as well as the signing of the largest syndicated loan in Uralkali's history.

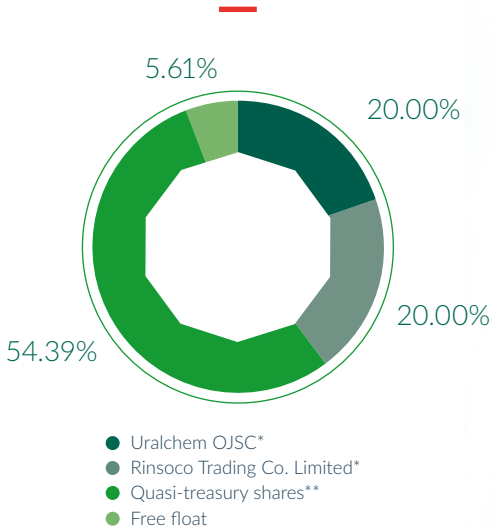
2016 was a difficult year for all potash producers. Despite a challenging market environment characterised by weak demand and increased competition, the Company retained its position as a major player in the industry. The Company benefits from some of the lowest costs in the sector, high quality products, significant production potential and a substantial resource base.

Uralkali continued to implement global best practices in corporate governance and environmental protection. In addition, the Company paid considerable attention to improving occupational safety in order to minimise the number of accidents at Uralkali's industrial sites.

The Company continued to develop and modernise its existing production facilities in order to safeguard its ability to respond flexibly to changes in market conditions and promptly fulfil orders for potash fertilisers from domestic and foreign consumers. In this regard, Uralkali demonstrated relevant operational and financial performance for the reporting period: production - 10.8 million tonnes, revenue - US\$2.3 billion, EBITDA - US\$1.2 billion.



**SHARE CAPITAL STRUCTURE**  
[as of 31 December 2016]



I would like to point out that Uralkali remains one of the most attractive employers in the Perm Territory. The Company successfully implements numerous social projects to support its employees and is actively involved in the development of Berezniki and Solikamsk.

I would also like to thank the Board of Directors and all Uralkali's employees for their substantial contribution towards the development of the Company and the strengthening of its position, as well as for their professionalism and dedication to their work. Finally, I would like to express my gratitude to all of the Company's shareholders, investors and partners for their trust and support.



Uralkali continued to implement **global best practices** in corporate governance and environmental protection.

\* The shareholdings are provided with approximation. Shares of Rinsoco Trading Co. Limited and Uralchem OJSC comprise less than 20%.

\*\* Treasury shares account for less than 30% of the Company's charter capital.

**Sergey Chemezov**  
Chairman of the Board  
of Directors



# CEO's Statement

Dear shareholders,

As a potash industry leader, Uralkali receives special attention from its stakeholders. The Company makes every effort to maintain its leading position, and continuously adheres to global best practices and sets stringent requirements in relation to the preparation and implementation of its strategy. In 2016, the Company focused on optimising its internal business processes in order to increase the efficiency of its main production unit and auxiliary services.

## Production and sales

The production and sales of potash fertilisers are at the core of the Company's operations. 2016 was a challenging year for the global potash market. In the first half of year, the potash market faced a decline in potash export prices year-on-year, a significant increase in competition among major producers in all major markets, and a delay of long-term contract settlements with China and India.

The market saw certain improvements in the second half of the year driven by a resumption of contract shipments to China and India and a strong demand in major spot markets. Global potash demand in 2016 remained flat y-o-y at 61 million tonnes, thanks to a strong demand rebound in North America and Brazil - which has fully offset the import demand drop in Asia. In 2016 Company's potash sales volumes went down by 2% year-on-year due to lower export shipments. This decline was partially offset by a 10% year-on-year increase in domestic sales.

Taking into account the market environment in 2016 and the Company's ability to react quickly to changing market conditions, Uralkali revised its production forecasts several times last year. In total, Uralkali produced 10.8 million tonnes of potassium chloride in 2016.

## Financial performance

Last year's market trends largely had a negative impact on the Company's main financial indicators. As a result of a decrease in the average FCA export price for potassium chloride, combined with a decline in sales, the Company's revenue decreased to US\$ 2.3 billion, EBITDA dropped to US\$ 1.2 billion, and the EBITDA margin fell to 64% compared to the previous year.



The Company will continue to optimise its distribution and logistics infrastructure, modernise its existing production facilities and build new capacity, as well as improve the quality of its products.

Despite a negative impact of market factors on Uralkali's financial performance, Russian and international financial institutions continue to view the Company as a responsible and reliable borrower. Last year, Uralkali signed an agreement with 16 international banks to obtain a USD 1.2 billion loan, the largest in the Company's history.

### Corporate Social Responsibility

In 2016, Uralkali continued to play an active role in the development of the regions where it operates. The Company interacted effectively with all stakeholders and provided comprehensive support to local communities. For further information on the Company's CSR activities, please see page 67 (Our Communities).

### Outlook

The potash market is poised to face an increased competition soon due to an anticipated entry of new suppliers. Therefore, a significant rise in potash prices seems unlikely. We expect a modest increase in potash prices in the near- and medium term.

As for Uralkali, the Company will continue to optimise its distribution and logistics infrastructure, modernise its existing production facilities and build new capacity, as well as improve the quality of its products. The Company plans to further increase subsoil utilisation efficiency by both deploying its own intellectual resources and involving specialist research institutions. Uralkali will also continue to promote itself as one of the most attractive employers in the Perm Territory and a socially responsible company.

I would like to thank everyone associated with the Company for their support and I am looking forward to working together on various initiatives and projects in the future.

**Dmitry Osipov**  
Chief Executive Officer

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

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### WHY DO PLANTS NEED POTASSIUM?

- › Increases the nutrient level, improves the taste, colour and structure of fruits
- › Improves resistance to crop diseases
- › Improves resistance to droughts and frost
- › Increases the rate of nitrogen assimilation



### WHY DO FARMERS USE POTASH?

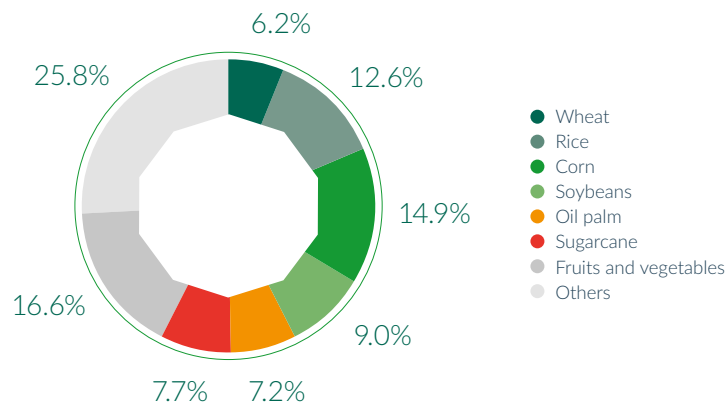
- › Maximises the efficiency of compound fertilisers
- › Enables a consistently high product quality
- › Maintains the natural balance of minerals in and causes a minimal impact on soils

If properly used, potash does not pollute the environment and does not reduce the quality of natural drinking water.



## REMOVAL OF POTASH FROM SOILS

Source: International Fertilizer Industry Association (IFA)



## WHY PEOPLE NEED POTASSIUM

- › Improves supply of oxygen to the brain
- › Involved in the transmission of neural impulses
- › Potassium compounds activate enzymes
- › Normalises heart rhythm
- › Has a beneficial effect on kidneys
- › Regulates the water balance in cells and tissues
- › Regulates metabolic processes
- › Has a beneficial effect on skin
- › Regulates the acid-base balance of blood
- › Prevents accumulation of sodium in cells



## WHY MANKIND CANNOT DO WITHOUT POTASH

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

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.



**MORE INFORMATION ABOUT POTASH:**  
[WWW.INFOPOTASH.COM](http://WWW.INFOPOTASH.COM)

# Potash Demand in 2016

For the potash market, 2016 consisted of two distinct periods: a dramatic drop in potash prices and a decrease in demand in the first half of the year (in absence of sea contracts with Chinese and Indian customers), and a recovery since the third quarter.

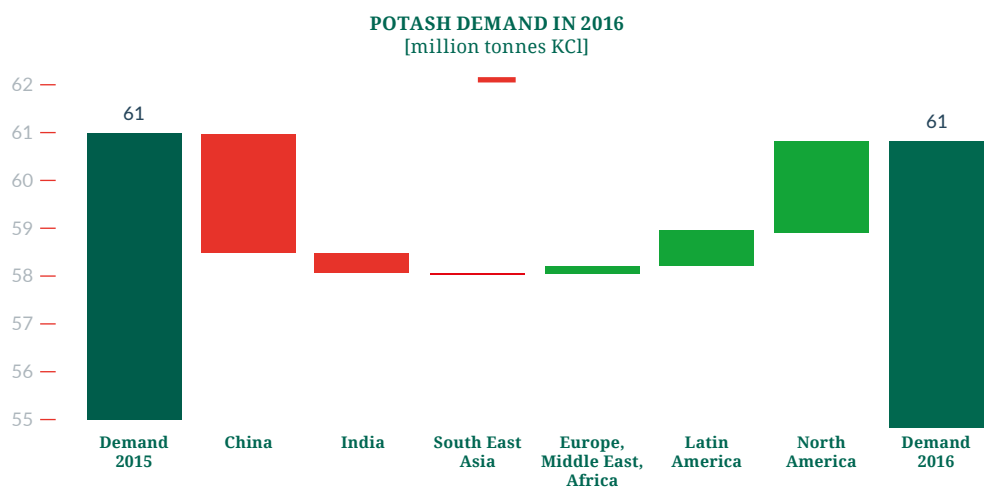
The first half of 2016 was characterised by a weak price environment and a slowdown in demand, despite stronger agricultural commodity prices and a stabilisation of exchange rates. Customers had no need to import large volumes due to the absence of new contracts with China and India and elevated carry-over stocks of potash.

Consequently, global potash imports declined by 21% in the first six months of 2016 compared to the same period of the previous year and amounted to about 17 million tonnes. The oversupply put downward pressure on potash prices, which fell to the 2007 level. Many producers of potash fertilisers announced production cut-backs and capacity closures.

The situation improved in the third quarter of 2016, after India and China signed contracts with potash producers in late June-July 2016. The resumption of contract deliveries to China and India restored market confidence, which resulted in potash price stabilisation and demand growth in the second half of the year.

Brazil and the US were the most active spot markets in the second half of 2016. The North American market saw the strongest year-on-year potash demand growth compared to other markets in 2016 (an increase of 20-21% y-o-y to 9.6-9.7 million tonnes), supported by an expansion of crop acreage and low nutrient levels in 2015, when application volumes were extremely low. Brazil's potash imports increased by 5% y-o-y to 8.8 million tonnes, reflecting high soybean prices and the stabilisation of the Brazilian real against the US dollar.

A cautious behaviour of European buyers in the first half of 2016 led to an increase in demand in



Source: International Fertilizer Industry Association (IFA), Uralkali estimates

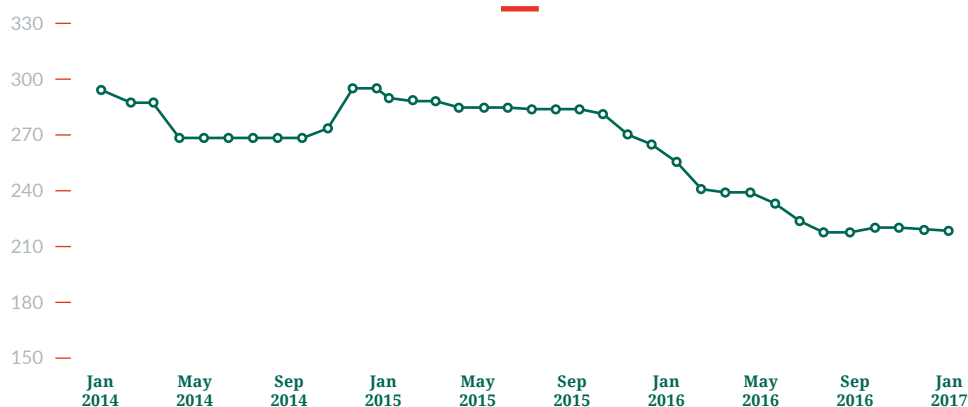
the second half of the year, as consumers began to replenish their stocks after the conclusion of contracts with China and India. Potash demand in the region is estimated to have increased by 3-4% y-o-y to 12.4-12.5 million tonnes in 2016.

In South East Asia, potash demand grew in the second half of the year on the back of high palm oil prices and stabilisation of national currencies against the US dollar. However, according to preliminary data, demand in the region fell by 1-2% y-o-y to 9.1-9.2 million tonnes in 2016 due to unfavourable weather conditions in the first quarter of 2016, as well as the delayed signing of contracts with China and India.

Taking into account elevated carry-over stocks of potash in sales markets, potash imports by India and China fell in 2016 compared to the previous year. According to preliminary data, China's potash imports decreased by approximately 28% compared to 2015 and totalled about 6.8 million tonnes. Indian imports in the calendar year, according to preliminary data, decreased by 3% y-o-y and amounted to 3.8 million tonnes.

According to Uralkali, global potash demand was flat y-o-y at 61 million tonnes in 2016, as a strong demand rebound in North America and Brazil is estimated to have fully offset the import demand drop in Asia.

**AVERAGE MONTHLY SPOT PRICES FOR STANDARD KCL, FSU\* FOB**  
[US\$/t]



Source: Fertecon

\* Former Soviet Union

Potash Demand in 2016  
CONTINUED

# 62-63 million tonnes KCl

Potash demand  
forecast for 2017

**2017 market outlook**

The positive trend in the market observed since the third quarter of 2016 continues into 2017.

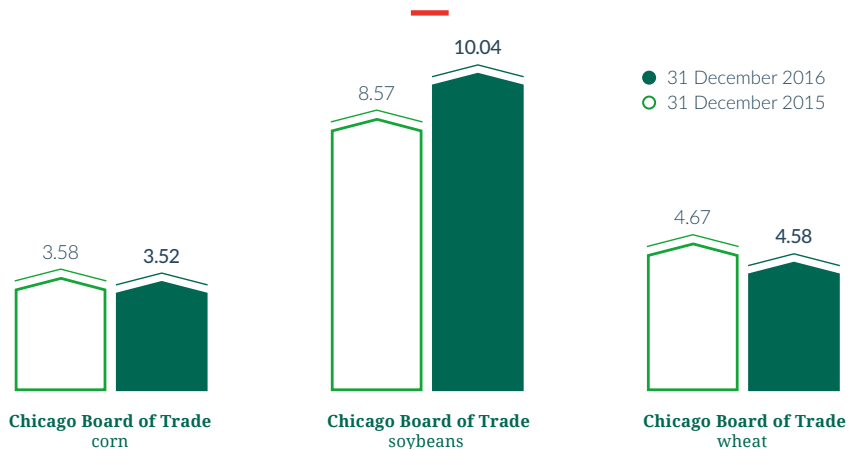
Global potash demand for 2017 is expected to be in the range of 62-63 million tonnes compared to 61 million tonnes last year. Favourable importers' economics, improved farmer profitability, as well as customer restocking needs are expected to be the key drivers behind the anticipated rebound in global potash demand.

We expect potash demand in China and India to be up from last year thanks to more affordable potash prices and lower potash inventories compared to early 2016.

In Latin America, demand for potash is expected to remain strong and surpass the 2016 level due to favourable farmer economics and the optimal level of carry-over stocks of potash.

The growth in demand in South East Asia is expected to be supported by a good profitability of palm oil production. Demand is also expected to grow in Europe and the US, as distributors have already begun active purchases of potash fertilisers to replenish their inventories, which had declined markedly due to a healthy demand in the second half of 2016.

**MAJOR CROP PRICE DYNAMICS**  
[US\$/bu]



Source: Bloomberg

# Export Sales



The Company's export sales in 2016 were adversely affected by a number of factors, including constrained demand due to the absence of new contracts with China and India in the first half of the year, elevated potash stocks in major markets at the beginning of the year and falling potash prices. Starting from the second half of the year, the situation began to improve thanks to the conclusion of China and India contracts and customer restocking needs, which supports our moderately optimistic forecasts for 2017.



**Alexander TERLETSKY**  
Director of Export Sales

Uralkali carries out potash export sales through its own subsidiary Uralkali Trading SIA. With representative offices in seven countries, Uralkali Trading SIA is one of the leading players on the global potash market, delivering potash to over 60 countries.

Historically, the majority of Uralkali's output is sold internationally. In 2016, exports accounted for 79% of Uralkali's sales, compared to 82% in 2015.

The Company evaluates market conditions and adjusts its production and sales volumes in accordance with global demand.

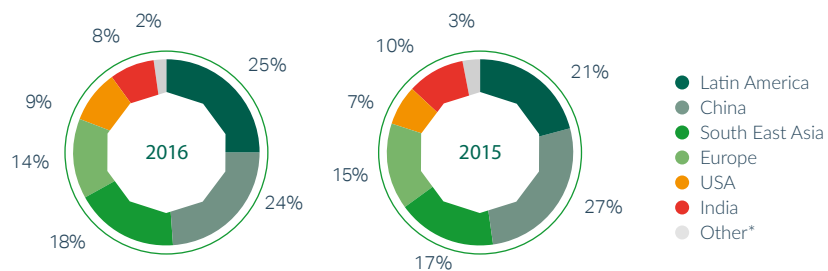
A combination of factors (constrained demand due to the absence of China and India contracts in the first half of 2016, consumption of carry-over stocks of potash in major markets in Q1 2016, a the slowdown in potash price dynamics) had an adverse impact on the Company's export sales in 2016.

As a result, the Company's exports in 2016 totalled 8.7 million tonnes, 5% down from 2015. The average export price fell by 30% year-on-year to US\$172/t FCA.

In 2016, the majority of Uralkali's deliveries were to Latin America (25%), China (24%) and South East Asia (18%).

In 2017, Uralkali will continue balancing its production and sales depending on global demand expectations in order to avoid oversupplying the market and weakening potash prices.

## URALKALI'S EXPORT SALES



\* Africa, Middle East, FSU.

# Domestic Sales



Vladislav LYAN  
Director of Domestic Sales



Our major domestic consumers are traditionally producers of compound (NPK) fertilisers. We supplied them with 1.91 million tonnes of potash, **8% more than the previous year.**

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## 2.25 million tonnes of KCl

### Uralkali's domestic sales in 2016

In the Russian market, potassium chloride (KCl) is mainly used as a raw material in compound (NPK) and mixed fertilisers and other chemical products, as a component of drilling fluids in the petroleum extraction sector, and as a single-component fertiliser for direct application to the soil. Potassium chloride is also used in small amounts in the non-ferrous metals industry and the food industry.

In 2016, domestic sales amounted to 2.25 million tonnes, 10% higher than in 2015.

Our major domestic consumers are traditionally producers of compound (NPK) fertilisers. KCl supplied to them in 2016 amounted to 1.91 million tonnes, 8% higher than the previous year.

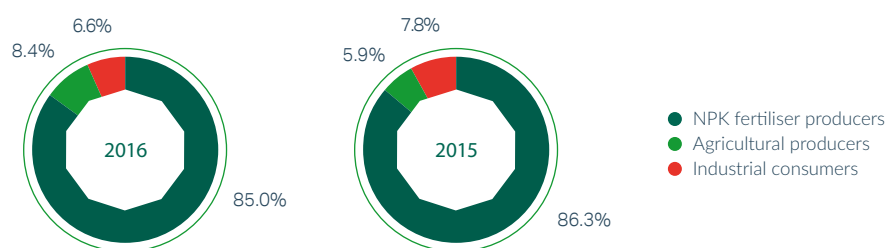
Agricultural producers consumed about 0.19 million tonnes of KCl in 2015. The major regional consumers were Krasnodar, Kursk, Lipetsk, Belgorod, Oryol and Voronezh regions.

The Russian agricultural market has a huge potential. Russia accounts for about 10% of the world's arable land, and more than half of the land is planted with crops that require increased potash application such as wheat, sunflower, corn and sugar beet. Total potash consumption by Russian agricultural producers (including consumption of potash as part of NPK) in 2016 amounted to 0.67 million tonnes.

Another group of traditional industrial consumers – petroleum, chemical and nuclear enterprises – bought 0.15 million tonnes of potassium chloride for specific production processes in 2016, which was 9% less than in 2015.

In addition to potassium chloride, Uralkali sold 0.36 million tonnes of enriched carnallite and 1.04 million tonnes of industrial salt in the domestic market in 2016. The main consumers of enriched carnallite are OJSC Solikamsk Magnesium Plant and PJSC VSMPO-AVISMA Corporation, which use it in production of magnesium.

### URALKALI'S SALES STRUCTURE IN 2016



Source: Company data

### Domestic pricing

The Company strictly complies with its obligations to ensure non-discriminatory access for consumers of potash fertilisers. In November 2010, the Federal Antimonopoly Service (FAS) of Russia approved rules, according to which, starting from 2011, the potash price for NPK producers is based on the weighted average price on the foreign market with the lowest price before transport and other logistics costs (minimum export price). The principle of establishing the potash price for Russian NPK producers on the basis of the minimum export price is also enshrined in the FAS Recommendations for ensuring non-discriminatory access to potassium chloride in effect from 1 January 2013 until 31 December 2017. Since October 2013, prices have been calculated on a monthly basis, enabling the Company to respond promptly to changes in international prices and change prices for potassium-containing complex mineral fertilisers in world markets in accordance with market conditions. When calculating selling prices for 2016, NPK producers were provided with an additional discount of US\$27 (in rouble equivalent).

In connection with Russia's accession to the WTO and transition from 1 January 2013 to market pricing on the domestic mineral fertiliser market, on 15 February 2016, the Russian Association of Fertiliser Producers (RAFP) and the Employers' Association All-Russian Agro-Industrial Union (Rosagropromsoyuz) signed a cooperation agreement in order to meet the mineral fertiliser needs of Russia's agribusiness sector for the period until 15 February 2017. This agreement determined the main economic principles of stakeholder interaction on the domestic market. In particular, members of the RAFP and Rosagropromsoyuz were recommended to use market pricing principles.

Since 1 July 2013, potash prices for Russian agricultural producers have been calculated according to the minimum export price formula in line with FAS recommendations to ensure non-discriminatory access for consumers of potash fertilisers on the Russian market.

When calculating prices for industrial consumers, Uralkali also went by the formula based on the minimum export price.

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

# Business Model

## CREATING

### Capital

#### Financial Capital

- › Financial structure
- › Fund raising

#### Production capital

- › Mines
- › Potassium and carnallite production plants
- › Projects for the construction of new facilities
- › Mineral wagon fleet
- › Baltic Bulk Terminal
- › Trade representations

#### Intellectual capital

- › Corporate Governance System
- › Risk Management System
- › Internal control and monitoring systems

#### Human capital

- › Employees
- › Health and safety
- › Methods and Skills
- › Experience

#### Social capital

- › Working with stakeholders

#### Natural capital

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

### Production

Uralkali's production facilities include five mines, one carnallite plant and six potash plants that produce standard white and pink potassium chloride, as well as a premium product – granular potassium chloride. The Company holds licenses for the development of three blocks of the Verkhnekamskoye deposit, ensuring the implementation of Uralkali's investment program. 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.

#### Our strengths:

- › Leadership in production cost
- › Significant resource base

### MISSION AND VISION



#### STRATEGIC KPIs

For more see page 34



#### SUSTAINABLE DEVELOPMENT

For more see page 48





## VALUE

### Logistics

The distance of Uralkali products from plant to port is one of the shortest in the industry. The Company uses its own fleet of mineral wagons (8,197 units) and the Baltic Bulk Terminal. The developed logistics system allows us to maintain leading positions in the market, optimise warehouse capacities and regulate production if necessary.

#### Our strengths:

- › 7.4 million tonnes of transshipment capacity at the Baltic Bulk Terminal

### Sales

Uralkali's sales geography covers more than 60 countries. The Company's strategy is aimed at maximising revenues and maintaining the historic market share. The strategy allows the Company to effectively use such competitive advantages as its leading position in the industry in terms of production costs and production capacity.

#### Our strengths:

- › Global scale of activities
- › 7 sales offices in key regions
- › Focus on expanding relations with international clients



#### RISK MANAGEMENT SYSTEM

For more see page 41



#### CORPORATE GOVERNANCE SYSTEM

For more see page 70

## CREATED VALUES



### Buyers and partners

- › Quality product
- › Reliability of deliveries



### Employees

- › Workplaces
- › Salary and social benefits
- › Training and career growth



### Labour unions

- › Employee satisfaction
- › Compliance with occupational safety standards



### Government and local authorities

- › Contribution to GDP
- › Tax revenues
- › Support for the economy of the region



### Local communities

- › Contribution to education and healthcare
- › Development and modernisation of infrastructure
- › Improving quality of life
- › Charity, arrangement of sport and cultural events



### Mass media

- › A clear understanding of Uralkali's activities

# Investing in the Future

In 2016, Uralkali retained its leading position in the global market, despite a decline in prices and consumer activity. In the reporting year, the Company produced 10.8 million tonnes of potassium chloride, 5% down from 2015. The decrease in production volumes compared to 2015 was caused by a weaker global demand for potash fertilisers and the corresponding adjustment of Uralkali's production programme.



The Company aims to retain its share in the world market. Uralkali continues to invest in modernisation of its current facilities and development of new capacity as part of a capacity development programme. The programme will be implemented taking into account the current situation and expected developments in the global market.



### New Solikamsk-2 mine

In 2016, the Company continued the development of design documents for shaft construction and temporary power supply of the construction site. We began preparatory work for the construction of 2 vertical shafts and power supply of the construction site.

**US\$33 mln** Investments in 2016



### Increasing load at Berezniki-4

In 2016, we completed key activities aimed at eliminating bottlenecks and technology stabilisation at Berezniki-4.

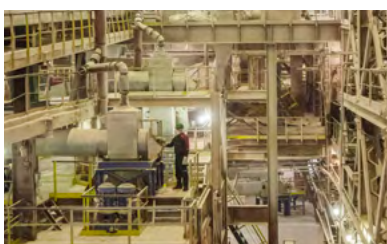
**US\$13 mln** Investments in 2016



### Polovodovo project

Uralkali developed and sent for examination design documents for the main facilities. Construction of infrastructure (railroad, power supply, gas supply, highways) is underway.

**US\$7 mln** Investments in 2016



### Other expansion and sustaining investments

In 2016, investments in other expansion and sustaining projects were also made, including load increases, granulation expansion, carnallite expansion, and upgrades of existing facilities.

**US\$159 mln** Investments in 2016



### Solikamsk-3 expansion

In 2016, we completed collar reconstruction of Shaft 4 and constructed the headframe foundation, and started installation of the headframe and heading equipment for the partial tubbing replacement in 2017.

**US\$6 mln** Investments in 2016



### Ust-Yayva project

In 2016, we completed the construction of 2 vertical shafts and shaft cementing, and began equipment of Shafts 1, 2. Construction of the surface complex and constant power supply facilities is underway.

**US\$105 mln** Investments in 2016

# Promoting Financial Stability

The absence of price agreements with China and India in H1 and high potash inventories at the beginning of 2016 had a negative impact on the world market environment in 2016. Although demand in 2016 remained at the previous year's level (61 million tonnes), a difficult market environment became the main cause of a sharp drop in potash prices compared to 2015.

## Compared to 2015, the results of the Group were as follows:

- › The Group's **sales volumes** dropped by 2% year-on-year;
- › **Total revenue** fell by 27% to US\$2.28 billion in 2016 from US\$3.12 billion in 2015;
- › **The average export price** on a delivery basis in U.S. dollars decreased by 25% in 2016;
- › **Cash cost of goods sold** increased by 6% compared to 2015 and amounted to US\$35 per tonne;
- › **Adjusted EBITDA** decreased by 38% to US\$1.18 billion in 2016 from US\$1.91 billion in 2015;
- › **Cash CAPEX** decreased by 6% to US\$323 million in 2016 from US\$343 million in 2015.

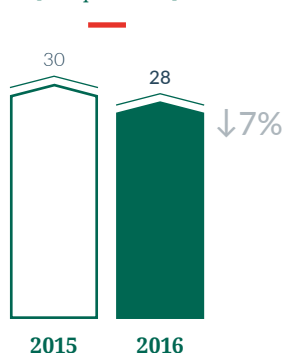
## Gross sales

Protracted negotiations with Chinese and Indian buyers on the signing of new contracts, the use of potash inventories in the first quarter of 2016 and intense competition among suppliers put pressure on the market environment and export sales of the Company in 2016. The Group's sales volumes decreased by 2% compared to 2015. The average export price in U.S. dollars for the Company's products on a delivery basis decreased by 25% in 2016 compared to 2015.

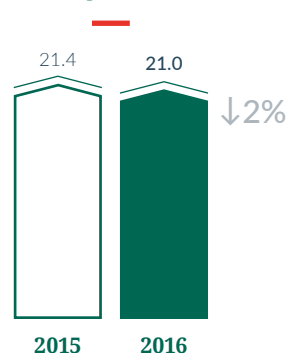
All these factors led to a decrease in total revenue by 27% compared to the previous year, to US\$2.28 billion.

Other revenue (carnallite enriched, pit-run industrial sodium, as well as solutions of sodium chloride and magnesium) amounted to 3% of total revenue in 2016, or US\$59 million.

**EFFECTIVE SEA FREIGHT**  
[US\$ per tonne]



**SPB RAILWAY TARIFF**  
[US\$ per tonne]



## Transportation

The Company shipped 80% of exported products in 2016 by sea transport, mainly through its own terminal in St. Petersburg. The costs of sea transportation of exported products include railway tariffs from Berezniki and Solikamsk to ports of transshipment, transshipment expenses at the seaport and freight costs (except for deliveries on an FOB basis).

The other 20% of export sales were transported by rail, including 16% to China, 4% to other regions.

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

### Freight

The average freight rate in U.S. dollars decreased in 2016 compared to 2015 by 7% per tonne and amounted to US\$28 per tonne.

The freight market slump continued in 2016 against the background of surplus fleet capacity in all segments and a decrease in marine shipping of bulk cargos. Oil prices also contributed to the low freight level. In the first quarter of 2016, the freight market reached its historic low.

The Company also covered barge transportation costs in the United States, which are less significant compared to sea transportation costs.

### Railway tariffs

The Company performs direct railway shipments to its customers in Russia, Europe, Northern China and CIS countries, as well as deliveries through ports of transshipment, to which products are delivered by railway transport.

Compared to 2015, the weighted average railway tariff<sup>1</sup> in rouble terms increased by 1% in the direction of China (in dollar terms it decreased by 9%), and by 8% in the direction of St. Petersburg (in dollar terms it decreased by 2%). The increase

was mainly due to tariff indexation, which was partly compensated by an increase of carload in the direction of China, as well as an increase in the share of the less costly block train shipments.

### Transshipment

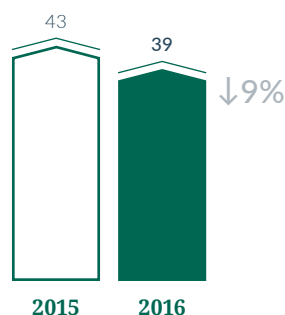
Transshipment expenses in 2016 increased by 14% compared to 2015 and amounted to US\$29.32 million.

### Net revenue

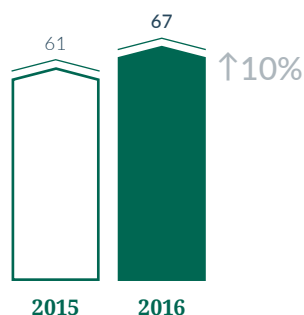
Net revenue are defined as the gross revenues for the period net of variable distribution costs - freight costs, railway tariffs and transshipment costs.

Net revenue decreased in 2016 compared to 2015 by 30% according to IFRS financial statements, reaching a level of US\$1.85 billion, due to a drop in sales volume by 2% and a 30% drop in export prices on an FCA basis.

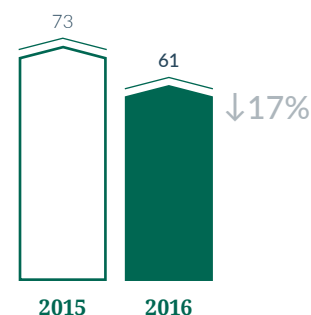
**CHINA RAILWAY TARIFF**  
[US\$ per tonne]



**ANNUAL AVERAGE US\$/RUB EXCHANGE RATE**



**US\$ EXCHANGE RATE AT THE REPORTING DATE**



<sup>1</sup> Weighted average tariff takes into account the volume of the Company's shipments in the relevant direction.

## Promoting Financial Stability CONTINUED

### Cash cost of goods sold<sup>2</sup>

Cash cost of goods sold amounted to US\$35 per tonne, which is 6% more than in 2015. The main reason for this increase in COGS per tonne were larger cost of materials and energy resources as well as payroll indexation.

### Labour

As compared to 2015, payroll in 2016 increased by 4.8% in dollar terms and amounted to US\$242 million (US\$231 million in 2015). The main factor in the payroll increase was salary indexation due to inflation.

In 2016, about 20,500 people worked in the Group.

### Fuel and energy

The potash production process is very energy-intensive. Expenses on fuel and energy largely depend on production output and are denominated in roubles. Electric power and gas were purchased at unregulated rates. However, the price of electricity and gas transmission services were regulated by the government. The Company's power needs were partially met by our own generation. As a result, the effective tariff on gas increased by 4% in 2016 (in dollar terms there was a 5% decrease) compared to 2015 and amounted to US\$57 per 1,000 m<sup>3</sup>. The effective tariff on electricity increased by 8% in 2016 (in dollar terms it decreased by 1%) compared to 2015 and amounted to US\$39 per 1,000 kWh.

### Other cash costs

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

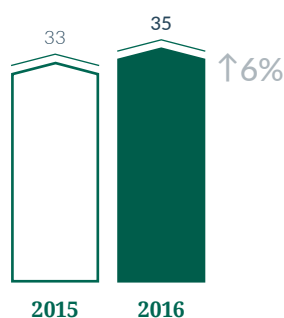
### Cash general and administrative expenses<sup>3</sup>

As compared to 2015, general and administrative expenses decreased by 2% in 2016 in dollar terms, but increased by 0.73 billion roubles in rouble terms. The main constituent element of general and administrative expenses is labour costs (61%).

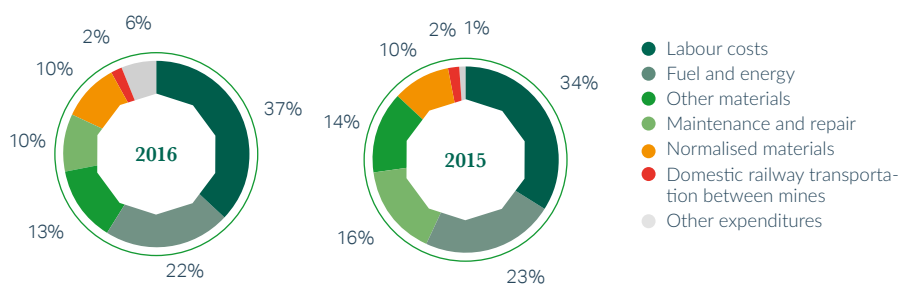
### Finance income and expenses

The appreciation of the rouble by 17% in 2016 led to a foreign exchange gain in the amount of US\$0.89 billion and gain on revaluation of the fair value of derivative financial instruments in the amount of US\$0.18 billion.

**CASH COGS PER TONNE**  
[US\$ per tonne]



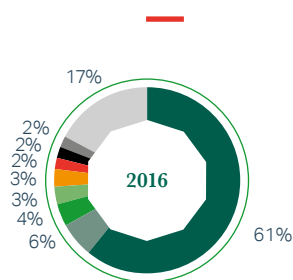
**CASH COGS STRUCTURE**



<sup>2</sup> Cash cost of goods sold = cost of goods sold net of amortization of intangible assets and depreciation of fixed assets.

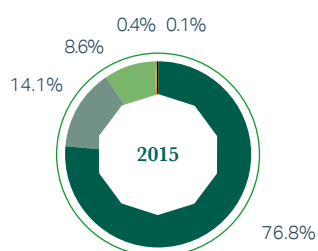
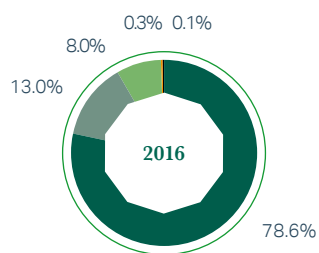
<sup>3</sup> General and administrative cash expenditures = general and administrative expenditures net of amortization of intangible assets and depreciation of fixed assets.

### CASH GENERAL AND ADMINISTRATIVE EXPENSES IN 2016



- Labour costs
- Consulting services
- Security services
- Fuel and materials
- Telecommunication services
- Repairs
- Rent
- Insurance
- Other expenses

### FUEL AND ENERGY COSTS

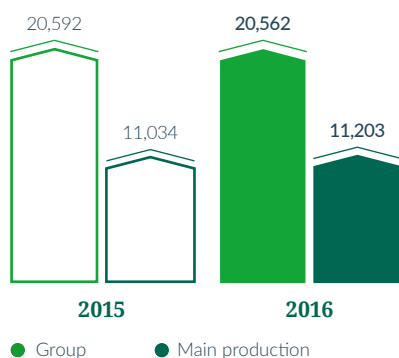


- Other cash costs
- Electricity
- Gas
- Fuel
- Heat

### Adjusted EBITDA

In 2016, adjusted EBITDA<sup>4</sup> decreased by 38% as compared to 2015 and amounted to US\$1.18 billion. The adjusted EBITDA margin<sup>5</sup> was 64%.

### HEADCOUNT OF URALKALI GROUP [employees]



- Group
- Main production

### CALCULATION OF ADJUSTED EBITDA [US\$ mln]

	2016	2015	
Operating profit	989	1,725	Operating profit
Adjusted for depreciation and amortisation	194	220	Adjusted for depreciation and amortisation
			<b>One-off expenses</b>
		(27)	Reversal of Solikamsk-2 impairment
		(5)	Reversal of provisions related to flooding at Solikamsk-2
<b>Adjusted EBITDA</b>	<b>1,183</b>	<b>1,913</b>	<b>Adjusted EBITDA</b>

<sup>4</sup> Adjusted EBITDA index is considered as operating profit adjusted for one-off expenses, depreciation and amortization.

<sup>5</sup> Adjusted EBITDA margin is considered as the adjusted EBITDA divided by net revenue.

## Promoting Financial Stability CONTINUED

### CAPEX

In 2016, total CAPEX<sup>6</sup> amounted to US\$323 million, 63% of which were expansion CAPEX. The main expenditures during 2016 were related to the construction of the Ust-Yayva mine. Other projects related to production expansion included load increase, completion of the fourth shaft with Solikamsk-3 expansion, granulation capacity expansion and carnallite production expansion. The design of the main facilities of the Polovodovsky potash plant was completed in 2016 and design and preparation work for the construction of the new mine Solikamsk-2 began.

### Cash flow

Due to a drop in prices on the potash market, net cash received from operating activities decreased in 2016 by approximately 43% year-on-year to US\$1.01 billion. As of 31 December 2016, the Company's net debt amounted to US\$5.52 billion. The Company's cash balance amounted to approximately US\$1.49 billion, and total debt to US\$7.00 billion. The appreciation of the rouble led

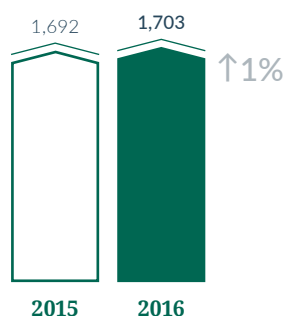
to a gain on revaluation of the fair value of the cross-currency and interest rate swaps concluded in 2011–2013. The gain amounted to US\$0.18 billion in 2016. The effective interest rate on loans for the year 2016 amounted to around 4% (including cross-currency and interest rate swaps).

In May–December 2015, the Company's subsidiaries bought back 1,056 million of the Company's ordinary shares, including shares on which GDRs were issued, which is about 36% of the outstanding shares. The total amount of funds spent by the Company on the buyback of its shares and GDRs during 2015 amounted to US\$3.37 billion<sup>7</sup>.

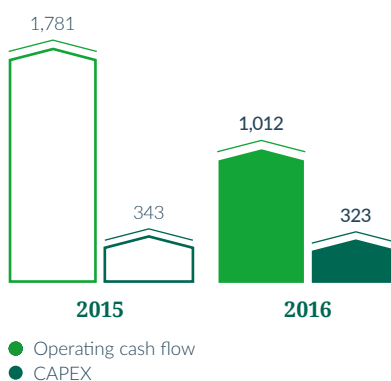
In 2016 the Group acquired 171 million of the Company's ordinary shares, including shares on which GDRs were issued, which is about 6% of the outstanding shares. The listing and admittance of the company's GDRs according to Provision 144A and Provision S on the London Stock Exchange (LSE) were cancelled on 22 December 2015. On 12 January 2016, the GDR Programme according to Provision 144A was dismissed.

Due to the fact that, following the previously completed buyback programmes, the number of free-floating shares decreased to 5.6% of the total number of issued shares, the Moscow Exchange may lower the securities listing tier from One to Three. According to Moscow Exchange listing rules, the reduction in the number of free-floating shares to 7.5% of the total number of issued shares or below will constitute grounds for exclusion of the shares from listing Tier One, if the situation does not change within 6 months. At that, Moscow Exchange can transfer the shares to listing Tier Three.

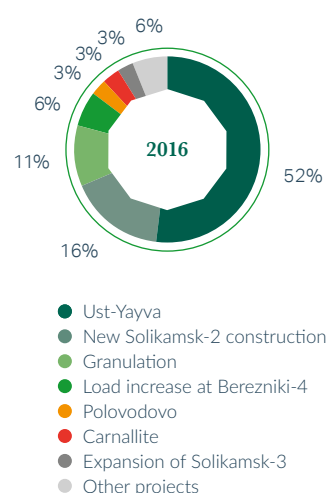
**ELECTRICITY CONSUMPTION**  
[mln kWh]



**OPERATING CASH FLOW AND CAPEX**  
[US\$ mln]



**EXPANSION CAPEX IN 2016**



<sup>6</sup> The sum of capital expenditures includes acquisition of fixed and intangible assets based on consolidated statement of cash flows according to IFRS.

<sup>7</sup> According to the consolidated statement of cash flows according to IFRS.



# Strategy and Risk Management

URALKALI IS A LEADING INTERNATIONAL POTASH PRODUCER WITH 18% OF GLOBAL POTASH PRODUCTION. THE COMPANY'S STRATEGY AIMS TO ENSURE ITS ORGANIC DEVELOPMENT AND LONG-TERM INCREASE OF MARKET CAPITALIZATION.



## OUR STRATEGY

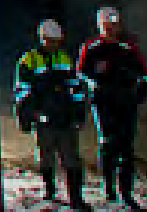
Read more on pages 32-33

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 41-47



# Delivering on Our Strategy

## MAINTAIN INDUSTRY LEADERSHIP POSITIONS

## FOCUS ON ENHANCED RELATIONSHIPS WITH END CUSTOMERS

## MAINTAIN CASH COST LEADERSHIP POSITIONS

### Vision



- › We aspire to sustain a leading market position in the global fertiliser industry and contribute to the global food supply
- › We are focused on meeting the world's growing demand for food. We seek to take advantage of our best-in-class resource base by selectively expanding production capacity

We ensure secure and risk-free routes to market through enhanced distribution capabilities from the mines to the farmers

We seek to maintain our leading position in cost-efficiency among potash producers

### KPIs



- › Net revenue (potash segment)
- › Achieved production

- › Sales volume
- › Production volume

- › Cash COGS per tonne
- › Maintenance CAPEX
- › EBITDA margin

### Priorities



- › Maximise revenue to create maximum value for all shareholders
- › Stimulate growing demand for potash
- › Increase potash capacity on the lowest cost basis in the industry; option to add more volumes if economically viable
- › Focus on products of the highest quality, increase in production volumes of granular potash

- › Strengthen customer relationships and reliability of supply
- › Enhance logistics platform to secure long-term supply in key markets
- › Focus on efficient distribution in key markets

- › Ensure operating performance and efficiency to provide continued industry leadership
- › Invest in existing capacity and infrastructure in order to ensure maximised margin through the commodity price cycle

### Risks



- › Potash price decrease
- › Potash demand decline
- › Political, legal and regulatory risks

- › Loss of share in specific markets
- › Reduction in production and capacity
- › Political, legal and regulatory risks

- › Inflation and currency fluctuations
- › Non-fulfilment of obligations by contractors or suppliers
- › Expenditure increase

## BALANCE INVESTMENT IN GROWTH WITH SHAREHOLDER RETURNS

We are committed to retaining a robust capital structure and maximising total shareholder return

- › Net debt/LTM EBITDA
- › Expansion CAPEX

- › Retain an efficient capital structure
- › Maintain balanced approach to capital investment and robust capital discipline
- › Return to shareholders through the buyback of ordinary shares in the event of non-payment of dividends

- › Failure to meet targets set for investment projects
- › Inflation and currency fluctuations

## FOCUS ON PEOPLE, COMMUNITIES, SAFETY AND ENVIRONMENT

- › We aim to be the employer of choice among CIS companies and in the mining industry
- › We are pursuing the highest level of health and 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

- › 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

- › Seek to be regional and industry employer of choice
- › Focus on workplace safety, employee and community development
- › Operate in a socially responsible manner, minimising environmental impact of operations

- › Lack of qualified employees
- › Non-compliance with environmental and health and safety regulations
- › Environmental risks and risks related to mining operations
- › Risks related to the incidents at Berezniki-1 and Solikamsk-2

## CONTINUED FOCUS ON BEST CORPORATE GOVERNANCE PRACTICES

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

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

Remain committed to openness, transparency and risk mitigation for all stakeholders

- › Political, legal and regulatory risks
- › Compliance with applicable legislation and internal policies

# Key Performance Indicators



**Dmitry OSIPOV**  
Chief Executive Officer

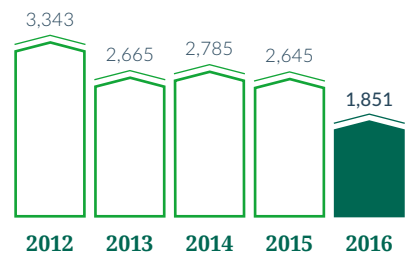


Despite an unfavourable situation in global markets, Uralkali managed to **maintain its leading position in the industry.** In 2016, the Company produced 10.8 million tonnes and sold 11.0 million tonnes of potash. Due to a sharp drop in potash prices and a slight decrease in sales, the Company's net revenue for the year decreased by 30% to US\$1.85 billion.

Maintain industry leadership positions

## NET REVENUE

**US\$1,851**  
mln



### Relevance to the strategy

Net revenue is a 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 to allow for a better cross-industry comparison.

### Measurement

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

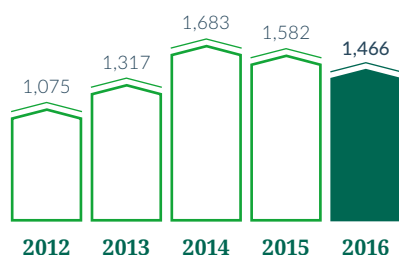
### Performance overview

Net revenue decreased in 2016 due to falling prices for potash fertilisers, caused by a decline in global demand.

Focus on enhanced relationships with end customers

### LABOUR PRODUCTIVITY

1,466  
tonnes/person



#### Relevance to the strategy

Output per capita (production personnel) measures labour productivity and how efficiently we can produce our product.

#### Measurement

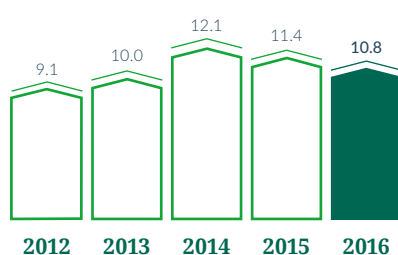
Potash output divided by average production personnel headcount.

#### Performance overview

The unfavourable situation on the world market for potash fertilisers and the subsequent decrease in production slightly influenced this indicator.

### PRODUCTION VOLUME

10.8  
mln tonnes of KCl



#### Relevance to the strategy

Achieved production shows the volume of products that the Company produced based on the market conditions and the current strategy.

#### Measurement

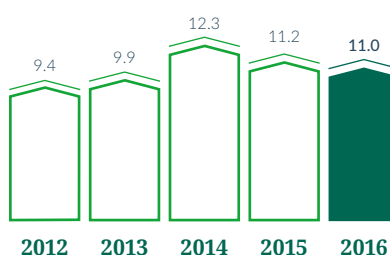
The amount of potash produced within the period.

#### Performance overview

In 2016, the Company continued to implement its renewed capacity development programme. However, due to the decline in global potash demand in the first half of 2016 and the resulting drop in prices, the Company showed a 5% decrease in production compared to 2015.

### SALES VOLUME

11.0  
mln tonnes of KCl



#### Relevance to the strategy

Sales volume is one of the indicators representing the efficiency of our logistics, trading performance and route to market.

#### Measurement

The amount of potash sold within the period.

#### Performance overview

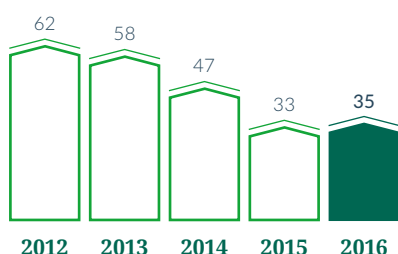
Despite adverse market conditions, the Company sold 0.2 million tonnes more potash fertilisers than it produced during the reporting period, which indicates Uralkali's success in optimising inventories.

## Key Performance Indicators CONTINUED

### Maintain cash cost leadership positions

#### CASH COGS PER TONNE

**US\$35**  
per tonne



#### Relevance to the strategy

Cash cost of goods sold (COGS) per tonne measures our competitive cost position in the industry.

#### Measurement

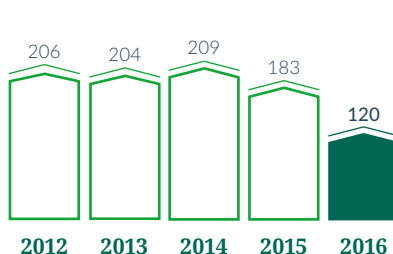
COGS less depreciation and amortisation per tonne.

#### Performance overview

In 2016, our cash costs increased to US\$35 per tonne. The main reason for this increase in COGS per tonne were larger cost of materials and energy resources as well as payroll indexation.

#### MAINTENANCE CAPEX

**US\$120**  
mln



#### Relevance to the strategy

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

#### Measurement

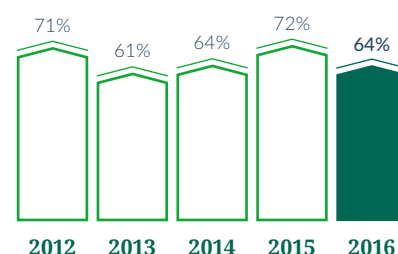
Capital expenditures aimed at maintaining the current production facilities in sound technical condition.

#### Performance overview

To improve financial performance, the Company optimised its maintenance CAPEX in 2016.

#### EBITDA MARGIN

**64%**



#### 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

Adjusted EBITDA divided by Net Revenue. Adjusted EBITDA is Operating Profit plus depreciation and amortisation and does not include one-off expenses. Net Revenue is revenue less railway tariff, freight and transshipment.

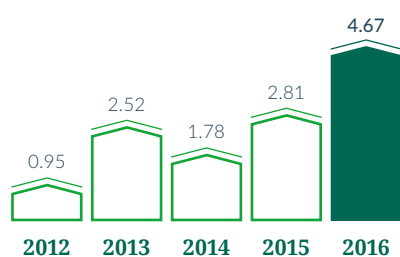
#### Performance overview

The EBITDA margin in 2016 fell from 72% to 64%, mainly due to a significant decrease in the potash price.

## Balance investment in growth with shareholder returns

### NET DEBT/LTM EBITDA

# 4.67



#### 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.

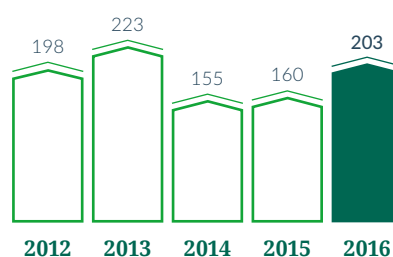
#### Performance overview

The rise in the Net debt/EBITDA ratio was caused by a decrease in EBITDA due to adverse market conditions in 2016 and the growth of net debt.

### EXPANSION CAPEX

# US\$203

mln



#### 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

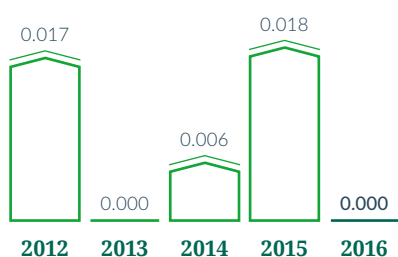
In 2016, we continued to implement our expansion programme. Our expansion CAPEX in 2016 was in line with the anticipated budget. An expansion of capacity may also be influenced by equipment upgrades, and so sustaining investments totalled US\$120 mln in 2016.

## Key Performance Indicators CONTINUED

Focus on people, communities, safety and environment

### WORK-RELATED FATAL INJURY FREQUENCY RATE (FIFR)

0.000  
FIFRs



#### 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

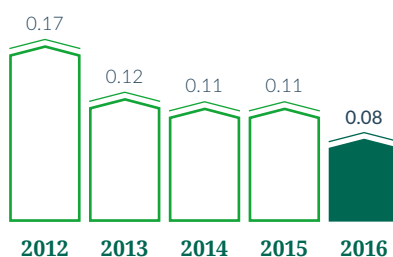
FIFR is calculated based on the number of fatalities per 200,000 hours worked.

#### Performance overview

In 2016, PJSC Uralkali, its subsidiaries and affiliates did not record any fatalities.

### LOST TIME INJURY FREQUENCY RATE (LTIFR)

0.08  
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

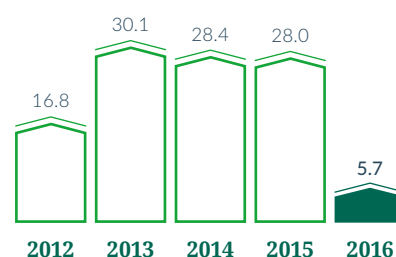
LTIFR is calculated based on the number of lost time injuries per 200,000 hours worked.

#### Performance overview

The LTIFR rate has been consistently declining following the implementation of the Cardinal Rules in 2012.

### SOCIAL INVESTMENTS

US\$5.7\*  
mln



#### 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

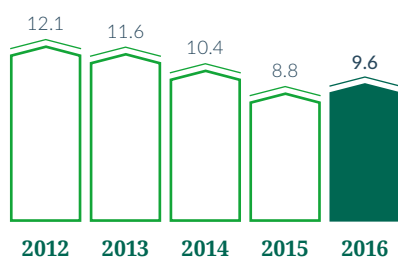
In 2016, Uralkali continued to support sport activities, donate to charity and contribute to the development of the region where we operate. The significant decrease of this indicator in comparison to the previous year was due to completion of the relocation programme, which ended in 2015.

\* Social expenditures in roubles for 2016 amounted to 381.26 million roubles. The CBR's average exchange rate for 2016: 1 US dollar = 67.0349 roubles.



**VOLUNTARY LABOUR TURNOVER**

9.6%

**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**

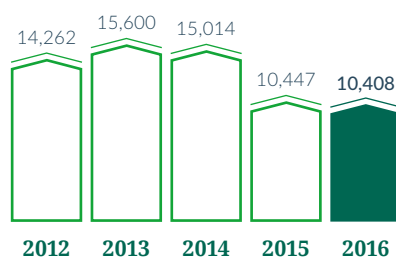
Turnover is the number of permanent employee resignations as a percentage of total employees (excl. redundancy dismissal and transfer to another employer).

**Performance overview**

In 2016, labour turnover increased mainly in subsidiaries of Uralkali Group due to organisational and structural changes, including optimisation of functions in these companies.

**AVERAGE ANNUAL WAGES**

US\$10,408

**Relevance to the strategy**

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

**Measurement**

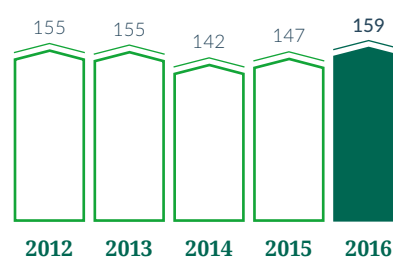
The annual payroll is divided by the average number of employees in the main production unit, excluding top managers and the Moscow office.

**Performance overview**

In 2016, average annual wages denominated in US dollars remained virtually unchanged, despite the decrease of the rouble's average exchange rate against the US dollar. Uralkali constantly monitors salary rates and pays the utmost attention to retaining people by ensuring its salary levels remain attractive.

**ENERGY CONSUMPTION**

159 kWh/t\*

**Relevance to the strategy**

Energy utilisation as a result of a number of mitigating actions demonstrates how the Company responds to climate change.

**Measurement**

Energy consumed (electricity) per tonne of production for industrial needs.

**Performance overview**

Higher energy consumption per tonne of production was caused by the need to expand stowing operations at the mines to increase mining operations safety and share of granular potash production.

## Key Performance Indicators

### CONTINUED

### Continued focus on corporate governance

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#### CREDIT RATING MAINTENANCE

**2016:** Stable credit outlook maintained.  
**2015:** Stable credit outlook maintained.  
**2014:** Investment-grade ratings maintained.  
**2012, 2013:** 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 2016, all three agencies retained Uralkali's investment-grade ratings, given the Company's strong fundamentals. On 12 April, S&P changed the outlook for PJSC Uralkali from stable to negative due to a significant deterioration in the fertiliser market over the previous six months and expectations that prices for NPK fertilisers would remain well below 2015 levels for several years. On 30 September, Fitch changed the outlook for PJSC Uralkali's securities from stable to negative, which reflected the Company's high leverage above the expected level.

#### THE COMPANY'S GOVERNANCE AND TRANSPARENCY ARE NOT NEGATIVELY CITED BY RATING AGENCIES / REGULATORS

**2016:** Uralkali continued to pursue a consistent policy of enhancing its corporate governance and information transparency. No claims made by regulators.  
**2015:** Uralkali continued to pursue a consistent policy of enhancing its corporate governance and information transparency. No claims made by regulators.  
**2014:** Uralkali continued to pursue a consistent policy of enhancing its corporate governance and information transparency. No claims made by regulators.  
**2013:** The Company pursued a consistent policy of enhancing its corporate governance and information transparency. This included improving the information uploaded to its website and the quality of public reporting. No claims made by regulators.

#### Relevance to the strategy

The corporate governance system, based on the best international standards, is the backbone of shareholders' trust.

#### 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 one of the top priorities for the Company in 2016. The decision-making process in the Company is strictly in line with legal and regulatory requirements and in full accordance with the best international corporate governance practices.

# Improving Risk Management



**Paul OSTLING**  
Chairman of the Audit Committee



In today's world, where new challenges are constantly arising, **an important condition for a successful development** of any company **is the ability to manage its risks**, in particular, identify them, take measures to mitigate them, and have a clear action plan if a risk materialises. Such work should be carried out in the company on a systematic basis and at all levels, with the understanding that risk management decisions should be carefully thought out and as balanced as possible.

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. In 2016, the Company continued its risk management activities as part of COSO ERM, an integrated risk management concept, and ISO 31000 Standard.

## Key risk factors

This section describes only 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.

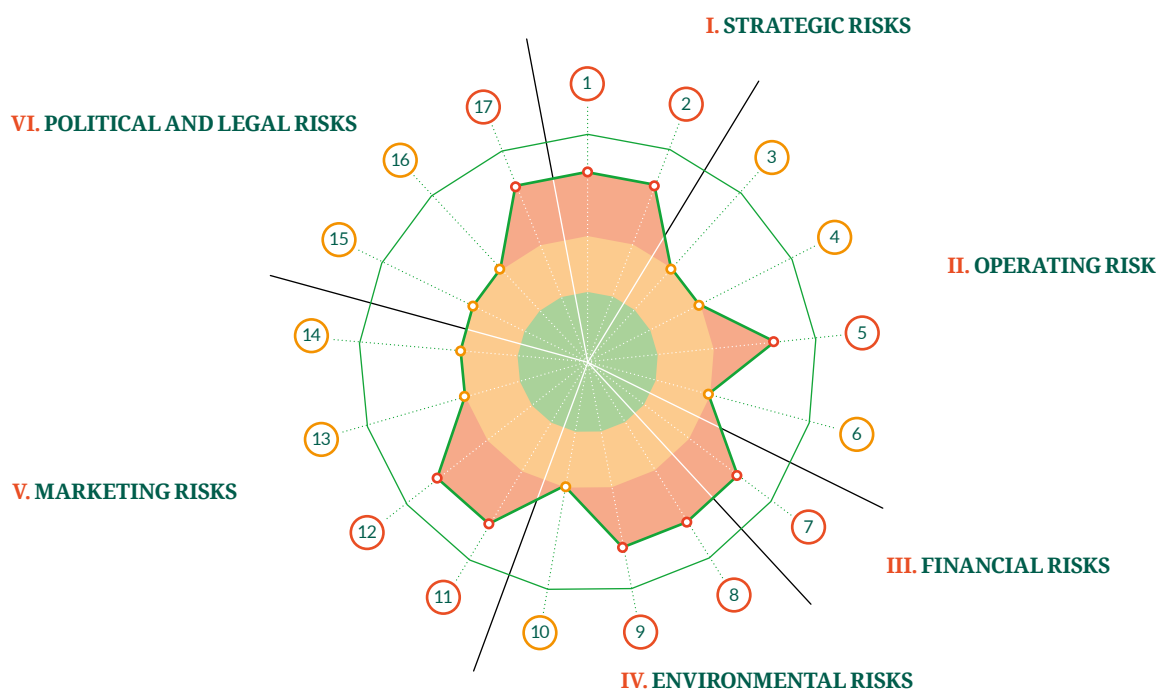
The Integrated Report does not aim to give an exhaustive description of all risks that may impact the Company. Uralkali will disclose any necessary information in a timely manner according to the applicable laws.

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

## Activities completed in 2016

1. Further introduction of a corruption prevention system and a compliance system at foreign subsidiaries.
2. Further integration of risk management in operational management.
3. Improvement of the internal control system in the foreign trader's work.

## Improving Risk Management CONTINUED



<b>I. STRATEGIC RISKS</b>	1. Failure to meet targets set for investment projects 2. Change in the supply and demand balance on the main potash markets
<b>II. OPERATING RISKS</b>	3. Reduction in production/capacity 4. Lack of qualified employees 5. Non-fulfilment of obligations by contractors or suppliers 6. Expenditure increase
<b>III. FINANCIAL RISKS</b>	7. Inflation and currency fluctuations
<b>IV. ENVIRONMENTAL RISKS</b>	8. Environmental risks and risks related to mining operations 9. Risks related to the incidents at Berezniki-1 and Solikamsk-2 10. Non-compliance with environmental and health and safety regulations
<b>V. MARKETING RISKS</b>	11. Potash demand decline 12. Potash price decrease 13. Loss of market share on specific markets 14. Lack of specific products
<b>VI. POLITICAL AND LEGAL RISKS</b>	15. Risks, connected with the licensing of use of natural resources 16. Political and regulatory risks 17. Compliance with applicable legislation and internal policies

### Plans for 2017

1. Further monitoring of risk management practices and their implementation in the Company's operations.
2. Completing introduction of corruption prevention policies and procedures in key foreign subsidiaries.
3. Further improvement of the risk management and internal control system in the foreign trader's work, as well as foreign subsidiaries of Uralkali Group, and foreign investment management, including partial automation of internal controls.

Risk	Description	Risk level	Dynamics	Comments	Risk minimisation measures
<b>STRATEGIC RISKS</b>					
<b>Failure to meet targets set for investment projects</b>	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' timeframes 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.	● ● ●	→	The Company continues to implement its investment programme	<ul style="list-style-type: none"> <li>› The Company continuously monitors and controls the implementation of its investment programme.</li> <li>› The Company makes investment decisions based on market outlook; it selects the most economically efficient projects, based on its financial abilities, and determines optimal implementation periods.</li> <li>› The Company uses project management principles.</li> <li>› Major investments are made after the design stage activities have been completed and after the timeframe, costs and feasibility of the projects have been confirmed.</li> </ul>
<b>Change in the supply and demand balance on the main potash markets</b>	Change in the supply and demand balance on the main potash markets, inter alia, because of a 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 in global prices.  All this may affect revenues and result in a decrease in the Company's profits.	● ● ●	↔	The demand for potash on major sales markets does not match the level of supply, which leads to price reduction, a decrease in the Company's revenues and affects the ability to meet assumed obligations.	<ul style="list-style-type: none"> <li>› Uralkali's management is developing a marketing strategy to promote potash.</li> <li>› The Company actively supports agricultural producers (e.g. by updating farmers' calculators).</li> <li>› The Company maintains a flexible production strategy, increasing or decreasing production depending on current demand and market forecasts.</li> </ul>

● ● ● Low risk level  
 ● ● ● Medium risk level  
 ● ● ● High risk level

← Probability of the risk decreased  
 ↔ Probability of the risk unchanged  
 → Probability of the risk increased

## Improving Risk Management CONTINUED

Risk	Description	Risk level	Dynamics	Comments	Risk minimisation measures
<b>OPERATING RISKS</b>					
<b>Reduction in production/capacity</b>	External and internal factors, including accidents, downtime, a general decline in potash demand, can affect potash production.	● ● ●	→	Production capacity decreased in connection with the accident at Solikamsk-2.	<ul style="list-style-type: none"> <li>› The Company continues to expand its production capacity and replace retired assets, maintaining them in working order.</li> <li>› Uralkali sets production plans taking into account the current market situation and the adopted strategy.</li> </ul>
<b>Lack of qualified employees</b>	The Company's business implies in-depth professional training and high qualification of its employees, in particular, in the field of production, mining, 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 its goals.	● ● ●	→	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.	<ul style="list-style-type: none"> <li>› The Company constantly monitors the labour market and takes measures to retain personnel, mainly production, including through surveys to determine the degree of personnel engagement and monitoring the reasons for resignation.</li> <li>› The Company has implemented a system for personnel assessment and training. In 2016, new initiatives were launched for this purpose, for example, the Corporate University, licensed for training according to 250 programmes; a distance learning system; the Talent Pool programme for key positions in the production unit.</li> </ul>
<b>Non-fulfilment of obligations by contractors or suppliers</b>	The failure of key partners, relations with whom are strategically important, to meet their contractual obligations may adversely affect Uralkali's performance.	● ● ●	↔	<p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>› The Company strives to ensure alternative suppliers and contractors are available for all its needs.</li> <li>› 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 development and risk assessment model) to improve the quality of documentation.</li> </ul>

● ● ● Low risk level  
 ● ● ● Medium risk level  
 ● ● ● High risk level

← Probability of the risk decreased  
 ↔ Probability of the risk unchanged  
 → Probability of the risk increased

Risk	Description	Risk level	Dynamics	Comments	Risk minimisation measures
<b>Expenditure increase</b>	Production costs may increase due to the wear-and-tear of production equipment, utilisation of obsolete technologies, inefficient spending on operating activities or energy appreciation.	● ● ●	↔	The Company is implementing programmes to increase productivity and reduce operating expenditures.	<ul style="list-style-type: none"> <li>› The Company is engaged in thorough budgeting and planning activities, ensures continuous monitoring and control of expenses of its bodies and officials.</li> <li>› The Company constantly improves performance discipline and implements additional controls that allow it to stay on budget and keep costs at an approved level.</li> </ul>

## FINANCIAL RISKS

<b>Inflation and currency fluctuations</b>	Inflation processes and currency fluctuations, as a result of which the Company's costs increase due to the rise in price of materials, resources and services used (for example, transportation services), may lead to a decrease in the Company's net profit.	● ● ●	↔	<p>Part of the Company's loan portfolio consists of loans with floating interest rates and is denominated in foreign currency.</p> <p>The bulk of the Company's expenses are denominated in roubles, while the main export revenues are denominated in US dollars.</p>	The Company minimizes the risks of currency fluctuations and the risk of a significant increase in the floating interest rate by hedging its interest and currency risks.
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## ENVIRONMENTAL RISKS

<b>Environmental risks and risks related to mining operations</b>	Uralkali's activities related to the extraction of minerals and production are subject to risks associated with the geological structure of the Verkhnekamskoye field, and exploration, extraction and processing of minerals. The risks include possible flooding, fires and other accidents that can lead to unforeseen costs and a general decline in the efficiency of the Company's operations.	● ● ●	↔	Given unpredictable natural factors associated with mining, the Company takes a conservative approach to mitigating environmental risks.	<ul style="list-style-type: none"> <li>› The Company follows its previously developed mining plan, which includes an extensive safety section.</li> <li>› The Company regularly audits the effectiveness of measures aimed at minimising mining risks.</li> </ul>
<b>Risks related to the incidents at Berezniki-1 and Solikamsk-2</b>	The flooding of Berezniki-1 in October 2006 as well as an 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.	● ● ●	→	The Company adheres to its 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 issues in a timely manner.
<b>Non-compliance with environmental and health and safety regulations</b>	Uralkali's operations and the use of its property are governed by various environmental and health and safety laws and regulations. Additional costs and obligations may be incurred by compliance with these laws and regulations.	● ● ●	↔	The Company pays considerable attention to the problems of industrial safety, defining the life and health of people as the most important value and making HSE assurance its main task.	<ul style="list-style-type: none"> <li>› The Company has approved and adopted safety standards, including HSE Cardinal Rules, regular training of personnel in safe practices with subsequent attestation, and a number of measures for the prevention of occupational diseases.</li> <li>› The Company pays special attention to compliance and improving performance.</li> </ul>

## Improving Risk Management

### CONTINUED

Risk	Description	Risk level	Dynamics	Comments	Risk minimisation measures
<b>MARKETING RISKS</b>					
<b>Potash demand decline</b>	Changes in the supply and demand balance on the main potash markets, due to both political and economic factors, may have a negative impact on the Company's operations.	● ● ●	↔	The growth in demand for potassium chloride does not match the level of supply on the markets. The fall in potash prices in mid-2016 had a significant impact on the Company's revenue and created a need for cost adjustment.	<ul style="list-style-type: none"> <li>› Uralkali's management is developing a marketing strategy to promote potash and actively supports agricultural producers (e.g. by updating farmers' calculators).</li> <li>› The Company estimates future demand for its products and adjusts production volumes depending on the market environment.</li> </ul>
<b>Potash price decrease</b>	Producers' pursuit of high capacity utilisation together with insufficient demand may result in excess supply and a subsequent drop in global potash prices, reducing the Company's revenue and profit.	● ● ●	↔	In connection with macroeconomic and geopolitical instability, the growth in potash demand does not match the level of supply on the markets, which affects the selling price.	
<b>Loss of market share on specific markets</b>	Competitors' activities, commissioning of new production facilities and other events may lead to the loss or reduction of the Company's share on one or more sales markets. The loss or reduction of its share on specific markets can lead to a decrease in revenue and deterioration of the Company's financial performance.	● ● ●	↔	When the growth in potash demand does not match the level of supply on the markets, the level of competition may increase.	The Company's management monitors all key markets and is developing a marketing strategy to promote potash.
<b>Lack of specific products</b>	With its production capacity fully utilised, the Company may face a deficit of a particular product for a specific market.	● ● ●	↔	Emergencies, as well as possible changes in investment decisions as a result of certain factors, can lead to a deficit of a certain product and the inability to meet the existing demand.	The Company retains a flexible production strategy, increasing or decreasing production volumes depending on current demand and market forecasts.



Risk	Description	Risk level	Dynamics	Comments	Risk minimisation measures
<b>POLITICAL AND LEGAL RISKS</b>					
<b>Risks, connected with the licensing of use of natural resources</b>	<ul style="list-style-type: none"> <li>› The Company's operations depend on the continued validity of its licences and its compliance with licence terms.</li> <li>› Legislative changes or decisions by regulators to terminate or restrict the licences may adversely affect the Company's operations.</li> </ul>	● ● ●	→	In 2016, the Company extended the validity of key licenses for a longer period.	<ul style="list-style-type: none"> <li>› The Company has a plan to maintain existing licences.</li> <li>› The Company has introduced internal controls to follow up on the plan and respond promptly to any deviations.</li> </ul>
<b>Political and regulatory risks</b>	<ul style="list-style-type: none"> <li>› 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.</li> <li>› The Company could breach applicable laws or regulations on the markets where it operates.</li> <li>› Certain measures of governmental bodies or increased regulation could lead to additional costs, as well as affect creditors' expectations.</li> <li>› 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.</li> </ul>	● ● ●	↔	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.	<ul style="list-style-type: none"> <li>› The Company has developed a set of connected measures to ensure its compliance with statutory rules.</li> <li>› 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.</li> </ul>
<b>Compliance with applicable legislation and internal policies</b>	Uralkali is subject to the laws of Russia and other countries of operations, including anti-monopoly ones. Claims, including anti-monopoly claims, may create additional costs for the Company.	● ● ●	↔	Uralkali is subject to special state regulations in various jurisdictions. Due to macroeconomic instability, regulators can increase their requirements.	The Company continuously improves its internal control system in order to ensure compliance of its activities with the requirements of applicable law, including anti-monopoly legislation.

● ● ● Low risk level  
 ● ● ● Medium risk level  
 ● ● ● High risk level

← Probability of the risk decreased  
 ↔ Probability of the risk unchanged  
 → Probability of the risk increased

# Our Priorities

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

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## PRIORITY



### SUSTAINABLE ECONOMIC DEVELOPMENT

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

**High total shareholder returns for Uralkali's shareholders**

Since the Board of Directors of Uralkali did not pay dividends in 2015, in 2016 the Board decided to return funds to shareholders through the buyback of ordinary shares.

**Business model focus on maintaining cost leadership,** vertical integration, capacity development and premium products.

**Maintaining leading positions in the global market,** which fosters enduring customer relations.



### ENVIRONMENTAL IMPACT

**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.

**Energy efficiency**

Implies a range of activities aimed at optimising energy consumption in the Company's operations.

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

In 2014, Uralkali moved to the GRI G4 Sustainability Reporting Guidelines and began to utilise multi-step materiality analysis.

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.

## AREAS



### STAKEHOLDER IMPACT

**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 and sponsorship, relocation programme.



### EMPLOYEES

**Recruitment and retention of talent**

Includes cooperation with educational institutions, talent pool development, grievance resolution mechanism.

**Occupational H&S**

Implies adherence by Company employees and contractors to cardinal rules aimed at reducing occupational accident risks.

**Personnel development**

Focuses on KPIs, training, employee satisfaction surveys.

# Stakeholder Engagement



## Customers and partners



## Shareholders and investment community



## Employees

### 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.

As 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 keys to the Company's success. We put an emphasis on creating conditions for the professional and career growth of our employees, which strengthens their loyalty to the business.

### 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

### WHAT WE ARE DOING

- › 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 management and financial community
- › Website publication of relevant AGM/EGM documents
- › Management presentations at industry and regional conferences
- › Investor and analyst days, including site visits
- › General meetings of shareholders
- › Press releases on material issues and key Company events

- › Employing HR Policy and Health and Safety Policy
- › The system of internal communication and feedback
- › Regular meetings between management and employees
- › Feedback on hotline messages
- › Ensuring safety in the workplace
- › Implementation of social programmes and financial incentive programmes
- › Employee satisfaction and employee engagement surveys



## Trade unions

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.

- › Employee loyalty
- › Compliance with health and safety regulations
- › Feedback from employees
- › Decisions on important social issues

- › Reports on the execution of provisions of Collective Bargaining Agreements and health and safety agreements
- › Regular face-to-face meetings with management and trade union members
- › Collecting written opinions on most important social issues



## Government and local authorities

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.

- › 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

- › 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



## Local communities

The development of the Company 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.

- › 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

- › 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



## Mass media

The Company needs accurate and timely coverage by the media when disclosing its financial and operational results, key external and internal events, community activities and involvement, participation in industry conferences, international and local exhibitions, etc. An objective understanding of Uralkali and its strategy by all stakeholders is important for the Company and its target audiences.

- › Accurate media coverage of the Company's strategic messages, corporate events and news
- › Getting feedback from the public and the media
- › Maintaining relationships with stakeholders at all levels

- › Press releases on material issues and key events
- › Interviews with management
- › Press tours and press conferences
- › Relationship building events for media
- › Opinion surveys among target media

# Chairman of the CSR Committee Statement



**Sir Robert Margetts**  
Senior Independent  
Director,  
Chairman of CSR  
Committee

The key principles of sustainable development remain at the heart of Uralkali's strategy. The Company is aware of the need for constant interaction with all stakeholders, including shareholders, employees, consumers, service providers, industry experts and analysts, representatives of state organisations and NGOs, the media and local communities.

As one of the largest employers and taxpayers of the Perm Territory, Uralkali fully understands the importance of social responsibility, occupational safety, stability and other key elements ensuring the sustainable development both of the Company and of the regions where it operates. Much has been achieved in this area already, but much more remains to be done. It is important to understand that the results of this work may only be seen in the years and decades to come, and it is possible that only future generations will be able to give an objective assessment of our activities.

### Environment and industrial safety

Uralkali, as a large industrial enterprise using modern, high-quality and high-tech equipment, operates in strict compliance with the current legislation in the field of environmental protection, and efficiently and effectively uses the available natural resources. The main priority of the Company in this area is still efficient risk management, preventing or mitigating risks. In 2016, Uralkali continued to implement projects in the following areas: geological safety, energy efficiency, protection of atmosphere and water, waste management.

In relation to the safe development of potash deposits, our top priority is to ensure the geological safety of mining operations in conjunction with comprehensive monitoring of the situation, both at existing and inactive mines. These activities are traditionally carried out by Company specialists in cooperation with the relevant international and local experts, as well as research institutions. Uralkali also works closely with the regulatory authorities, providing them with full information on its activities and assisting in addressing emerging issues.

### Occupational health and safety

Ensuring occupational health and safety at industrial facilities of Uralkali's level is always among the most important activities of any company. I would like to emphasize that it is vital for the Company to maintain a balance between providing the most comfortable and favourable working conditions on the one hand, and ensuring staff compliance with legal and employer requirements on the other hand.

The application of fundamental safety rules, as well as strict adherence to legislative regulations and general principles for ensuring the safety of production staff helped the Company reduce the number of fatal accidents in 2016 to zero, as well as reduce the accident frequency and severity rate for Uralkali Group in general.

### Interaction with local communities

The Company's efficient activities for the continuous development and modernisation of production assets would be impossible without the development and support of the areas in which it operates. Given the fact that most of the employees of Uralkali Group live in the Perm Territory in the towns of Berezniki and Solikamsk, the Company is socially responsible for improving the quality of life of the people living in these cities. In 2016, we continued to finance projects aimed at developing social infrastructure; strongly supported sports, culture and education; helped the local municipal authorities and public organisations; and implemented a number of sponsorship projects and charitable initiatives. Our social investments amounted to US\$ 5.7 million in 2016. For more information about the Company's contribution to the development of the region where it operates in 2016, see pages 67-69.

### Global food security

In the context of the growing world population and the reduction of arable land availability, the problem of global food security remains significant. Producers of mineral fertilisers traditionally make an important contribution to solving this problem, and Uralkali is no exception. While fulfilling the requirements of domestic and foreign agricultural producers for potassium chloride, the Company always tries to increase the awareness of its target audience about methods for the efficient application of potash fertilisers. The Company is engaged in a number of projects to improve the productivity of crops both in export and domestic markets.

For my part, I would like to thank Uralkali's Board of Directors, management and employees of the Company for their help and support in the development and introduction of the best global practices in social responsibility. We will continue to work to ensure the sustainable development of the Company and its efficient cooperation with all stakeholders.

# Independent Assurance Report

To the Board of Directors of Public Joint Stock Company Uralkali on the selected performance indicators disclosed in Integrated Report and stated in GRI tables 2016 for the year ended 31 December 2016

## Introduction

We have been engaged by Board of Directors of Public Joint Stock Company Uralkali to provide limited assurance on the selected performance indicators disclosed in the Integrated Report and stated in the GRI Tables 2016.

## Management's Responsibility for the Subject Matter

The Directors are responsible for the preparation of the Integrated Report and GRI Tables 2016 and for the information and statements contained within it. They are responsible for determining the goals, performance and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.

## Scope of Limited Assurance Engagement

Our responsibility is to independently express a conclusion on the selected performance indicators disclosed in the Integrated Report and included in the GRI Tables 2016 and as defined within the scope of work above to Uralkali in accordance with our engagement letter and ISAE 3000. Our work has been undertaken so that we might state to Uralkali those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Uralkali for our work, for this report, or for the conclusions we have formed.

We carried out limited assurance procedures in accordance with International Standard on Assurance Engagements 3000 (revised) ("ISAE 3000 (revised)"). To achieve limited assurance ISAE 3000 (revised) requires that we review the processes and systems used to compile the areas on which we provide limited assurance. It does not include detailed testing of source data or the operating effectiveness of processes and internal controls. It provides less assurance and is substantially less in scope than a reasonable assurance engagement.

The evaluation criteria used for our assurance are the GRI G4 Reporting Guidelines.

## Our key assurance procedures

Our assurance procedures in this engagement were limited primarily to recalculation of the respective ratios derived by management from the financial statements and their comparison to the target ratios, thus providing less assurance and is substantially less in scope than a reasonable assurance engagement.

To form our conclusions, we undertook the following procedures:

- › interviewed management and those with operational responsibility in relevant areas;
- › understood, analysed and tested on a sample basis the key processes, procedures and controls relating to the collation, aggregation, validation and reporting processes of the selected performance indicators in the Integrated Report and GRI Tables; and
- › reviewed the contents of the Integrated Report and GRI Tables against the findings of the aforementioned procedures and, as necessary, provided recommendations for improvement.

We planned and performed our work to obtain all the information and explanations we considered necessary to provide sufficient evidence to support our assurance conclusion. Our work was planned to mirror Uralkali's own compilation processes, tracing how data for each indicator within our limited assurance scope was collected, collated, validated and included in the Integrated Report and GRI Tables 2016.



### Our independence

We complied with ZAO "Deloitte&Touche CIS"'s independence policies, which address and, in certain cases, exceed the requirements of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants in their role as independent auditors.

### Conclusion

Based on the scope of our work and the assurance procedures we performed we conclude that nothing has come to our attention that causes us to believe that selected performance indicators disclosed in the Integrated Report and included in the GRI Tables 2016 for the year ended 31 December 2016 is not prepared, in all material respects, in accordance with the applicable criteria.

Deloitte & Touche

Ivan Kukhnin,  
Director  
29 March 2017



Audited entity: Public Joint Stock Company "Uralkali"

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

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 Territory

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

# Environmental Protection

Responsibility for preservation of the environment is an integral part of Uralkali's business. The Company's investments in environmental protection in 2016 **increased by 53%** to 2.230 billion roubles. 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.

## 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.

## KEY PRIORITIES

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

## WHY THESE ISSUES ARE 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.

## STAKEHOLDERS ENGAGED

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

## Key facts in 2016

In 2016, Uralkali and its subsidiaries and affiliates in the Russian Federation invested over 2.230 billion roubles in environmental activities, which is 53% more than in 2015 (1.457 billion roubles).

In addition to current expenditures associated with protecting the atmosphere, water and land resources, Uralkali financed 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. 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 2016, the main areas of Uralkali's activities were:

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

Uralkali thoroughly assesses the environmental impact of planned and ongoing production activities.

The Company strictly complies with the requirements of environmental legislation and internal environmental standards, constantly assessing environmental risks and ensuring the transparency and openness of its operations. Uralkali's efforts to ensure environmental safety are carried out in accordance with the environmental legislation of the Russian Federation, comply with environmental standards and rules, and take into account the requirements of Russian regulations and international standards.

### 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 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 surveys and carries out visual monitoring for subsidence, conducts geophysical and hydrogeological research in all of its mines, and monitors seismic activity.

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.

### Energy and climate

#### Energy efficiency

Following an energy audit, the Company approved an Energy Saving Programme on 29 December 2012 that includes a set of organisational and technical measures aimed at reducing energy consumption. The programme started with the establishment of an energy conservation commission and the development of an incentive scheme. Investment projects with expected completion dates in 2017-2018 were initiated.

In 2016, no financing was allocated for energy saving technical measures. Only carry-over works were completed. The main focus was on the implementation of low-cost organisational measures.

Due to the lack of investment, the task for 2016 was to stay within the limited energy consumption budget. As evidenced by the results of 2016, this task was accomplished. However, no bonuses were paid to staff, as the bonus conditions were not met.

Uralkali continued to work on project documentation for previously initiated projects.

In 2016, the Company increased power generation using its own facilities. The actual amount of electricity generated increased by 27% compared to 2015 and totalled 352.4 million kWh.

In 2016, Uralkali, its subsidiaries and affiliates in the Russian Federation conserved 945 MWh of electricity, 6,715 tonnes of oil equivalent and 1,755 million m<sup>3</sup> of water.

#### 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 Territory. This approach makes it possible not only to reduce natural gas consumption and lower costs, but also to prevent the flaring of associated gas by oil companies, thus reducing global greenhouse gas emissions.

In 2016, the volume of associated gas used by Uralkali and its subsidiaries and affiliates in the Russian Federation totalled 130,000 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.

The highest 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

## Environmental Protection CONTINUED

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 authoritative source of data on global climate change, for five years already, providing information on our efforts to reduce greenhouse gas emissions.

In the reporting period, emissions of CO<sub>2</sub>-equivalent gases across the Group amounted to 1.733 million tonnes, down 1.7% from 1.763 million tonnes in 2015 and down 6.4% from 1.852 million tonnes in 2014 due to a decrease in potash production and total energy consumption.

### Atmospheric emissions

The Company's enterprises have environmental protection departments which are responsible for emissions of pollutants into the atmosphere.

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 decreased by 12% year-on-year, to 5,120 tonnes from 5,750 tonnes, due to decreased consumption of fuel and reduced output. All atmospheric emissions from stationary sources are within the regulated limits.

### Water resources

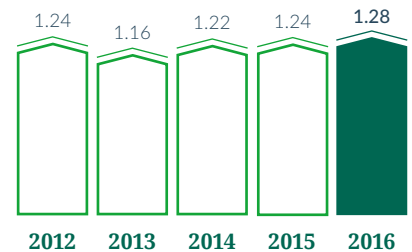
In 2016, total water intake for industrial needs and utility services at Uralkali and its subsidiaries and affiliates in the Russian Federation decreased by 1.4% to 18.39 million m<sup>3</sup> from 18.65 million m<sup>3</sup> in 2015. The water intake from surface sources totalled 14.2 million m<sup>3</sup> (not including 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 increase in per-unit water consumption is associated with greater hydraulic filling volumes and the redistribution of volumes between flotation and halurgic production methods.

The volume of water recycled and reused at Uralkali totalled 103.302 million m<sup>3</sup>, down from 104.057 million m<sup>3</sup> in 2015.

**WATER INTAKE FOR INDUSTRIAL NEEDS**  
[m<sup>3</sup> per tonne of production]



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 meters deep and 950 meters by 750 meters across under the mined-out areas of north-eastern panels 1&2 of the Solikamsk-2 mine. In order to minimise the consequences of the accident, 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 meters-40 meters 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 area around the sinkhole 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.

As part of water protection activities in 2016, the Company bought juvenile pike from a fish farm in the Sherya Nytvensky district. In order to help juvenile fish adapt to an open reservoir, an optimal place of release was chosen taking into account the food resources in the water body, water and air temperature, as well as the distance for the fish to travel in the container. Compliance with all these factors was closely monitored by the staff of the State Research Institute for Lake and River Fisheries. Overall, 13,000 juvenile fish with a total weight of about 76 kilograms were released.

Also in 2016, juvenile sterlet (sturgeon) was bred at the LLC Karmanovsky Rybkhoz fish farm at the Company's request. According to environmentalists, this species of fish should play a positive role in the ecological balance of the Kama River. The total weight of more than 96,000 juvenile fish was about 453 kilograms.

### Waste management

Mining activities generate significant amounts of secondary resources and waste. The Company is doing everything possible to prevent 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 mined-out areas of mines with waste
- › recycling waste into products
- › 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 sanitary and environmental legislation

Since 2013, the Company has successfully implemented a project for processing old reinforced concrete slabs into crushed stone. During this time, more than 60,000 tonnes of large reinforced concrete products that remain after major maintenance of buildings and structures have been recycled.

There was a significant increase in the productivity of the crushing-and-sorting plant in 2016, with the amount of processed reinforced concrete waste increasing by 150% to 31,184 tonnes from 12,600 tonnes in 2015. The resulting crushed stone was utilised as fill for temporary roads, dams and temporary construction sites. The Company thus prevented the disposal of this waste at the landfill in Berezniki in 2016.

A typical trend in 2016 was the reduction of waste generation and the increase in its use by both Uralkali and its subsidiaries/affiliates in the Russian Federation. This resulted in less waste being disposed of at the municipal landfill and our own waste disposal facilities.

The Company's enterprises produced 30.16 million tonnes of waste in 2016. More than 99% of this was industrial waste of hazard class V (halite waste and clay-salt slurries). The Company increased the utilisation of halite waste and clay-salt slurries by 15% to 13.277 million tonnes in 2016 from 11.237 million tonnes in 2015, including 1.6 million tonnes of halite waste previously accumulated at Uralkali's disposal facilities. Halite waste is used for the production of:

- › industrial sodium chloride
- › mineral concentrate "halite"
- › saline solution for production of soda

Halite waste and clay-salt slurries are also used for backfilling the mined-out areas of mines.

The danger zone around the sinkhole is fenced off with restricted access to people, 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. Specialized scientific and design organisations – the Mining Institute of the Ural Branch of the Russian Academy of Sciences and CJSC VNII Galurgia – are involved in the accident mitigation.

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. The danger zone within the Solikamsk-2 mine has been outlined and backfilling is being done outside it to prevent further adverse effects of the accident. The situation continues to be monitored.

In the reporting period, waste disposal at landfills decreased by 21% compared to 2015 and amounted to 29,410 tonnes. The decrease has been observed over the past four years and amounts to 30% compared to 2013 (41,880 tonnes in 2013).

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 2016, 60,150 tonnes of waste was transferred to third parties for use and neutralisation, up by 9% from 55,200 tonnes in 2015.

### 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 cities of Berezniki and Solikamsk. Potash industry workers show by their own example that in order to live in a clean city we should begin with ourselves. 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 its employees and NGOs, promotes green thinking, and helps educate its employees and their family members about environmental problems. Uralkali supported the following environmental events in 2016:

- › Volunteer clean-ups in the cities of Berezniki and Solikamsk as part of the All-Russia environmental volunteer clean-up Green Spring
- › The municipal campaign Your Tree to the City in Berezniki
- › Campaigns to plant greenery and clean up debris in Berezniki and Solikamsk during the All-Russia event Protection from Environmental Hazard Days
- › Environmental procession along the streets of Berezniki in support of World Environment Day and Ecologist Day
- › Volunteer clean-ups as part of the national event Water of Russia
- › The Space Eco-Council, organised by the Green Contour movement together with the administration of the Ural Gems summer camp for four summer shifts
- › The environmental photo contest «Give clean rest!»
- › Volunteer clean-ups in Berezniki as part of the All-Russia environmental volunteer clean-up Green Russia
- › A garbage collection campaign on the shores of Lake Redikor (Cherdynsky district) as part of the All-Russia campaign «Let's do it»
- › The Ecoimage – 2016 contest among enterprises and organisations in Berezniki, organised by the municipal administration; Uralkali won in the Environmental Initiative category
- › The XII All-Russia review competition Leader of Environmental Activities in Russia 2016 as part of the World Experience and the Russian Economy International Forum, in which Uralkali received the winner's certificate

# Health & Safety

In 2016, the Company proceeded with the implementation and update of its [HSE Policy](#). When adopting this document, Uralkali stated that health, safety and the environment are key priorities that should be taken into account in all actions and decisions, regardless of the line of work to which they relate.

## OUR APPROACH

Safety is an unconditional value that must be an integral part of any action and decision. We understand that careless, thoughtless and irresponsible actions may have tragic implications not only for ourselves and our colleagues, but also for our families and friends. No achievement or economic benefit can justify loss of life or damage to a person's health.

## KEY PRIORITIES

- › Absence of fatalities and incidents
- › Absence of accidents

## WHY THESE ISSUES ARE IMPORTANT TO US

Absence of fatalities, incidents, accidents and occupational diseases is one of the key goals of an efficient business. Each employee expects to work in a healthy environment. At the same time, the Company expects its employees to follow the safety rules. By jointly supporting these principles, we will be able to bring our business to a higher level of performance and ensure a sustainable future.

## STAKEHOLDERS ENGAGED

- › Employees
- › Trade unions
- › Local communities
- › Media

## Performance indicators

There were 13 accidents at Uralkali and its subsidiaries and affiliates in the Russian Federation in 2016. All accidents were investigated and the Company adopted the necessary measures to prevent similar incidents in future. It should be noted that all accidents occurred for organisational reasons, and not for technical or technological ones.

No fatalities were recorded at Uralkali and its subsidiaries and affiliates in 2016.

The lost time injury frequency rate (LTIFR) at Uralkali and its subsidiaries and affiliates in the Russian Federation decreased compared to 2015.

The lost days rate (LDR) at Uralkali and its subsidiaries and affiliates in the Russian Federation decreased by 30% in 2016 compared to 2015.

## Organisational and technical measures

### Occupational safety

Based on the investigation of accidents that occurred in 2015, the Company established an institution of mining and technical inspectors who carry out internal supervision of compliance with safety requirements for mining and backfilling operations in Uralkali's mines. In 2016, two meetings were held with the purpose of analysing the work of the past period; they determined the priority work areas for mining and technical inspectors in 2017.

## Health & Safety CONTINUED

According to the resolution of the Health, Safety, Environment and Corporate Social Responsibility Committee directly reporting to the CEO, a professional skills competition was organised in 2016 to enhance professional skills among the employees of the Occupational and Industrial Safety Department. One of the main evaluation criteria when summarizing the results of the contest was «the number of detected violations of the Cardinal Rules». As a result, six employees of the Occupational and Industrial Safety Department received awards.

### Industrial safety

In 2016, Uralkali continued to develop and improve production control over compliance with industrial safety requirements at its hazardous production facilities.

In order to determine the list of technical devices, buildings and structures operated at hazardous production facilities, and to improve monitoring of the organisation and implementation of industrial safety reviews, Uralkali issued the Regulation on the Procedure for Organising and Conducting Industrial Safety Reviews of Technical Devices, Buildings and Structures of Hazardous Production Facilities at Uralkali. With a view to implementing the Regulation, production and functional units of Uralkali compiled registers of technical devices, buildings and structures operated at hazardous production facilities.

In addition, the Company compiled and, in accordance with the established procedure, approved a single register of technical devices, buildings and structures.

We also identified hazardous production facilities and, accordingly, changed the composition of operated hazardous production facilities, and also received an updated Certificate of registration for hazardous production facilities of Uralkali.

In order to comply with legislation on industrial safety for hazardous production facilities of hazard classes 1 and 2, Uralkali worked on developing a procedure for identifying and assessing accident risks, with the planning of measures to reduce accident risks, according to which hazard identification and occupational hazard management documents were developed for registered hazardous production facilities of hazard classes 1 and 2.

The Company renewed its license to operate production facilities with explosion and chemical hazards in classes 1, 2 and 3.

Uralkali continued training and certification of 38 members of mine rescue crews at the Berezniki-2, Solikamsk-2 and Solikamsk-3 mines in 2016. These workers were qualified as rescuers.

A system of personnel positioning was further improved at the Company's mines.

### Fire safety, civil defence and emergencies

No fires or emergencies were recorded at the Company's facilities in 2016. The number of fire outbreaks decreased by 17%, from 12 cases in 2015 to 10 cases in 2016.

During 2016, the Company implemented all planned activities in accordance with the approved schedule proposed by the Independent Auditor regarding fire safety at Uralkali's facilities.

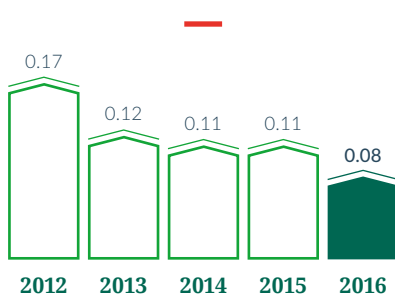
As part of equipping gas rescue units (NASF) consisting of Uralkali employees the Company purchased suits and breathing apparatuses for NASF members in case of abnormal operation of chemically hazardous facilities at Uralkali's surface complex.

Criteria were developed in 2016 for the purchase of new manual powder fire extinguishers, fire doors and oil heaters in order to increase their capacity, reliability and service life at Company facilities with an aggressive environment.

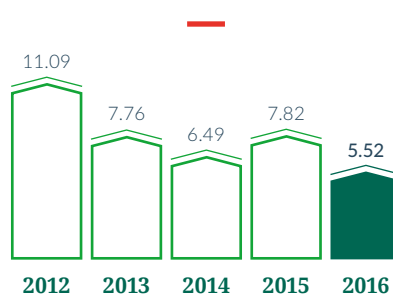
Uralkali also continued work on the introduction of alternative automatic fire extinguishers for conveyor transport facilities in its mines (Typhoon-60UK with water mist spray (60 litres) and UMP-1 with a powder volume of at least 50 litres).

As part of the technical re-equipment of professional rescue units engaged in mine rescue and fire protection operations at the Company's facilities, we purchased a new ASH-7 fire-fighting staff truck on the chassis of a Gazel truck for Solikamsk-2, 50 R-30E respirators for work in gas-polluted environments unsuitable for normal breathing, 6 Ferra radio stations to provide radio communication in underground workings during the mitigation of accidents and a new IR-5040-5-11 tensile machine.

**LOST TIME INJURY FREQUENCY RATE / LTIFR**



**LOST DAYS RATE / LDR**





The Company also maintained primary fire extinguishing equipment (fire extinguishers) in working order. During the year, over 23,000 fire extinguishers were checked, repaired and recharged.

Scheduled comprehensive, command and staff exercises were conducted to prepare employees for natural and man-made emergency situations and civil defence warning signals.

The Company maintained its civil defence structures in proper working order, and adopted and scheduled measures to improve their protective properties. Based on the results of local review competitions, the Company's civil defence structure at the Solikamsk-3 mine, designed for over 600 people, was recognised as superior to similar structures of the Perm Territory (winner's certificate).

We installed and started experimental operation of a local emergency warning system at the hydraulic structure of the Verkhne-Zyryansky reservoir.

#### Training and briefing

Making employees aware of the latest health, occupational and fire safety requirements and developing a culture of compliance play a key role in ensuring workplace safety. Before starting work at Uralkali's production facilities, the Company's employees receive workplace training. Ensuring workplace safety and monitoring employee compliance with safety requirements are part of the responsibilities of all foremen and supervisors.

Training and certification in 2016:

- › In the field of industrial safety – 5,917 employees
- › In the field of occupational safety – over 1,269 employees
- › In the field of emergency situations and civil defence – over 7,993 employees
- › In the field of fire safety – 4,014 employees

#### Our plans for 2017

- › Collect and compile data on the number of technical devices, buildings and structures at the Company's hazardous production facilities subject to examination of industrial safety to extend the period of safe operation, as well as prepare a strategic plan for expert examination of industrial safety
- › Develop a procedure for identification and assessment of accident risks; plan measures according to the risk level at the Company's hazardous production facilities
- › Prepare the Company's hazardous production facilities for a scheduled inspection by Rostekhnadzor's West Urals bodies
- › Develop industrial safety declarations for the Company's hazardous production facilities
- › Prepare all Uralkali facilities for scheduled inspection by the Main Directorate of the EMERCOM of Russia for the Perm Territory in July 2017
- › Develop the necessary criteria for monitoring the performance of existing fire protection systems to ensure the early detection of fires at surface complex facilities
- › Put into commercial operation a local warning system at the Verkhne-Zyryansky reservoir of the Berezniki-2 processing plant, and equip the hydraulic structure (slurry storage) of the Solikamsk-3 processing plant with a local warning system for employees in case of possible emergencies
- › Further implement the long-term Fire Safety Action Plan for 2016-2018 to reduce the risk of fires occurring (spreading) at the Company's facilities
- › Continue work on certifying the safety of the Company's hydraulic structures as part of the renewal of operating permits

# Our People



**Ruslan ILYASOV**  
Human Resources Director  
of PJSC Uralkali

Development of human resources is the most important task for a company that cares about its future. For this purpose, we have created a Corporate University. It is not just a building, but over 250 educational programmes that meet all of Uralkali's needs. By opening the university and offering an opportunity not only to our employees, but also to other residents of Solikamsk and Berezniki to improve their knowledge and receive training in sought-after occupations, we have once again confirmed the effectiveness of our cooperation with municipal authorities.

## OUR APPROACH

Uralkali is not only the leader of the potash industry, but also one of the most attractive employers in the region where it operates. We develop and promote our employees, motivate talented youth and attract experienced professionals, improve social benefits and offer competitive salaries. Our culture is a culture of achievement. Relying on this approach, we build our relations not only with our personnel, but also with the people of our communities.

## WHY THESE ISSUES ARE IMPORTANT TO US

The successful realisation of a business strategy is entirely dependent on people: their management skills, professional knowledge and commitment to the Company's values and corporate ethos. Therefore, Uralkali creates ideal conditions for professional growth and career progression and develops ways to build and strengthen Company loyalty and team efficiency.

## KEY PRIORITIES

- › Increase workforce productivity
- › Increase the level of professional competence
- › Increase the involvement and efficiency of our personnel
- › Promote blue-collar occupations in the cities where the Company operates

## STAKEHOLDERS ENGAGED

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

### Strategic projects

Uralkali is a company with a rich history. At the same time, we are active, dynamic and open to change.

It is important not only to motivate and develop our personnel, but also to organise its activities in the most efficient way. We strive to improve the productivity of each employee, consistently implementing projects to make the most of all types of resources, introduce new technologies, and efficiently organise labour to maintain leadership positions in the market.

We actively invest in our future, and therefore we continue to work closely with students of higher and secondary specialised educational institutions and pupils.

Expanding opportunities for the development of employees, we opened the Corporate University, which in the future will become a training centre for the entire northern part of the Perm Territory. The university offers an opportunity to undergo training and retraining, improve qualifications and master additional occupations.

The Crystal Pyramid 2016 award in the category of «Best corporate university in the strategic focus Education,» which the Company received for achievements in the field of human capital management, proves the effectiveness of the Company's HR policy. This is also evidenced by the victory in the All-Russia competition «Enterprise with highly efficient HR activities 2016» in the «Leader of socially responsible business» category.

### Motivation

Uralkali's compensation system allows us to correctly position ourselves in the labour market to ensure competitive conditions and determine the fair remuneration of employees.

In addition, the KPI system makes it possible to objectively assess the efficiency of the Company's business units. Every year we conduct internal customer surveys to help us understand our development opportunities.

Uralkali is one of the regional leaders in terms of average salaries. Nevertheless, in accordance with the Collective Agreement the Company carries out annual indexation, the amount of which depends on the results of monitoring the wage level in the labour market of the Perm Territory and the growth of consumer prices for goods and services.

### Professional and career growth

The Corporate University, as Uralkali's integrated development system, was established in 2015, and in 2016 it received its own building. Employees can now use any forms of training (classroom and online) to develop their potential and build up competence. In 2016, we celebrated the defence and awarding of diplomas to the first graduates of the Corporate University in the Mining Machines Operator occupation. This is the first class of graduates trained exclusively by the teaching staff of the Corporate University.

Uralkali continued to develop such traditional projects as the Talent Pool, Preparing Successors for Key Management Positions, Evaluation and Development of Management Skills, etc.

# US\$10,408

the average annual salary in the main production unit (including annual bonus)

# 34,548

training sessions

at Uralkali, subsidiaries and affiliates in the Russian Federation in 2016

# Up to 70%

work meal costs paid for by the Company

# 100%

compensation of ski centre costs and up to 50% of sports centre costs

**Our employees are the strength and pride of the Company.**  
We cherish partnership relations, and respect the opinion and contribution of each and every employee.

## Our People

### CONTINUED

The Company also improved its adaptation and mentoring system, through which we ensure the continuity of our team and quick involvement of new employees in the life of Uralkali. Traditionally, one of the most anticipated events for those who strive for self-improvement is Development and Career Week.

#### Youth engagement

The first meeting of representatives of the Company's Youth Movement was conducted in 2016. A wide range of issues were actively discussed, from its name to prospects and projects. Following the meeting, a competition was held among employees for the best name, logo and motto of the movement.

The best name was «MolodezhKa». The movement logo now features human figures of the Company's corporate colours surrounded by salt crystals. The motto is «Do not stand still, but only move forward and only together!»

We currently run six hobby clubs: Profkom 2.0, Adaptation and Mentoring Club, Volunteer Club, Engineering Club, Creative Club and Sports Club, for each of which a plan of events has been developed and is being implemented.

#### Social benefits

Uralkali's social benefits remain among the best in the industry. They include an optional health insurance programme; periodical and extensive medical examinations; reimbursement of meal costs; health resort offers for employees; a housing improvement programme; summer holidays for children of employees; partial compensation for the cost of sports; corporate Olympiad events; free transportation to work and back;

Christmas gifts for children of employees; financial assistance in various situations; lump sum remuneration in connection with retirement and the Attention and Care programme for retired former Uralkali employees.

Each year Uralkali organises Health Days – a range of activities that promote a healthy lifestyle, which make it possible to take part in shared health-improving events and receive preventive care. The traditional and integral part of Health Days is the free distribution of vitamins at the Company's units.

#### Corporate culture

In 2016, in connection with the new business realities, as well as the needs and targets of our employees, a new edition of Uralkali Group's [Code of Corporate Culture](#) with revised values was prepared.

Promotion of the revised values, principles and standards of interaction across the Group, enshrined in a binding document – the Code of Corporate Culture – is greatly facilitated by the Person of the Year project. In corporate media, we talk about our colleagues who adhere to the Company's values, support the corporate culture and advocate the brand. This being said, the team itself nominates candidates for the title and votes using a special corporate portal service to choose the best employee.

In 2016, the professional community recognised the Company's internal communications system as the best: we participated in and won the Silver Threads 2016 corporate media competition in the category of Leading Company: The Best Corporate Media Communications System.

The Museum and Exhibition Centre of Uralkali partnered with the In the Vanguard inter-museum exhibition project associated with the 85th anniversary of the city of Berezniki and the 95th anniversary of the foundation of the USSR, which is supported by the Ministry of Culture of the Perm Territory.

#### Feedback

Uralkali Group has a developed feedback system. There is a call centre and ethical representation working group that enhance the Company's efficiency, and mitigate the risk of conflicts and violations in the Company.

We hold regular informational meetings for personnel. These include meetings with Uralkali's CEO, and directors of the Company's mines, subsidiaries and affiliates.

# Our Communities

Being one of the largest employers in the Perm Territory, 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 continued its work with local authorities in 2016 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. A number of Uralkali's employees participate in the work of local government, such as the Berezniki City Duma and Solikamsk City Duma. At a regional level, the Company collaborates with the governor's office and the government of the Perm Territory. Following the results of the elections held in 2016, the Company's representatives entered the Legislative Assembly of the Perm Territory, which demonstrates a high level of trust and support from the local population.

## Social and economic development in the cities where we operate

In 2016, Uralkali continued to implement its social investment policy aimed at sustainable development in the region where it operates. Social investments in 2016 amounted to about US\$5.7 million.

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

## Encouraging sports

In 2016, Uralkali continued to support the development of physical education and sports in the region where it operates. We traditionally supported the Swimming Federation of the Perm Territory in order to develop and promote this sport. During the year, Uralkali also provided financial assistance to the hockey team of Solikamsk to participate in regional competitions, as well as to ice skaters and judoka from the city in organising training camps to prepare for tournaments at various levels. The Company continued with the implementation of a large-scale project to arrange recreation areas in the cities where it operates. Uralkali installed street workout equipment and children's playgrounds in nine residential districts of the city of Solikamsk.

With the Company's assistance, the Your Active Summer project was implemented in Berezniki and Solikamsk; it included a number of activities aimed at attracting citizens to fitness and sports. Another highlight of the project was the large-scale charitable race On the Way of Kindness to help children from the Luch society for the disabled. The family holiday, organised with the support of Uralkali, united all people who really care.

As part of a project to promote basketball as a mass sport for children and adolescents in the cities of Berezniki and Solikamsk, Uralkali improved the material base of 28 basketball centres where 1,680 children are trained. The necessary equipment and 2,000 sets of sports uniforms were purchased to equip the teams, and 10 school gyms were repaired.

With the support of Uralkali, city-level streetball competitions were held, in which over 120 teams took part. Traditionally, these competitions coincide with the City Days of Berezniki and Solikamsk. In 2016, another season of the School Basketball League Kali-Basket Junior started with 1,300 junior pupils from Berezniki and Solikamsk participating. The project employs 28 coaches, including 6 coaches from the best basketball clubs of Russia and coaches from Serbia.

Uralkali provided support to a number of other sports events in 2016, including:

- › Participation of Solikamsk kickboxers in the European Championship in Maribor (Slovenia), where they won one gold and one silver medal
- › All-Russia judo tournament among boys in Solikamsk, in which over 200 young judoka from various Russian regions participated
- › The first summer Fit for Labour and Defence festival of the Solikamsk district
- › City athletics championship Sprint Shoe of the Young in Solikamsk
- › Ski sports festival Snow Carousel 2016 in Solikamsk
- › Recreational Athlete Day in Berezniki, which included the opening ceremony of the city stadium with a modern artificial surface
- › Snowkiting competitions Stroganov Mile, sailing match Stroganov Regatta and equestrian competitions Stroganov Verst in the Usoleye district

## Our Communities CONTINUED

### Culture

Year after year, Uralkali encourages the creative development of residents of the region where it operates.

Uralkali has traditionally sponsored the celebration of the City Days in Berezniki and Solikamsk. In Berezniki, the Company also prepared interactive sites. In Solikamsk, City Day was held in conjunction with Miner's Day. Numerous festive events included sports and creative activities, historical quests, exhibitions and master classes, festivals and concerts with Russian stars.

An important cultural event in the city of Berezniki was Big Ballet Night. The event was dedicated to the anniversary of honorary citizen of the city and Honoured Worker of Culture of Russia choreographer G.I. Tsyganova, and was supported by the Company. We also gave assistance to the children's theatre studio Rosinka in preparation for the All-Russia children's festival Art-Voyage. With the support of Uralkali, residential districts of the city hosted Maslenitsa folk festivals that were enjoyed by the citizens.

Uralkali supported special city events in Solikamsk in 2016 as part of the celebration of the Day of Spring, Labour Day and Victory Day. The monument to the victims of political repressions was renovated with funding from the Company. In addition, through the Company's financial support, cultural and recreation areas for the elderly were organised in all seven settlements of the Solikamsk district.

The Revival regional festival of national cultures, featuring five sites, was held in the Solikamsk district with the support of Uralkali. Among the most anticipated events of the festival was the Hippofest equestrian sport festival. Another holiday for residents of the Solikamsk region was the open festival of pop singers Ferry-2016, traditionally supported by Uralkali.

In the Usolye district, we supported a number of significant cultural and socially oriented events and projects, including the All-Russia festival Bells of Russia and the Cossack culture festival. Assistance to the municipal competition of social and cultural projects was also very valuable.

Uralkali made a significant contribution to the improvement of the tourist «growth point» of the district – the Usolye Stroganovskoe historical complex, where the gate tower was rebuilt, and a hospitality block for tourists was arranged.

### Education

Uralkali always cares about the education of the younger generation. In 2016, the Company supported a number of educational institutions in Berezniki, Solikamsk and the Solikamsk district in the improvement of their material and technical base. In particular, we purchased sports equipment, gaming equipment, and consumer electronics. In the Solikamsk and Usolye districts, the assistance provided by the Company made it possible to get educational institutions into the required condition and ensure timely preparation for the winter and the new school year.

Considerable funds were allocated to improve security in schools and kindergartens in Solikamsk and the Solikamsk district, where video surveillance systems and autonomous warning systems were installed, along with outdoor lighting.

With the financial support of the Company, surveying was carried out for the construction of a comprehensive school for 1,224 pupils on the right bank; funds for the design work were allocated as well.

The Company also provided support to the following activities in 2016:

- › Teacher of the Year competition in Solikamsk
- › Formula of Success event, during which gifted children and the best teachers of Solikamsk were awarded
- › Voice. Solikamsk project for the development of vocal creativity and search for talented performers
- › Children's summer health campaign in the Usolye district
- › New Year's celebrations in kindergartens and the Childhood without Borders New Year's event for children with disabilities

### Support for municipalities and urban development

During 2016, 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:

- › repair of passages in the territory of the Vagner city hospital
- › repair of the exhibition industrial monument – the Ural mining machine at the Centre for Technical Creativity
- › assistance in the renovation of the city park
- › repair of roads in the settlements of the Solikamsk district
- › technical re-equipment of a gas boiler house and overhaul of engineering networks in the settlements of the Solikamsk district

Uralkali also contributed to the acquisition of vehicles for Solikamsk law enforcement bodies in 2016 in order to increase the mobility and efficiency of police officers in carrying out activities ensuring a safe living environment for residents of Solikamsk and the Solikamsk district.

### Charity and sponsorship

In 2016, Uralkali continued to support the Berezniki city organisation of the All-Russia Society for the Disabled, the Solikamsk city organisation of the All-Russia Society for the Blind, the Berezniki city organisation of the All-Russia Organisation for the Disabled Chernobyl of Russia Union, and the city council of war, labour, armed forces and law enforcement veterans.

For a few years already, the Company has been supporting the activities of the city environmental protection society, such as the Ecology.City.Man environmental conference, the Nature Connoisseurs city competition and the Protection and Conservation of Water Bodies environmental project.

Uralkali regularly helps disadvantaged groups of the population. In 2016, the Company funded repairs at the offices of the Solikamsk society for the disabled Luch and the Solikamsk branch of the All-Russia Society for the Disabled. In addition, we helped visually impaired people attend regional events and competitions.

### Support for NGOs and religious organisations

Uralkali regards the activities of NGOs and religious organisations as an important element of the social environment that serve to maintain stability in the region where the Company operates. In 2016, the Company rendered assistance to the Church in Honour of the Praise of the Holy Virgin Theotokos, in the village of Orel. We also allocated funds for the improvement of the grounds of the Luka Voyno-Yasenetsky Church. With the support of Uralkali, the construction of the Church of St. Nicholas, one of the largest in the Perm Territory, continued in 2016.

# 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 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 Nomination 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 Fertilizer 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.



The experience and professionalism of the Board of Directors of Uralkali have provided the necessary strategic support to the Company in 2016.



#### 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 Nomination 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 JKCX 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 December 24, 2013 - CEO of Uralkali.

Since 2016 - Member of the Commission for Mineral Fertilizer 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.

**External appointments**  
Member of the Board of Directors of several companies affiliated with Uralkali.



#### 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 Fertilizer 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 Nomination and Remuneration Committee.

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

## Board of Directors

### CONTINUED



#### 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 organization 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 organization for Leaders of Association.

##### Membership in Board committees

Member of the Nomination and Remuneration Committee and the Audit Committee.

##### External appointments

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



#### DMITRY 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 Nomination and Remuneration Committee and the Committee for Investment and Development.

##### External appointments

Director of LLC Juras Oil.

# Corporate Governance

In 2016, significant changes occurred both in the composition of shareholders, and on the Board of Directors and management team of Uralkali.

The increase in the number of independent directors on Uralkali's Board of Directors demonstrates the Company's commitment to the best corporate governance practices.

In June 2016 at the Annual General Meeting of Shareholders (hereinafter referred to as the AGM), Luc Maene was elected to the Board of Directors as an independent director, and in September Dmitry Razumov and Michael Sosnovsky left the Board of Directors. By decision of the Extraordinary General Meeting of Shareholders (hereinafter referred to as the EGM) held on 27 September, Dmitry Lobyak and Dimitry Tatyatin joined the Board of Directors.

Thus, despite the fact that the amount of free-floating shares decreased significantly and fell below 6% of share capital by the end of 2016, the number of independent directors at the Company increased to four. This demonstrates the Company's commitment to the best corporate governance practices, respect for the experience and professionalism of independent directors and recognition of their importance to the Company.

## The Board of Directors' composition and role

As of 31 December 2016, the Board of Directors had the composition that was determined by the EGM held on 27 September 2016: Sergey Chemezov (Chairman and independent director), Dmitry Mazepin (Deputy Chairman), Sir Robert John Margetts (Deputy Chairman and Senior Independent Director), Dmitry Konyaev, Dmitry Lobyak, Luc Maene (independent director), Dmitry Osipov (CEO), Paul Ostling (independent director) and Dimitry Tatyatin.

Thus, the Board of Directors of the Company retains the necessary balance of independent and non-executive directors, and also boasts the full set of experience, skills and knowledge necessary to work for the benefit of Uralkali. The Board of Directors provides overall guidance to activities of the Company. In particular, it sets and follows up strategic objectives, and mid-term and short-term targets for management; it also approves financial statements and performs other functions within the remit in the Charter of the Company.

The Board has 4 committees, which hold preliminary discussions and reviews of the matters falling under the Board's competence. Two of the Board committees - the Audit Committee and the Nomination and Remuneration Committee - are a requirement of the Listing Rules of the Moscow Exchange. In 2016, in accordance with the Listing Rules, the necessary amendments were made to the regulations on these committees, which strengthen the role of the committees and the recommendations they give, and delegate to them a number of important matters of the Company's operations.

## Corporate Governance CONTINUED

### Distribution of roles within the Board, planning and review of the Board's performance

In 2016, the distribution of functions within the Board remained the same and in line with best corporate governance practices. In particular:

- › **The roles of the Chairman of the Board and the Chief Executive Officer** are split so that the Board's Chairman is responsible for leading the Board and ensuring it effectively handles all aspects of the Company's activities, while the CEO is involved in day-to-day management of the Company
- › **The Senior Independent Director** represents the team of independent directors; he interacts with investors on behalf of the Board and conveys views of shareholders, including minority shareholders, to the Board

- › **Independent directors** chair and play an active part in the Board committees. Their task is to ensure that decisions are impartial and respect the interests of all shareholders. The independent directors also facilitate the Board's adoption of the best global standards in corporate governance
- › **The Corporate Secretary** arranges the work of the Board and its committees. The secretary creates work plans and meeting agendas for the Board, follows up on previous instructions issued by the Board, acts as an interface between the Board and management, and helps organise general meetings

The work plan of the Board for the 2016 calendar year was approved in December 2015, and in general the Company was able to follow the plan. Annual work planning for the Board of Directors and committees has been used by the Company since 2012, and we intend to continue this practice in the future.

In March 2016, the Nomination and Remuneration Committee considered a suggestion to review the Board's performance in 2016 and approved the questionnaire for directors. As was instructed by the Committee, the performance review was completed by 1 April 2017. The results of the Board's performance review indicate that on the whole its work is organized according to high standards of corporate governance. At the same time, directors believe that the meetings should pay more attention to particular issues within the competence of the Board. Following the appraisal, an action plan was developed taking into account the provided commentaries.

### TOTAL NUMBER OF MEETINGS OF THE BOARD AND ITS COMMITTEES IN 2016. ATTENDANCE RATE\*

Name	Board of Directors (17**meetings)	Audit Committee (7 meetings)	Nomination and Remuneration Committee (5 meetings)	Investment and Development Committee (5 meetings)	Corporate Social Responsibility Committee (4 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
Dmitry Osipov	All			All	All
Paul James Ostling	All	All	All		All
Dmitry Razumov <sup>1</sup>	All				
Michael Sosnovsky <sup>2</sup>	All	All		All	All
Dimitry Tatyaniin	All				All
Sergey Chemezov	All				
Chen Jian <sup>3</sup>	All			All	

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

\*\* Eight out of seventeen meetings of the Board of Directors were held in absentia.

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

<sup>1</sup> Dmitry Razumov was a board member until 27.09.2016.

<sup>2</sup> Michael Sosnovsky was a board member until 27.09.2016.

<sup>3</sup> Chen Jian was a board member until 17.06.2016.

## MATTERS CONSIDERED BY THE BOARD COMMITTEES

### Board's activities in 2016

In 2016, the Board of Directors held 17 meetings, of which 9 were face-to-face. The Board of Directors reviewed and approved financial statements, convened shareholders' meetings, presented issues related to major transactions and related party transactions, approved changes to the Company's organisational structure and appointed top managers. In May 2016, the programme for the buyback of shares and global depositary receipts on the open market was launched, as a result of which the Company repurchased 3.35% of share capital.

In June 2016, a strategic session was held, at which members of the Board of Directors and the management discussed the most important issues of the Company's operations. Much attention at sessions is always paid to the development of the Company, the quality of business processes and their optimization, the status of the investment programme and geological safety issues, and this session was no exception. Based on the results of the meetings, the management team received instructions, the implementation of which was strictly controlled at the level of the Board of Directors.

### Committees of the Board of Directors

In 2016, all four Board Committees continued their active work.

In total, there were 21 committee meetings in 2016, in which over 60 different matters were reviewed.

<b>The Audit Committee</b>	
Risk management and internal control	20.69%
External audit	10.34%
Internal audit	20.69%
Reporting	17.24%
Corporate governance and instructions from the Board, including instructions related to the buyback programmes	24.14%
Monitoring of KPIs	6.9%
<b>The Nomination and Remuneration Committee</b>	
Achievement of KPIs and recommendations to approve KPIs	7.14%
HR projects	35.71%
Recommendations on top management candidates	35.71%
Other matters	21.45%
<b>The Investment and Development Committee</b>	
Strategy and investment projects	33.33%
Budgeting	22.22 %
Dividends	11.11%
Market development projects	11.12%
Other matters	22.22%
<b>The Corporate Social Responsibility Committee</b>	
Occupational Health and Safety, and Environmental Protection	21.43%
Energy efficiency	14.29%
CSR-related risks	42.86%
Social matters	14.29%
Activity plans and reports	7.13%

## Corporate Governance CONTINUED

### Corporate Secretary

The Company's Corporate Secretary performs the important function of ensuring efficient current interaction with shareholders, coordinating the Company's activities to protect the rights and interests of shareholders and support the effective work of the Board of Directors.

The position of Uralkali's Corporate Secretary has been occupied by Maria Klimashevskaya since 2011.

According to the Association of Independent Directors, within the context of the Director of the Year 2016 National Prize, Maria was ranked among the top 15 corporate secretaries at Russian companies in the ranking of the 25 Best Corporate Governance Directors/Corporate Secretaries.

On 29 August 2016, new Regulations on the Corporate Secretary of Uralkali were adopted, in accordance with the updated Listing Rules of the Moscow Exchange. The main tasks of the Corporate Secretary are:

- › Participation in the preparation and holding of general meetings of shareholders
- › Ensuring the work of the Board of Directors and committees of the Board of Directors
- › Participation in the implementation of the Company's disclosure policy, as well as ensuring the storage of corporate documents
- › Facilitating the Company's interaction with its shareholders and participation in activities to prevent corporate conflicts
- › Facilitating the Company's interaction with regulatory bodies, trade organisers, the registrar and other professional participants of the securities market, within the authority vested to the Corporate Secretary
- › Ensuring the implementation of procedures established by legislation and internal documents of the Company that secure the exercise of rights and legitimate interests of shareholders, and

control over their implementation

- › Assisting members of the Board of Directors in the performance of their functions
- › Participation in the improvement of the Company's corporate governance system and practices

In her work, the Corporate Secretary is guided by the provisions of Russian and other applicable laws, mandatory requirements imposed on the Company in connection with its market position, internal documents of the Company, recommendations of the Russian Code of Corporate Governance, as well as best practices of corporate governance.

### Audit Committee report for 2016

In 2016, the Audit Committee was, as always, busy. In the reporting year, the Regulations on the Committee were brought in line with the Listing Rules of the Moscow Exchange. The updated Audit Committee, for the first time in the Company's history, consists entirely of independent directors, which corresponds to the best standards of corporate governance.

As of 31 December, the Audit Committee had the following members:

- › Paul Ostling (Chairman, independent director and a financial expert)
- › Sir Robert John Margetts (senior independent director)
- › Luc Maene (independent director)

The key matters within the competence of the Committee relate to public reporting, internal and external audit, risk management and internal control, corporate governance and ensuring compliance of the Company's operations with applicable requirements.

In 2016, upon the recommendation of the Audit Committee, the Board of Directors approved the Regulations on Internal Audit, prepared in accordance with the

Listing Rules of the Moscow Exchange and the provisions of the Code of Corporate Governance recommended by the Bank of Russia in 2014 (hereinafter referred to as the CCG).

In November 2016, Nikolai Ivanov, appointed head of the internal audit department in 2015, left the Company, and we are currently looking for a candidate for this position.

In 2016, the meetings of the Committee and the Board of Directors considered the need to improve the internal control system in the Company. In pursuit of this task, on 27 January 2017 the Board of Directors decided to create a new functional unit – the Control and Revision Department, which will carry out specific control activities within the Company's regular or recurrent audits, and report to the CEO.

Along with this, since matters related to the quality of the internal control system are within the competence of the Committee, the latter will receive regular performance reports from the Control and Revision Department as part of the special reports of the CEO. The Internal Audit Directorate will continue performing its tasks, while functionally reporting to the Audit Committee.

In April 2016, the Committee reviewed the performance of Uralkali's auditors, CJSC Deloitte & Touche CIS and CJSC Energy Consulting, and recommended that the General Meeting of Shareholders should approve the auditors for the new reporting year.

The fees of CJSC Deloitte & Touche CIS for 2016 were approved by the Board in the amount of 33,500,000 roubles (excluding VAT and including overheads) and the fees of CJSC Energy Consulting were approved in the amount of 8,500,000 roubles (excluding VAT).

According to the current Regulations on the Audit Committee, the Company's auditors should also inform the Committee at least once a year about non-audit services provided to the Company, which was done in accordance with the established procedure.

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, all of which were considered by the Committee in its meeting held on 13 March 2017, the Committee concluded that there was all evidence of the impartiality and independence of the auditors of the Company's financial statements.

The tasks of the Committee for 2017 will not change in comparison with the reporting year. However, special attention will be paid to risk management and internal control.

### Risk management and internal control

The risk management and internal control system (hereinafter referred to as the RMICS) adopted by the Company in 2016 is based on principles incorporated in ERM<sup>4</sup>, an integrated risk management system that:

- › 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 the goal.

In September 2012, the Board of Directors approved the Risk Management and Internal Control Policy, which specified the risk management and internal control responsibilities and roles of Uralkali's management bodies and employees as follows:

Board of Directors	Responsible for the efficiency of the risk management process and for the development and maintenance of the corporate Risk Management and Internal Control System (RMICS).
Audit Committee	Considers the most material risks and corresponding management techniques applied by the Company's executive bodies.
CEO	Provides overall guidance for the risk management process.
Management Board	Is an expert authority of the CEO for risk management and internal control.
Executive Directors	Ensure regulation of business processes within their area of activity; identify process objectives and assess key risks.
Risk Manager	Coordinates the risk management process and the development of consolidated 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.
Internal Audit Directorate	Monitors compliance with internal control procedures, informs the Audit Committee of identified violations, identifies areas for potential improvements, and provides consultations on corrective measures related to risk management, internal controls and corporate governance.
Employees	Duly perform duties assigned to them by the RMICS; promptly inform their management about risks identified during current activities.

<sup>4</sup> ERM (Enterprise Risk Management) – Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

## Corporate Governance CONTINUED

### 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,

so this process is always given special attention. In 2016, Uralkali had a number of control procedures aimed at ensuring the adequacy and reliability of collected and processed data. The process of preparing financial statements involves employees, officers, management bodies and external auditors of the Company, who have the following roles:

Management bodies and employees of the Company	Roles of management bodies and employees of the Company
Chief Financial Officer	Ensures: <ul style="list-style-type: none"> <li>› Availability and reliability of information in the enterprise resource management system</li> <li>› Interaction with auditors</li> <li>› Inventory count of the property</li> </ul>
Revision Commission	Assures: <ul style="list-style-type: none"> <li>› Data in Uralkali's annual reports</li> <li>› Periodic annual accounting statements</li> <li>› Reports sent to statistical and government authorities and assessment of the internal control system</li> </ul>
Audit Committee	Preliminarily considers: <ul style="list-style-type: none"> <li>› Uralkali's financial statements</li> <li>› Draft reports of the external auditor</li> </ul> Monitors: <ul style="list-style-type: none"> <li>› Completeness and integrity of financial statements</li> </ul> Recommends: <ul style="list-style-type: none"> <li>› External auditor candidates to the Board of Directors for subsequent proposals for the general meeting</li> </ul>
External Auditors	Audit: <ul style="list-style-type: none"> <li>› RAS accounting statements</li> <li>› IFRS annual and half-year consolidated financial statements</li> </ul>
Board of Directors	Approves financial statements taking into account recommendations made by the Audit Committee

### The Nomination and Remuneration Committee's report for 2016

The Nomination and Remuneration Committee has five members, mostly independent directors.

As of 31 December 2016, the Committee was represented by:

- › Paul James Ostling (independent director, chairman of the committee)
- › Sir Robert John Margetts (senior independent director)
- › Luc Maene (independent director)
- › Dmitry Konyaev (non-executive director)
- › Dmitry Lobyak (non-executive director)

In the course of 2016, the management team of Uralkali had several new appointments, and individual nominees were reviewed by the Committee. In particular, Vladimir Nitsulenko, who headed the Company's capital construction directorate, left Uralkali in 2016. Alexei Yashnikov was appointed to this position; at the moment he is also a member of the Management Board. Another new appointment was Oleg Kalinsky, who heads government relations; Eduard Avetisyan, who held this position earlier, continues to work at Uralkali in another position.

In 2016, Vladimir Vershinin, who headed the Procurement Directorate, and Alexey Strakhov, the Company's head of sales in charge of domestic sales, left the Company. On 27 January 2017, the Board of Directors agreed on the appointment of Alexander Kulbitsky and Vladislav Lyan to these positions, respectively. In turn, the position previously held by Vladislav Lyan, who since 2015 had been the head Uralkali subsidiary Uralkali Trading SIA, was given to Alexander Terletsky. Maxim Kadantsev was appointed Director of Information Technologies in 2016.



Changes to the shareholding structure of any large company almost always involve changes to the composition of top management. Changes to the management team listed in this section are very important for the Company. The Board of Directors and the Nomination and Remuneration Committee are confident that in 2017 the newly appointed managers and those managers who have worked for the Company for many years will become a real team that will be able to successfully achieve the goals set by shareholders and the Board of Directors.

### Procedure to prevent conflicts of interests

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 does 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. Also, 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 meeting of the Company.

As mentioned earlier, in 2015 a new version of the Regulations on the Audit Committee was approved. The new document introduces a 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 is authorised to issue 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 2016, Uralkali or other members of Uralkali Group did not grant loans to directors of the Company.

### General meetings of shareholders in 2016

In 2016, the Board of Directors convened and held 6 meetings of shareholders. General meetings considered the matters delegated by law and the Company's Charter to this body, including making decisions to approve major transactions and related party transactions, approve annual financial statements and the Company's auditors. They twice elected the Board of Directors and the Revision Commission, and approved documents regulating the activities of Uralkali's management bodies. In particular, at the General Meeting of Shareholders held on 22 December 2016, shareholders approved the new version of the Company's Charter, the provisions of which were brought in line with the Federal Law On Joint-stock Companies, including partial changes to the competences of the Company's management bodies relating to the approval of the annual report and annual financial statements of the Company, as well as to the provisions governing the procedure for convening and holding general meetings of Uralkali shareholders. The Regulations on the Board of Directors were also updated. The General Meeting of Shareholders approved Amendments to the Regulations on Remuneration and Reimbursement of Members of the Board of Directors.

## Corporate Governance CONTINUED

### Major and related party transactions

In 2016, 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 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 the transactions in question were approved by the AGM as related party transactions and as transactions which can be entered into in the future in the ordinary course of business within the established limits (including transactions with Uralkali subsidiaries). The transactions do not create any conflict of interests.

Also in 2016, the AGM approved a traditional transaction, under which all directors were deemed related parties, namely, the Directors' & Officers' liability insurance agreement, which is negotiated and approved each year.

Aside from the AGM held in June 2016, five extraordinary general meetings (EGM) took place in 2016.

The list of key transactions approved in 2016 includes a major transaction, the decision on which was taken at an EGM held on 15 March 2016. The transaction covered interrelated loan agreements with Sberbank with a total credit limit of US\$3.9 billion, which in turn were related to a number of transactions approved in due course earlier. The same decision amended some of the previously approved transactions – agreements on the opening of non-revolving credit lines.

During the year, major related party transactions were subject to approval mainly due to the fact that they were related to the previously approved transactions referred to in the 2015 Annual Report. In particular, in 2015, in accordance with the established procedure, a major transaction was approved, which was a set of interrelated transactions associated with the financing of share and global depository receipt buyback programmes. On 29 August 2016, as an interrelated transaction, the EGM approved transactions concerning the placement of the Company's Exchange Traded Bonds with total nominal value of up to US\$800 million in favour of JSC Uralkali-Technology.

### Executive bodies of the Company

#### The Chief Executive Officer and the Management Board

The Chief Executive Officer is the sole executive body of Uralkali, whose competence is determined by the Company's Charter. The CEO is also the head of the Management Board.

Since 24 December 2013, Uralkali's CEO has been Dmitry Osipov.

The Management Board is a collective executive body of the Company. Its quantitative and personal composition is determined by the Board of Directors.

In 2016, the composition of the Management Board was changed several times, and as of 31 December 2016 it had 7 members:

- › Dmitry Osipov (Chairman)
- › Anton Vischanenko
- › Ruslan Ilyasov
- › Evgeny Kotlyar
- › Stanislav Seleznev
- › Marina Shvetsova
- › Alexei Yashnikov

In 2016, the Management Board had 10 meetings.

### Committees under the CEO (Working Groups)

In 2011, the Company started a process to create committees (or working groups) directly reporting to the CEO to focus on 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
- › Information Technology Working Group

The Working Groups were formed to ensure a single approach to decision-making in these areas of activity. Every group is represented by senior executives and is 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 2016, around 100 meetings of the Working Groups were held.

The key decisions of the Management Board in 2016 include decisions concerning the plan of personnel retention in a competitive environment, optimisation of production processes and repair of the surface complex, information security, procurement activities, and functional strategies of the Company.

### Remuneration payable to the Management Board and Board of Directors

Members of the Board of Directors receive remuneration in line with the Regulations on directors' remuneration and reimbursement. Until October 2016, the Regulations only provided for remuneration for independent directors and at the same time specified director independence criteria. In December 2016, the General Meeting of Shareholders approved amendments to the Regulations on Remuneration, according to which the right to receive remuneration was also granted to non-executive directors. Amendments to the Regulations, as decided by the General Meeting of Shareholders, apply to relations entered into since 1 October 2016.

An independent director's remuneration consists of the base part and a separate part for additional duties as a committee member or 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 Regulations on directors' remuneration and compensation. The Chairman's remuneration is also fixed and is paid on a monthly basis in equal amounts.

In the period from January to June 2016, remuneration was paid to three independent members of the Board of Directors – Sergei Chemezov, Sir Robert Margetts and Paul Ostling. After the AGM, remuneration was also paid to the newly elected member of the Board of Directors, Luc Maene. In September 2016, following the results of the extraordinary general meeting of shareholders, Dmitry Lobyak joined the Board of Directors; he has been receiving remuneration as a non-executive director since October 2016.

In accordance with the Regulations on directors' remuneration and reimbursement, Members of the Board of Directors are reimbursed for their travel expenses (travel to and from the location of the meeting of the Board of Directors), accommodation costs and costs not related to participation in Board meetings but connected with the business of the Company.

Total payments to directors in 2016 were as follows:

	In RUB	In US\$*
Remuneration	176,614,029	2,634,658
Expenses	5,679,435	84,724
<b>TOTAL:</b>	<b>182,293,464</b>	<b>2,719,382</b>

\* Based on the CBR's average exchange rate for 2016: 67.0349 RUB/1 US\$.

## Corporate Governance

### CONTINUED

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 in 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 during 2016 were as follows:

	In RUB*	In US\$***
Salary**	312,425,930	4,660,646
Annual bonus	192,561,962	2,872,563
<b>TOTAL:</b>	<b>504,987,892</b>	<b>7,533,209</b>

\* After personal income tax.

\*\* Including payments made to the Management Board members who left Uralkali during 2016.

\*\*\* Based on the CBR's average exchange rate for 2016: 67.0349 RUB/1 US\$.

### Information about management's equity ownership

According to the Company's registrar, OJSC VTB Registrar, as of 31 December 2016 there are no directors (Board of Directors and Management Board members) who currently hold or previously held positions in management bodies of Uralkali in 2016 in the Company's share register both as of 1 January 2016 and as of 31 December 2016. There is no record of any transactions made by members of Uralkali's management bodies to acquire or dispose of shares of the Company, including dates and essence of transactions, the category (type) and number of Uralkali shares, which were the subject matter of such transactions from 1 January 2016 until 31 December 2016. The share register has no records of nominee shareholders as of 1 January 2016 and as of 31 December 2016.

### Anti-fraud and anti-corruption compliance system

In 2011, the Company adopted an anti-fraud programme, which establishes 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. The Security Directorate works in close contact with the Company's compliance officer to identify conflicts of interests and respond to any identified noncompliance. In 2016, the programme remained in force, and a number of activities were implemented.

In 2013, the Company started a project to create an anti-corruption system. As of the end of 2016, the compliance system includes anti-trust compliance, anti-corruption compliance, ethical compliance and sanctions compliance components, all of which are closely monitored to avoid breaching any applicable regulations. The Company holds regular training workshops and online knowledge assessments, and develops new controls as becomes necessary.

## ACTIVITIES OF BOARD COMMITTEES

Board Committee	Members (as of 31.12.2016.)	Key functions	Targets for 2016	Target achievement in 2016
<b>THE AUDIT COMMITTEE</b>	Paul Ostling (Chairman), Sir Robert John Margetts, Luc Maene	<ul style="list-style-type: none"> <li>› risk management and internal control</li> <li>› external and internal audit</li> <li>› corporate governance</li> <li>› legal compliance</li> </ul>	› implementation of projects related to the buyback programmes	
			› development of recommendations to approve the IFRS annual and semi-annual reports and the annual report	
			› recommendations on approval of IFRS and RAS auditors	
<b>THE CSR COMMITTEE</b>	Sir Robert John Margetts (Chairman), Dmitry Konyaev, Dmitry Osipov, Paul Ostling, Dimitry Tatianin	Consideration of health, safety, environment and social responsibility issues to develop an effective management system for these areas.	› consideration of issues related to production waste management	
			› monitoring of the Company's HSE activities and performance	
			› consideration of mine safety issues, including backfilling operations	
<b>THE NOMINATION AND REMUNERATION COMMITTEE</b>	Paul Ostling (Chairman), Sir Robert John Margetts, Dmitry Konyaev, Luc Maene, Dmitry Lobyak	<ul style="list-style-type: none"> <li>› engagement of qualified specialists for the management of the Company</li> <li>› development of necessary incentives to facilitate the successful functioning of the Company's management bodies to implement strategic plans and ensure succession in management</li> </ul>	› assessment of the management's 2016 performance charts	
			› monitoring of personnel issues	
			› development of recommendations on key appointments to management bodies of the Company	
<b>THE INVESTMENT AND DEVELOPMENT COMMITTEE</b>	Sir Robert John Margetts (Chairman), Paul Ostling, Dmitry Konyaev, Dmitry Lobyak, Dmitry Osipov	Consideration of the Company's strategic development, budgeting process and major investment projects.	› consideration of issues related to the Company's development programme	
			› monitoring of investment projects' efficiency	
			› monitoring the budgeting process; consideration of proposals on new investment projects	

# Management Board\*



## DMITRY OSIPOV

General Director (CEO),  
Chairman of the Management Board

### Year of birth

1966

### Citizenship

Russian Federation

### Education

University degree, Lobachevsky State University of Nizhny Novgorod.

### Appointment

A member of the Management Board since December 2013.

### Skills and experience

From 2007 to 2011: General Director of JSC UCC URALCHEM.

In 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 2014, appointed General Director of PJSC Uralkali.

Since 2016, a member of the Commission for Mineral Fertiliser Production and Market of the All-Russian Association of Employers Russian Union of Industrialists and Entrepreneurs.

### External appointments

Member of the Board of Directors of a number of Uralkali affiliates; member of the Board of Directors of JSC UCC URALCHEM; member of the Commission for the Mineral Fertiliser Production and Market of the Russian Union of Industrialists and Entrepreneurs.

## ANTON VISCHANENKO

Chief Financial Officer

### Year of birth

1979

### Citizenship

Russian Federation

### Education

University degree, Moscow State Aviation Institute.

### Appointment

A member of the Management Board since 2014.

### Skills and experience

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

In 2012, he was appointed Deputy General Director - CFO of the Novorossiysk Commercial Sea Port.

In October 2014, Anton became Uralkali's CFO.

### External appointments

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

## ALEXEI YASHNIKOV

Capital Construction Director

### Year of birth

1971

### Citizenship

Russian Federation

### Education

University degree, Magnitogorsk Mining and Metallurgical Institute.

### Appointment

A member of the Management Board since 2016.

### Skills and experience

Since 2009, he has held a number of senior positions in the companies Kraspromstroy, MAiS, Investtsentrstroy and Standartstroygarant.

In 2014-2015, he was Deputy General Director for Capital Construction at JSC Belgorkhimprom.

Since 2016, Capital Construction Director at Uralkali.

### External appointments

Does not have executive positions in other companies.

\* Management Board as of 31 December 2016.



**EVGENY KOTLYAR**  
Chief Technical Officer

**Year of birth**  
1958

**Citizenship**  
Russian Federation

**Education**  
University degree, Perm Polytechnic Institute.

**Appointment**  
A member of the Management Board since 2011.

**Skills and experience**  
From 2000 to 2007 and then from 2010 to June 2011, Evgeny was the head of production at Sylvinit. Following the merger with Uralkali he was appointed the head of production of the combined company.

**External appointments**  
A member of the Board of Directors of a number of Uralkali affiliates.



**STANISLAV SELEZNEV**  
Health, Safety and Environment Director

**Year of birth**  
1972

**Citizenship**  
Russian Federation

**Education**  
University degree, Higher Naval Engineering Institute named after V.I. Lenin in St. Petersburg.

**Appointment**  
A member of the Management Board since 2011.

**Skills and experience**  
In 2007-2010: head of HSE at Lafarge Cement.

In 2010, Stanislav was appointed the HSE Director at Uralkali.

**External appointments**  
Does not have executive positions in other companies.



**MARINA SHVETSOVA**  
Legal and Corporate Affairs Director

**Year of birth**  
1972

**Citizenship**  
Russian Federation

**Education**  
University degree, Perm State University named after A.M. Gorky.

**Appointment**  
A member of the Management Board since 2005.

**Skills and experience**  
For the period 1999 - 2006, Marina Shvetsova lectured at Perm State University.

Between 2001 and 2005, Ms Shvetsova worked at CJSC Sibur-Khimprom, holding various positions, including Head of the Legal Department.  
In 2005, Ms Shvetsova joined Uralkali.

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

**External appointments**  
A member of the Board of Directors of a number of Uralkali affiliates.



**RUSLAN ILYASOV**  
Human Resources Director

**Year of birth**  
1962

**Citizenship**  
Russian Federation

**Education**  
University degree, Military Institute of the Ministry of Defence.

**Appointment**  
A member of the Management Board since 2015.

**Skills and experience**  
1997-2002: various executive positions at Coca Cola, Yukos RM, Sun Interbrew, Alfa-Bank, Alcoa and Eldorado.

In 2012, he was appointed the general director of Zole Trading House.

Ruslan was repeatedly elected as Chairman of the HR Committee of the American Chamber of Commerce; he was also the Chairman of the Russian HR Association for a year.

In 2008-2013, he was a member of the Board of Directors of AK BARS Bank.

Since December 2014: HR Director at Uralkali.

**External appointments**  
He is a member of the Board of Directors of the Charitable Foundation for Social Initiatives Salt of the Earth.

# Information for Shareholders and Investors

## Ordinary shares

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

## Global Depository Receipts (GDRs)

In respect of ordinary shares of PJSC Uralkali, 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 depository 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 securities are interchangeable: ordinary shares can be converted into GDRs and back.

As of 31 December 2016, GDRs represented approximately 24.97% of the Company's share capital.

## Stock exchange

As of 31 December 2016, Uralkali's ordinary shares were traded on the Moscow Exchange. Uralkali's GDRs had been traded on the London Stock Exchange up to their delisting on 22 December 2015.

### TRADING FLOORS OF URALKALI SHARES

Trading floor	Ticker code
Moscow Exchange	URKA

### URALKALIS SECURITIES IDENTIFICATION NUMBERS

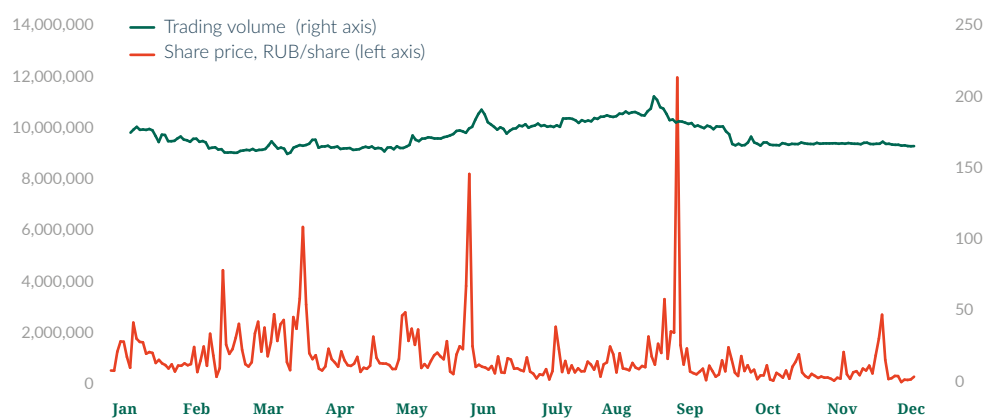
CUSIP <sup>1</sup> :	
- Regulation S GDRs	91688E206
ISIN <sup>2</sup> :	
- Regulation S GDRs	US91688E2063
- Ordinary shares	RU0007661302

<sup>1</sup> CUSIP (Committee on Uniform Security Identification Procedures) - identification number is given to the issue of shares for the purposes of facilitating clearing.

<sup>2</sup> ISIN (International Securities Identification Number) - international identification number of the share.



### TRADING VOLUMES ON THE MOSCOW EXCHANGE IN 2016 [Uralkali ordinary shares]



Source: Bloomberg

### URALKALI ORDINARY SHARES TRADED ON THE MOSCOW EXCHANGE [market transactions, Bloomberg]

	2015	2016
Annual maximum price, RUB	215.25	203.35
Annual minimum price, RUB	126.20	159.20
Year-end price, RUB	177.00	165.20
Trading volume, million RUB	825.0	256.7

### URALKALI'S SHARE IN MAJOR INDICES\*

MICEX	0.30%
RTS	0.30%

\* As of December 2016.

Source: Moscow Exchange, MSCI, Market Vectors

## Information for Shareholders and Investors

### CONTINUED

#### Share and GDR buyback programme

As part of the share and GDR buyback programme in force in 2016, Uralkali acquired shares and GDRs in the amount of 8.24% of the share capital of the Company. In total, two such programmes were completed in the reporting year:

- › • On 31 March 2016, Uralkali completed the programme for the buyback of treasury shares (including shares, the rights to which are certified by global depository receipts (GDRs)), announced on 23 November 2015. The programme volume was limited to 6.5% of Uralkali's share capital. The acquisition of the Company's shares and GDRs under this programme was carried out by Uralkali subsidiaries JSC Uralkali-Technology and Enterpro Services Limited, through the Renaissance Capital broker (including its affiliates) on the open market. As a result of the programme, 101,117,702 shares and 8,506,136 GDRs were purchased, which together amounted to 4.89% of Uralkali's share capital.
- › • On 19 September 2016, Uralkali completed the second programme for the buyback of treasury shares and GDRs, announced on 18 May 2016, with a total volume of up to 4% of Uralkali's share capital. The acquisition of the Company's shares and GDRs under this programme was carried out by Uralkali subsidiaries JSC Uralkali-Technology and Enterpro Services Limited, through the Renaissance Capital broker (including its affiliates) in the open market. As a result of this share and GDR buyback programme, 92,172,796 shares and 1,215,191 GDRs were acquired from the open market, which together amounted to 3.35% of the Company's share capital.

#### 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 routinely 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.

Dynamics of the Company's credit ratings in 2016:

- › On 12 April, S&P changed the outlook for Uralkali from stable to negative due to a significant deterioration in the fertiliser market over the previous six months and expectations that prices for NPK fertilisers would remain well below 2015 levels for several years

- › On 30 September, Fitch changed the outlook for Uralkali's securities from stable to negative, reflecting the Company's high leverage, which was above the expected level

For more information please see: [http://www.uralkali.com/investors/fixed\\_income/](http://www.uralkali.com/investors/fixed_income/)

#### Dividends

The annual general meeting of Uralkali shareholders was held on 17 June 2016 in the city of Berezniki, Perm Territory. The meeting decided not to pay dividends for 2015.

#### 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;
  - 13% - for other Russian residents;
  - 15% - for non-residents;

#### CREDIT RATINGS

	S&P	Moody's	Fitch
<b>Credit rating</b>	BB-	Ba2	BB-
<b>Outlook</b>	Negative	Stable	Negative
<b>Last rating date</b>	9 December 2015	9 October 2015	5 October 2015

- › 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 information purposes only. Potential and current investors should seek the advice of professional consultants on tax matters related to investments in the shares and GDRs of the Company.

#### Dividend policy

The payment of dividends is regulated by the legislation of the Russian Federation. Dividends are paid from the profits of the Company 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 Uralkali's Charter and the Regulations on the Dividend Policy, the Company has the right to decide (declare) to pay dividends based on the results of the financial year, as well as of the first quarter, six months and nine months of the financial year (interim dividends).

The Regulations on the Dividend Policy of PJSC Uralkali, approved by the decision of the Board of Directors in April 2015, stipulate that the Company's Board of Directors shall submit recommendations to the general meeting of shareholders on payment of dividends based on performance in the reporting period, taking into account the Company's financial results. The Board of Directors considers the main areas of net profit distribution and determines the share of net profit that can be reasonably used for paying dividends.

Decisions on the amount of the dividend recommended for the general meeting of shareholders, the procedure for its payment and the date for determining those entitled to receive dividends are made by the Board of Directors in accordance with the Federal Law On Joint-stock Companies, the Charter and the Regulations on the Board of Directors by a majority vote of the Board members attending the meeting.

The decision on payment (declaration) of dividends is taken by the general meeting of shareholders of the Company. The amount of dividends cannot be more than 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 policy on the Internet and outlining its main provisions in the Company's annual reports. For more information please see Uralkali's website: [http://www.uralkali.com/investors/shareholder\\_inf/dividends/](http://www.uralkali.com/investors/shareholder_inf/dividends/)

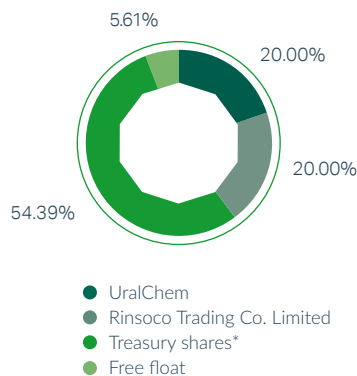
### DIVIDEND PAYMENTS

Period	Record date	Date of decision on dividend payment	Dividend per ordinary share / GDR (RUB)	Accrued dividends ('000 RUB)
2013	20.06.2014	09.06.2014	1.63/8.15	4,785,705.90
Interim dividends	29.10.2013	18.12.2013	2.21/11.05	6,488,595.10
2012	25.04.2013	04.06.2013	3.9/19.5	11,450,461.97
Interim dividends	06.11.2012	12.12.2012	4.71/23.55	13,828,634.85
2011	26.04.2012	07.06.2012	4.0/20.0	12,378,551.62
Interim dividends	02.11.2011	08.12.2011	4.0/20.0	12,378,066.30

## Information for Shareholders and Investors

### CONTINUED

#### Share capital structure<sup>3</sup>



\* Treasury shares account for less than 30% of the Company's charter capital.

#### Investor relations

##### Communication and dialogue

Transparent communications with all shareholders is one of Uralkali's top priorities. The Company's management maintains regular dialogue with institutional investors and sell-side analysts through participation in meetings, presentations, international conferences, webcasts and conference calls, during which it discusses the Company's financial results and provides an overview of the potash market.

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

In 2016, Uralkali maintained active communication with investors through the following activities:

- › Company management participation in a number of leading international market and industry conferences and forums focused on emerging markets
- › Conference calls and webcasts on financial results and an overview of the potash market:
  - Webcast and conference call for the presentation of IFRS financial statements for 2015 and strategy review on 11 April 2016
  - Webcast and conference call for the presentation of IFRS financial statements for Q1 2016 and market review on 22 June 2016
  - Webcast and conference call for the presentation of IFRS financial statements for H1 2016 and market review on 29 August 2016

##### Board oversight

The Board regularly receives investor relations reports covering key meetings, activities and shareholder feedback. Analysts' reports on the Company's shares are also circulated on a regular basis.

##### 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](http://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](http://www.facebook.com/UralkaliRU)) and Twitter account ([https://twitter.com/uralkali\\_russia](https://twitter.com/uralkali_russia)).
- › **E-mail**  
The Investor Relations Department can be contacted with respect to any queries at [ir@msc.uralkali.com](mailto:ir@msc.uralkali.com).

##### Awards

In 2016, the Company participated in a number of competitions for the best annual report for 2015:

- › The 19th Annual Report Competition organised by the Moscow Exchange:
  - Best annual report from the industrial sector of the economy (winner);
  - Best design and concept of an annual report (prize-winner);
  - Best design and navigation of a corporate website (prize-winner).
- › Best Annual Report International – IR Society (nominee highly appreciated by the judges).
- › CorpComms awards 2015: Best annual report - private sector (nominee).

<sup>3</sup> As of 31 December 2016. The shareholdings are provided with approximation. Shares of Rinsoco Trading Co. Limited and Uralchem OJSC comprise less than 20%.

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# 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 2016, and the consolidated statements of profit or loss, other comprehensive income, statement of changes in equity and statement of cash flows for 2016, 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 2016, and its consolidated financial performance and its consolidated cash flows for 2016 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, and we do not provide a separate opinion on these matters.

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### 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, Going Concern Statement and Note 17 Borrowings.

We challenged the key assumptions in management's financial forecast by:

The Group is highly leveraged with net debt of US\$ 5,517,260 thousand as at 31 December 2016 and has to comply with certain financial and non-financial covenants.

- › Assessing covenant compliance forecasts, including stress tests scenarios and related mitigation plans;

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 exchange rates and potash prices forecasts.

- › Testing the appropriateness of management's assumptions including exchange rates and potash prices, inflation rate, and discount rate;

- › Performing our own sensitivity analysis to test the adequacy of the available headroom, particularly related to covenant compliance.

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Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
--	---

<p><b>Goodwill Impairment</b></p> <p>Refer to Note 5 Critical accounting estimates and judgements in applying accounting policies and Note 9 Goodwill.</p> <p>Goodwill impairment is one of the key audit matters due to the significance of goodwill to the Group's consolidated statement of financial position, and due to inherent uncertainty involved in forecasting and discounting future cash flows which are the basis for the assessment of the recoverable amount of goodwill.</p>	<p>We challenged management's significant assumptions used in the impairment testing for goodwill, and specifically the cash flow projections, by:</p> <ul style="list-style-type: none"> <li>› comparing the long term potash prices in the projections with external forecasts;</li> <li>› benchmarking the discount rate to other mining companies;</li> <li>› assessing the historical accuracy of management's budgets and forecasts, and seeking appropriate evidence for anticipated improvements in major assumptions such as production volumes or cost reductions. We corroborated previous forecasts with actual data.</li> </ul> <p>We also ran a range of sensitivity tests to confirm that no impairment was required if less optimistic assumptions were applied for forecasted potash price, discount and exchange rates.</p> <p>We evaluated the adequacy and accuracy of disclosures in the consolidated financial statements relating to the goodwill impairment.</p>
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**Other Information**

Management is responsible for the other information. The other information comprises the information included in the Annual report, 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, 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.

## Independent Auditor’s Report

### CONTINUED

#### 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  
13 March 2017

*Deloitte & Touche*



Audited entity: Public Joint Stock Company "Uralkali"

Audit Firm: ZAO "Deloitte & Touche CIS"

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

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

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

Primary State Registration Number: 1027700425444

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

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 2016

(in thousands of US dollars, unless otherwise stated)

	Note	31 December 2016	31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	2,244,153	1,682,974
Prepayments for acquisition of property, plant and equipment and intangible assets		186,831	134,408
Goodwill	9	972,536	809,397
Intangible assets	10	2,869,387	2,424,983
Deferred income tax asset	27	47,408	56,721
Income tax prepayments	11	26,222	82,218
Loan issued	6	188,762	-
Prepaid transaction costs on bank facilities		81,410	2,633
Other non-current assets		3,600	3,217
Investment in associate		23,942	20,110
<b>Total non-current assets</b>		<b>6,644,251</b>	<b>5,216,661</b>
<b>Current assets:</b>			
Inventories	12	162,036	130,231
Trade and other receivables	13	261,554	399,830
Advances to suppliers		27,502	25,307
Income tax prepayments	11	32,868	84,760
Other financial assets*		68,267	67,599
Restricted cash	14	-	200,000
Cash and cash equivalents	14	1,485,521	1,111,878
<b>Total current assets</b>		<b>2,037,748</b>	<b>2,019,605</b>
<b>TOTAL ASSETS</b>		<b>8,681,999</b>	<b>7,236,266</b>
<b>EQUITY</b>			
Share capital	15	35,762	35,762
Treasury shares	15	(26,909)	(23,953)
Share premium		509,484	1,012,662
Currency translation reserve		(3,739,971)	(3,706,496)
Retained earnings		3,486,183	2,057,321
<b>Equity attributable to the company's equity holders</b>		<b>264,549</b>	<b>(624,704)</b>
Non-controlling interests		11,533	11,670
<b>TOTAL EQUITY</b>		<b>276,082</b>	<b>(613,034)</b>

\* Please refer to p. 2.9 of these consolidated financial statements

## Consolidated Statement of Financial Position as of 31 December 2016

### CONTINUED

	Note	31 December 2016	31 December 2015
<b>LIABILITIES</b>			
<b>Non-current liabilities:</b>			
Borrowings	17	4,590,673	3,579,194
Bonds	18	582,357	580,883
Post-employment and other long-term benefit obligations		34,424	28,343
Deferred income tax liability	27	579,237	377,132
Provisions	16	164,683	109,882
Derivative financial liabilities	19	123,753	358,123
<b>Total non-current liabilities</b>		<b>6,075,127</b>	<b>5,033,557</b>
<b>Current liabilities:</b>			
Borrowings	17	1,827,201	2,325,470
Bonds	18	2,550	3,785
Trade and other payables	20	223,259	203,859
Advances received		49,604	23,166
Provisions	16	43,127	11,176
Derivative financial liabilities	19	153,372	227,480
Current income tax payable		7,580	1,259
Other taxes payable		24,097	19,548
<b>Total current liabilities</b>		<b>2,330,790</b>	<b>2,815,743</b>
<b>TOTAL LIABILITIES</b>		<b>8,405,917</b>	<b>7,849,300</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8,681,999</b>	<b>7,236,266</b>

Approved for issue and signed on behalf of  
the Board of Directors on 13 March 2017.



**Dmitry Osipov**  
Chief Executive Officer



**Anton Vishanenko**  
Chief Financial Officer

The accompanying notes on pages 102 to 104 are an integral part of these consolidated financial statements.

## Consolidated Statement of Profit or Loss for the Year Ended 31 December 2016

(in thousands of US dollars, unless otherwise stated)

	Note	2016	2015
Revenues	21	2,278,249	3,123,302
Cost of sales	22	(549,766)	(568,758)
<b>Gross profit</b>		<b>1,728,483</b>	<b>2,554,544</b>
Distribution costs	23	(547,676)	(604,264)
General and administrative expenses	24	(154,082)	(156,884)
Taxes other than income tax		(25,414)	(24,826)
Other operating expenses, net	25	(12,741)	(43,329)
<b>Operating profit</b>		<b>988,570</b>	<b>1,725,241</b>
Finance income/(expenses), net	26	768,126	(1,517,642)
<b>Profit before income tax</b>		<b>1,756,696</b>	<b>207,599</b>
Income tax expense	27	(329,550)	(23,831)
<b>Net profit for the year</b>		<b>1,427,146</b>	<b>183,768</b>
<b>Profit/(Loss) attributable to:</b>			
Owners of the Company		1,427,283	181,242
Non-controlling interests		(137)	2,526
<b>Net profit for the year</b>		<b>1,427,146</b>	<b>183,768</b>
Weighted average number of ordinary shares in issue (million)		1,417	2,199
<b>Earnings per share – basic and diluted (in US cents)</b>		<b>100.73</b>	<b>8.24</b>

The accompanying notes on pages 102 to 104 are an integral part of these consolidated financial statements.

## Consolidated Statement of Other Comprehensive Income for the Year Ended 31 December 2016

(in thousands of US dollars, unless otherwise stated)

	2016	2015
Net profit for the year	1,427,146	183,768
Other comprehensive income		
<b>Items that will not be reclassified to profit or loss:</b>		
Remeasurement of post-employment benefit obligations	1,579	(3,164)
Effect of translation to presentation currency	(33,475)	(97,360)
<b>Total other comprehensive loss for the year</b>	<b>(31,896)</b>	<b>(100,524)</b>
<b>Total comprehensive income for the year</b>	<b>1,395,250</b>	<b>83,244</b>
<b>Total comprehensive income/(loss) for the year attributable to:</b>		
Owners of the Company	1,395,387	80,718
Non-controlling interests	(137)	2,526

The accompanying notes on pages 102 to 104 are an integral part of these consolidated financial statements.

## Consolidated Statement of Cash Flows for the Year Ended 31 December 2016

(in thousands of US dollars, unless otherwise stated)

	Note	2016	2015
<b>Cash flows from operating activities</b>			
Profit before income tax		1,756,696	207,599
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	8,10	194,151	220,346
Expenses related to mine flooding provision	25	207	10,113
Reversal of impairment of Solikamsk-2 property, plant and equipment and assets under construction	25	(582)	(27,248)
Loss on disposals of property, plant and equipment and intangible assets	25	9,322	22,390
Loss on impairment of prepayments for acquisition of property, plant and equipment and intangible assets	25	(2,207)	2,414
Impairment of financial assets	26	297	-
Provision for obsolete inventories		3,770	-
Impairment of property, plant and equipment and assets under construction	25	3,773	1,558
(Reversal)/accrual of provision for impairment of trade and other receivables and advances given	25	(991)	8,337
Accrual of resettlement provision		9,792	-
Change in provisions, net	25	(563)	(33,782)
Fair value (gain)/loss on derivative financial liabilities, net	26	(184,983)	232,759
Foreign exchange (gain)/loss, net	26	(888,967)	1,038,810
Other finance income and expense, net	26	305,527	246,073
<b>Operating cash flows before working capital changes</b>		<b>1,205,242</b>	<b>1,929,369</b>
Decrease in trade and other receivables and advances to suppliers		165,064	132,993
Increase in inventories		(4,042)	(29,742)
(Decrease)/increase in trade and other payables and advances received		(4,634)	77,447
Increase in other taxes payable/receivable		16,037	11,664
<b>Cash generated from operations</b>		<b>1,377,667</b>	<b>2,121,731</b>
Interest paid		(318,848)	(278,042)
Income taxes paid net of refunds received		(46,835)	(62,601)
<b>Net cash generated from operating activities</b>		<b>1,011,984</b>	<b>1,781,088</b>
<b>Cash flows from investing activities</b>			
Acquisition of intangible assets		(5,732)	(3,461)
Acquisition of property, plant and equipment		(317,399)	(339,169)
Proceeds from sales of property, plant and equipment		590	-
Loan issued		(477,438)	-
Loan repaid		292,536	-
Purchase of other financial assets at fair value through profit or loss		-	(7,792)
Proceeds from sale of other financial assets at fair value through profit or loss		-	8,367
Deferred payment for the share in associate		-	(4,000)
Decrease in deposits		-	370,000
Increase in deposits		-	(70,000)
Dividends and interest received		13,504	36,632
<b>Net cash used in investing activities</b>		<b>(493,939)</b>	<b>(9,423)</b>

## Consolidated Statement of Cash Flows for the Year Ended 31 December 2016

### CONTINUED

	Note	2016	2015
<b>Cash flows from financing activities</b>			
Repayments of borrowings	17	(898,025)	(929,885)
Proceeds from borrowings	17	1,350,389	1,924,709
Arrangement fees and other financial charges paid		(112,269)	(32,678)
Cash proceeds from derivatives	19	14,671	49,621
Cash paid for derivatives	19	(215,620)	(94,337)
Purchase of treasury shares	15	(506,134)	(3,366,878)
Decrease/(increase) in restricted cash		200,000	(200,000)
Finance lease payments		(40)	(476)
Dividends paid to non-controlling interests		-	(246)
Dividends paid to the Company's shareholders		(106)	(259)
<b>Net cash used in financing activities</b>		<b>(167,134)</b>	<b>(2,650,429)</b>
Effect of changes in foreign exchange rate changes in cash and cash equivalents		22,732	(164,605)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>373,643</b>	<b>(1,043,369)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>14</b>	<b>1,111,878</b>	<b>2,155,247</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>14</b>	<b>1,485,521</b>	<b>1,111,878</b>

The accompanying notes on pages 102 to 104 are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity for the Year Ended 31 December 2016

(in thousands of US dollars, unless otherwise stated)

	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Share capital	Treasury shares	Share premium	Retained earnings	Currency translation reserve	Total attributable to owners of the Company		
<b>Balance at 1 January 2015</b>	<b>35,762</b>	<b>(5,759)</b>	<b>4,361,346</b>	<b>1,879,243</b>	<b>(3,609,136)</b>	<b>2,661,456</b>	<b>9,383</b>	<b>2,670,839</b>
Profit for the period	-	-	-	181,242	-	181,242	2,526	183,768
Other comprehensive loss	-	-	-	(3,164)	(97,360)	(100,524)	-	(100,524)
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>178,078</b>	<b>(97,360)</b>	<b>80,718</b>	<b>2,526</b>	<b>83,244</b>
<b>Transactions with owners</b>								
Dividends declared	-	-	-	-	-	-	(239)	(239)
Purchase of treasury shares (Note 15)	-	(18,194)	(3,348,684)	-	-	(3,366,878)	-	(3,366,878)
<b>Total transactions with owners</b>	<b>-</b>	<b>(18,194)</b>	<b>(3,348,684)</b>	<b>-</b>	<b>-</b>	<b>(3,366,878)</b>	<b>(239)</b>	<b>(3,367,117)</b>
<b>Balance at 31 December 2015</b>	<b>35,762</b>	<b>(23,953)</b>	<b>1,012,662</b>	<b>2,057,321</b>	<b>(3,706,496)</b>	<b>(624,704)</b>	<b>11,670</b>	<b>(613,034)</b>
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)
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,428,862</b>	<b>(33,475)</b>	<b>1,395,387</b>	<b>(137)</b>	<b>1,395,250</b>
<b>Transactions with owners</b>								
Purchase of treasury shares (Note 15)	-	(2,956)	(503,178)	-	-	(506,134)	-	(506,134)
<b>Total transactions with owners</b>	<b>-</b>	<b>(2,956)</b>	<b>(503,178)</b>	<b>-</b>	<b>-</b>	<b>(506,134)</b>	<b>-</b>	<b>(506,134)</b>
<b>Balance at 31 December 2016</b>	<b>35,762</b>	<b>(26,909)</b>	<b>509,484</b>	<b>3,486,183</b>	<b>(3,739,971)</b>	<b>264,549</b>	<b>11,533</b>	<b>276,082</b>

The accompanying notes on pages 102 to 104 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements for the Year Ended 31 December 2016

(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 Group is a major Russia-based potash manufacturer. For the year ended 31 December 2016 approximately 79% of total volume of the potash fertilizers was exported (for the year ended 31 December 2015: 82%).

The Company holds operating licences, issued by the Perm Territorial authorities for the extraction of potassium, magnesium and sodium salts from the Durimanskiy, Bigelsko-Troitsky, Solikamskiy (north and south parts), Novo-Solikamskiy and Romanovskoye 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). The Company also owns a licence for the Ust'-Yaivinskiy plot of the Verkhnekamskoye field, which expires in 2024, and for the Polovodovski plot of the Verkhnekamskoye field, which expires in 2028.

As at 31 December 2016 and 31 December 2015 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 Territory, Russian Federation. Almost all of the Group's production capacities and all long-term assets are located in the Russian Federation. As at 31 December 2016 the Group employed approximately 20.5 thousand employees (31 December 2015: 21.3 thousand).

## 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 this assessment the Group has taken into account its financial position, expected commercial results, its borrowings, as well as planned capital expenditures and capital commitments and other risks which the Group is exposed to. After making appropriate enquires, the Group considers that it has adequate resources to continue in operational existence for at least the next 12 months from the date of issuance of these consolidated financial statements. 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 and their subsidiaries. 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 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 parent shareholders' equity.

## 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 tangible and intangible assets 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 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 and are recognised in profit or loss.

## Notes to the Consolidated Financial Statements for the Year Ended 31 December 2016

(in thousands of US dollars,  
unless otherwise stated)

### CONTINUED

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

	<b>Useful lives in years</b>
Buildings	10 to 60
Mining assets*	5 to 30
Plant and equipment	2 to 30
Transport vehicles	5 to 15
Other	2 to 15
Land	Not depreciated

\* 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 2.23. 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 the profit or loss. Operating leases include long-term leases of land with rental payments contingent on cadastral values 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, if any.

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 profit or loss 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 amortized 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 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. All 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.

Other financial assets held to maturity are financial assets, represent highly liquid corporate bonds, which at initial recognition have been classified as financial assets held for trading at fair value through profit or loss. During 2016, management decided to hold these corporate bonds to maturity. These assets held to maturity are carried at amortized cost calculated using the effective interest rate method. This change in accounting estimate is applied prospectively since 1 January 2016.

All other financial assets are included in the available-for-sale category.

Financial liabilities have the following measurement categories: (a) held for trading, which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value 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.

## 2.10 Financial instruments – key measurement terms

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, 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 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
- (ii) level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and
- (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

## Notes to the Consolidated Financial Statements for the Year Ended 31 December 2016

(in thousands of US dollars,  
unless otherwise stated)

### CONTINUED

#### 2.11 Initial recognition of financial instruments

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.

#### 2.12 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.

#### 2.13 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 and payable is recognised in profit or loss.

#### 2.14 Income taxes

Income taxes have 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 expenditure 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 on income 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, 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.

### 2.15 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 capitalized 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.

### 2.16 Trade and other receivables

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.

### 2.17 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less 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.

### 2.18 Share capital

Ordinary shares 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.

### 2.19 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.

### 2.20 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.

## Notes to the Consolidated Financial Statements for the Year Ended 31 December 2016

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#### 2.21 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.

#### 2.22 Borrowings

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.

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.

#### 2.23 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.

**Provision for filling cavities.** The Group recognises provision for filling cavities in respect of the Group's obligation to replace the earth extracted from the mines. The provision is recognised when the Group has a legal or constructive obligation in accordance with the plan of works agreed with the state mine supervisory bodies.

The estimated future filling cavities costs, discounted to net present value, are accounted together with the respective items of property, plant and equipment and corresponding obligations. The additions of property, plant and equipment are depreciated on a straight-line basis over the useful life of the corresponding asset. A change in present value of the obligation is recognised in profit or loss as part of finance costs. Changes to estimated future costs are recognised in the consolidated statement of financial position by either increasing or decreasing the provision for filling cavities and asset to which it relates. The Group reassesses its estimation of filling cavities provision as at the end of each reporting period.

**Provision for asset retirement obligations.** The company recognises provisions for decommissioning obligations (also known as asset retirement obligations) primarily related to mining activities (Note 16). The major categories of asset retirement obligations are restoration costs at its potash mining operations, including decommissioning of underground and surface operating facilities and general cleanup activities aimed at returning the areas to an environmentally acceptable condition.

The present value of a liability for a decommissioning obligation is recognised in the period in which it is incurred if a reasonable estimate of present value can be made. The associated costs are capitalised as a separate part of the property, plant and equipment and then depreciated over the estimated remaining useful life of mine. The best estimate of the amount required to settle the obligation is reviewed at the end of each reporting period and updated to reflect changes in the discount and inflation rates and the amount and/or timing of the underlying cash flows.

Changes to estimated future costs are recognised in the consolidated statement of financial position by either increasing or decreasing the provision for asset retirement obligations and asset to which it relates. The unwinding of the discount of decommissioning obligations due to the passage of time is included in the consolidated statement of profit or loss as finance costs.

#### 2.24 Trade and other payables

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

#### 2.25 Foreign currency translation

*Functional and presentation currency.* Functional currency of each company 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.

*Translation to the presentation currency.* The results and financial positions of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated to the presentation currency as follows:

- (i) assets and liabilities for consolidated statement of financial position presented are translated at the closing rate at the end of the reporting period;
- (ii) income and expenses for consolidated statements of profit or loss, other comprehensive income and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses and cash flows are translated at the dates of the transactions);
- (iii) components of equity are translated at the historic rate; and
- (iv) all resulting exchange differences are recognised in other comprehensive income.

#### Foreign currency exchange rates

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

	31 December 2016		31 December 2015	
	US\$	Euro	US\$	Euro
closing rate	60.66	63.81	72.88	79.70
average rate	67.03	74.23	60.96	67.78

#### 2.26 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;
- › 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.

## Notes to the Consolidated Financial Statements for the Year Ended 31 December 2016

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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.

#### 2.27 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.

#### 2.28 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.

#### 2.29 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.

#### 2.30 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.

#### 2.31 Earnings 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 period diluted earnings per share are not different from basic earnings per share.

#### 2.32 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 Company 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 Adoption of new or revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2016:

- › IAS 1 (Amended) "Disclosure Initiative";
- › IAS 16 (Amended) IAS 38 (Amended) "Clarification of Acceptable Methods of Depreciation and Amortisation";
- › IAS 27 (Amended) "Equity Method in Separate Financial Statements";
- › IFRS 10 (Amended), IFRS 12 (Amended) and IAS 28 (Amended) "Investment Entities: Applying the Consolidation Exception";
- › IFRS 11 (Amended) "Accounting for Acquisitions of Interests in Joint Operations";
- › IFRS 14 "Regulatory Deferral Accounts";
- › Annual improvements to IFRSs 2012-2014 Cycle.

The application of these amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

### 4 Application of new and revised International Financial Reporting Standards (IFRSs)

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New or amended standards or interpretations	Effective date* - for annual periods beginning on or after
IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	1 January 2018
IAS 40 "Transfers of objects of investment property"	1 January 2018
IFRS 9 "Financial Instruments"	1 January 2018
IFRS 15 "Revenue from Contracts with Customers (and the related Clarifications)"	1 January 2018
IFRS 16 "Leases"	1 January 2019
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 by the IASB**
Amendments to IAS 7 "Disclosure initiative"	1 January 2017
Amendments to IAS 12 - "Recognition of Deferred Tax Assets for Unrealised Losses"	1 January 2017
Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	1 January 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	1 January 2018
Amendments to IAS 40 - "Transfers of Investment Property"	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017

\* Early adoption is permitted for all new or amended standards and interpretations. IFRS 16 can be early adopted if IFRS 15 Revenue from Contracts with Customers has also been adopted.

\*\* The amendment was initially issued in September 2014 with the effective date on 1 January 2016. In December 2015 the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been concluded.

The Group is currently considering the potential impact of the adoption of these standards and amendments on the Group's consolidated financial statements.

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#### 5 Critical accounting estimates and judgements in applying accounting policies

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

##### 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 2016 and 2015.

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.

During the twelve months ended 31 December 2015, the Group re-estimated costs required for liquidation of the accident consequences and updated provision for future expenses as at 31 December 2015 (Note 16).

The most significant estimates and judgements associated with the provision for mine Solikamsk-2 flooding are as follows:

- › 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 2016 management applied discount rates ranging from 8.2% to 8.4% (from 2015: 9.7% to 10.1%).

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 2016.

##### 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 Territory 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 of the mined-out area and is involved in other monitoring and prevention activities.

Management believes that as at 31 December 2016 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 mine (Note 16).

Management initially estimated the amount of legal obligations for filling cavities within fixed assets and subsequent change in estimates is recognised as change in assets and depreciated over its useful life using the straight-line method of depreciation. Remeasurement of an existing amount of these cavities that result from changes in estimates of mine surveys is recorded as 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 2023 and 2080;
- › 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 4.5% to 5.4% for the period starting from 2017 till 2019 (2015: from 5.0% to 7.3%). Starting from 2020, the expected inflation rate in the Russian Federation is forecasted to be 4.7% (2015: 5.0%); and
- › In 2016, management applied discount rates ranging from 8.2% to 8.6% (2015: from 9.7% to 10.1%).

#### Restructuring provision

The Group accrued a provision for the closing down of the processing and carnallite plants subdivision at Berezniki 1 (Note 16).

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 2016 management applied discount rates ranging from 8.3% to 8.4% (2015: from 10.0% to 10.1%).

#### Provision for asset retirement obligations

The Group has recorded a provision relating to asset retirement obligations (Note 16), 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.

## Notes to the Consolidated Financial Statements for the Year Ended 31 December 2016

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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 the 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 4.5% to 5.4% for the period starting from 2017 till 2019 (2015: from 5.0% to 7.3%). Starting from 2020, the expected inflation rate in the Russian Federation is forecasted to be 4.7% (2015: 5.0%); and
- › In 2016, management applied discount rates ranging from 8.5% to 8.6% (2015: from 9.3% to 9.5%).

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 8).

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 (Note 10).

The estimated remaining useful life of certain property, plant and equipment and mineral resources is beyond the expiry date of the relevant operating 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.

#### Goodwill

The Group tests goodwill for impairment at least annually. The main assumptions used in value-in-use calculations are described in Note 9.

#### 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.

#### Income tax prepayment

The Group has recorded an income tax prepayment recoverable after more than 12 months in the consolidated financial statements. There is an uncertainty in terms of using this payment to cover current liabilities of the Company to pay income taxes. As a consequence, the asset carrying amount may vary depending on the Company's financial performance in future periods.

#### Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 28.2).

## 6 Related parties

Related parties include shareholders, associates and entities under common ownership and 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 significant transactions between the Group and other related parties are disclosed below.

<b>Outstanding balances with related parties under common control of significant shareholders</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Loan issued including interest receivable	188,762	-
Trade and other payables	4,163	896
Advances received	1,317	158
Trade and other receivables	39	26
Cash and cash equivalents	-	400,423
Restricted cash	-	200,000
Prepayments for acquisition of property, plant and equipment and intangible assets	-	605

Cash and cash equivalents as at 31 December 2015 comprise cash on a brokerage account.

The loan to a related party is a US\$ denominated revolving loan facility granted for a period of 2 years under market conditions.

<b>Outstanding balances with associate</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade and other payables	-	12,760

<b>Transactions with related parties under common control of significant shareholders</b>	<b>2016</b>	<b>2015</b>
Revenue (sales of potassium chloride)	27,497	22,243
Other revenue	1,264	-
Purchase of inventories	7,416	3,745
Transportation expenses	6,365	2,743
Purchase of property, plant and equipment and assets under construction	1,651	-
General and administrative expenses	1,450	1,300
Other expenses	88	104

<b>Transactions with associate</b>	<b>2016</b>	<b>2015</b>
Other income	6,317	-
Distribution costs	4,686	12,760
Transshipment	4,288	4,931

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#### 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 compensation is presented below:

	2016		2015	
	Expenses	Accrued liability	Expenses	Accrued liability
Short-term employee benefits	7,412	4,866	18,167	7,444
Termination benefits	134	-	1,952	-
<b>Total</b>	<b>7,546</b>	<b>4,866</b>	<b>20,119</b>	<b>7,444</b>

### 7 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;
- › tonnes of potash sold, in thousands;
- › cash cost ("CC") per unit sold (cost of sales adjusted for depreciation and amortisation); and
- › 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 these consolidated financial statements.

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

	Note	2016	2015
Revenues	21	2,278,249	3,123,302
Revenues net of freight, railway tariff and transshipment costs	21, 23	1,850,970	2,645,414
Operating profit		988,570	1,725,241
Tonnes of potash sold in thousands		10,952	11,205
CC per unit sold (US dollar per tonne)		35	33
Cash CAPEX		323,130	342,630

The measurement of CC per tonne of potash sold reconciles to the IFRS reported figures on a consolidated basis as follows:

	Note	2016	2015
<b>Cost of sales</b>	22	549,766	568,758
<i>Adjusted for:</i>			
Depreciation and amortisation	22	(171,395)	(195,268)
<b>CC</b>		378,371	373,490
Tonnes of potash sold, in thousands		10,952	11,205
<b>CC per tonne of potash sold (US dollar per tonne)</b>		35	33

#### b) Geographical information

The analysis of Group sales by region was:

	2016	2015
Russia	350,800	406,378
China, India, South East Asia	952,949	1,388,746
Latin America, USA	632,751	860,819
Europe, other countries	341,749	467,359
<b>Total revenue</b>	<b>2,278,249</b>	<b>3,123,302</b>

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 2016 and 2015.

## Notes to the Consolidated Financial Statements for the Year Ended 31 December 2016

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#### 8 Property, plant and equipment

	Buildings	Mining assets	Plant and equipment	Transport	Assets under construction	Other	Land	Total
<b>Cost</b>								
Balance at 1 January 2015	549,757	550,587	1,056,032	195,426	553,090	25,742	5,049	2,935,683
Additions	66	-	345	7,431	338,988	279	2,838	349,947
Changes in estimates added to property, plant and equipment (Note 16)	-	68,730	-	-	-	-	-	68,730
Commissioning of assets and transfers	83,245	141,353	27,839	5,315	(258,916)	1,148	16	-
Disposals	(6,651)	(2,634)	(24,689)	(7,218)	(6,742)	(591)	(16)	(48,541)
Effect of translation to presentation currency	(137,501)	(126,204)	(242,487)	(45,480)	(137,892)	(6,000)	(1,616)	(697,180)
<b>Balance at 31 December 2015</b>	<b>488,916</b>	<b>631,832</b>	<b>817,040</b>	<b>155,474</b>	<b>488,528</b>	<b>20,578</b>	<b>6,271</b>	<b>2,608,639</b>
Additions	74	-	1,558	139	323,884	-	-	325,655
Changes in estimates added to property, plant and equipment (Note 16)	634	46,676	-	-	-	-	-	47,310
Commissioning of assets and transfers	105,932	1,915	157,932	17,116	(289,752)	(3,735)	74	(10,518)
Disposals	(4,000)	(996)	(18,445)	(2,468)	(6,678)	(226)	(14)	(32,827)
Effect of translation to presentation currency	110,991	123,964	185,732	32,530	101,110	3,347	1,270	558,944
<b>Balance at 31 December 2016</b>	<b>702,547</b>	<b>803,391</b>	<b>1,143,817</b>	<b>202,791</b>	<b>617,092</b>	<b>19,964</b>	<b>7,601</b>	<b>3,497,203</b>
<b>Accumulated depreciation</b>								
Balance at 1 January 2015	125,435	212,866	596,982	84,555	7,568	9,169	-	1,036,575
Depreciation charge	19,177	43,325	90,833	14,403	-	1,591	-	169,329
Disposals	(1,613)	(839)	(16,841)	(6,628)	-	(230)	-	(26,151)
Transfers	(864)	64,096	(63,232)	-	-	-	-	-
(Reversal of impairment)/ impairment	(427)	(21,539)	1,706	-	(5,430)	-	-	(25,690)
Effect of translation to presentation currency	(30,822)	(34,884)	(139,242)	(20,553)	(589)	(2,308)	-	(228,398)
<b>Balance at 31 December 2015</b>	<b>110,886</b>	<b>263,025</b>	<b>470,206</b>	<b>71,777</b>	<b>1,549</b>	<b>8,222</b>	<b>-</b>	<b>925,665</b>
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)	1,516	(716)	-	(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	1,101	1,605	-	199,054
<b>Balance at 31 December 2016</b>	<b>168,034</b>	<b>277,541</b>	<b>693,206</b>	<b>95,524</b>	<b>8,758</b>	<b>9,987</b>	<b>-</b>	<b>1,253,050</b>
<b>Net Book Value</b>								
Balance at 1 January 2015	424,322	337,721	459,050	110,871	545,522	16,573	5,049	1,899,108
Balance at 31 December 2015	378,030	368,807	346,834	83,697	486,979	12,356	6,271	1,682,974
Balance at 31 December 2016	534,513	525,850	450,611	107,267	608,334	9,977	7,601	2,244,153



In 2016 and 2015, 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	2016	2015
Cost of sales (Note 22)	130,724	144,932
Distribution costs (Note 23)	10,719	13,162
General and administrative expenses (Note 24)	6,784	7,731
Other expenses (Note 25)	885	-
Capitalised within assets under construction	5,842	3,504
<b>TOTAL</b>	<b>154,954</b>	<b>169,329</b>

#### Fully depreciated assets still in use

As at 31 December 2016 and 31 December 2015 the gross carrying value of fully depreciated property, plant and equipment still in use was US\$ 385,964 and US\$ 301,321, respectively.

#### Property, plant and equipment impairment due to the accident at Solikamsk-2

In 2015, due to decision to continue mining at Solikamsk-2, the Group reversed the impairment of fixed assets and construction in progress in amount US\$ 27,248. In 2016 the Group reversed the impairment of fixed assets and construction in progress of US\$ 582 (Note 25).

## 9 Goodwill

	2016	2015
Carrying value at 1 January	809,397	1,048,573
Effect of translation to presentation currency	163,139	(239,176)
Carrying value at 31 December	972,536	809,397

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 cash-generating unit ("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:

	2016	2015
RR/US\$ exchange rate (till 2040)	From 65 to 123	From 67 to 129
Growth rate beyond one year	4.0% p.a.	3.0% p.a.
US\$ weighted average cost of capital	10.9% p.a.	12.7% p.a.
Long-term inflation rate	From 3.0% to 6.4% p.a.	From 3.0% to 7.5% p.a.

The Group did not recognise any impairment of goodwill in the consolidated financial statements for the years ended 31 December 2016 and 31 December 2015.

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#### 10 Intangible assets

	Note	Mining licences	Software	Other	Total
<b>Cost</b>					
<b>Balance at 1 January 2015</b>		<b>3,465,410</b>	<b>5,119</b>	<b>11,803</b>	<b>3,482,332</b>
Additions		-	6,927	988	7,915
Disposals		-	(518)	(89)	(607)
Effect of translation to presentation currency		(790,448)	(2,174)	(2,741)	(795,363)
<b>Balance at 31 December 2015</b>		<b>2,674,962</b>	<b>9,354</b>	<b>9,961</b>	<b>2,694,277</b>
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
<b>Balance at 31 December 2016</b>		<b>3,214,118</b>	<b>16,473</b>	<b>9,576</b>	<b>3,240,167</b>
<b>Accumulated amortisation</b>					
<b>Balance at 1 January 2015</b>		<b>(286,897)</b>	<b>(2,588)</b>	<b>(782)</b>	<b>(290,267)</b>
Amortisation charge	22, 23, 24	(50,336)	(1,961)	(2,224)	(54,521)
Disposals of accumulated amortisation		-	504	89	593
Effect of translation to presentation currency		73,686	691	524	74,901
<b>Balance at 31 December 2015</b>		<b>(263,547)</b>	<b>(3,354)</b>	<b>(2,393)</b>	<b>(269,294)</b>
Amortisation charge	22, 23, 24	(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)
<b>Balance at 31 December 2016</b>		<b>(361,614)</b>	<b>(5,219)</b>	<b>(3,947)</b>	<b>(370,780)</b>
<b>Net book value</b>					
<b>As at 1 January 2015</b>		<b>3,178,513</b>	<b>2,531</b>	<b>11,021</b>	<b>3,192,065</b>
<b>As at 31 December 2015</b>		<b>2,411,415</b>	<b>6,000</b>	<b>7,568</b>	<b>2,424,983</b>
<b>As at 31 December 2016</b>		<b>2,852,504</b>	<b>11,254</b>	<b>5,629</b>	<b>2,869,387</b>

The table below summarises descriptions and carrying amounts of individually material mining licences, except for fully amortised, as well as software and other intangible assets:

Licence plot	Mining complex	31 December 2016	31 December 2015
Solikamskiy plot (south part)	Solikamsk-2	1,029,102	865,333
Novo-Solikamskiy plot	Solikamsk-3	945,271	805,646
Solikamskiy plot (north part)	Solikamsk-1	62,771	61,849
Polovodovskiy plot (south part)		205,189	170,769
Polovodovskiy plot (north part)		604,798	503,345
Romanovskoye plot		5,373	4,473
<b>Total mining licences</b>		<b>2,852,504</b>	<b>2,411,415</b>
Software		11,254	6,000
Other intangible assets		5,629	7,568
<b>Total intangible assets</b>		<b>2,869,387</b>	<b>2,424,983</b>

## 11 Income tax prepayments

On 16 April 2013 the Company concluded an agreement with the government of Perm Territory to maintain minimum income tax payments at certain minimum amount per year in 2013-2015. In subsequent periods the addenda to this agreement were signed. In particular, on 27 August 2015 the Company signed an Addendum to the agreement which determined minimum income tax payments for 2015 at the amount of 2,750 RR mln per year (US\$ 45,337 at the exchange rate on 31 December 2016). On 25 May 2016, a new Addendum was signed which determined payments for 2016 at the amount of 1,500 RR mln per year (US\$ 24,729 at the exchange rate on 31 December 2016).

As at 31 December 2016 income tax prepayments recoverable in more than 12 months were recorded at amortised cost using the discount rate of 8.4%. As at 31 December 2016 the carrying value of income tax prepayments recoverable in more than 12 months was US\$ 26,222 (31 December 2015: US\$ 82,218 at a discount rates of 10.1%).

## 12 Inventories

	31 December 2016	31 December 2015
Finished products	77,330	59,862
Raw materials and spare parts	72,754	63,589
Work in progress	4,553	2,933
Other inventories	7,399	3,847
<b>Total inventories</b>	<b>162,036</b>	<b>130,231</b>

## 13 Trade and other receivables

	31 December 2016	31 December 2015
<b>Financial receivables</b>		
Trade receivables	209,630	347,362
Other accounts receivable	17,315	12,067
Less: provision for doubtful debt	(13,313)	(13,191)
<b>Total financial receivables</b>	<b>213,632</b>	<b>346,238</b>
<b>Non-financial receivables</b>		
VAT recoverable	47,286	51,265
Other taxes recoverable	636	2,327
<b>Total non-financial receivables</b>	<b>47,922</b>	<b>53,592</b>
<b>Total trade and other receivables</b>	<b>261,554</b>	<b>399,830</b>

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As at 31 December 2016 trade receivables of US\$ 189,513 (31 December 2015: US\$ 334,724), net of provision for impairment, were denominated in foreign currencies; 88% of this balance was denominated in US\$ (31 December 2015: 85%) and 12% was denominated in Euro (31 December 2015: 15%). Management believes that the fair value of accounts receivable does not differ significantly from their carrying amount.

Movements of the provision for doubtful debt were as follows:

	2016		2015	
	Trade receivables	Other receivables	Trade receivables	Other receivables
<b>As at 1 January</b>	<b>(8,503)</b>	<b>(4,755)</b>	<b>(4,693)</b>	<b>(3,359)</b>
Provision accrued	(7,585)	(2,858)	(6,808)	(2,838)
Provision reversed	10,618	892	837	472
Provision utilised	90	40	-	-
Foreign exchange differences	83	1,087	-	-
Effect of translation to presentation currency	(1,377)	(1,045)	2,032	1,166
<b>As at 31 December</b>	<b>(6,674)</b>	<b>(6,639)</b>	<b>(8,632)</b>	<b>(4,559)</b>

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 25). 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 2016		31 December 2015	
	Trade receivables	Other receivables	Trade receivables	Other receivables
<b>Current and not impaired</b>				
Insured	85,068	158	64,649	-
Not insured or factored	97,787	9,978	241,158	4,399
<b>Total current and not impaired</b>	<b>182,855</b>	<b>10,136</b>	<b>305,807</b>	<b>4,399</b>
<b>Past due but not impaired</b>				
less than 45 days overdue	12,319	404	15,510	1,408
45 to 90 days overdue	902	52	2,102	31
over 90 days overdue	6,880	84	15,311	1,670
<b>Total past due but not impaired</b>	<b>20,101</b>	<b>540</b>	<b>32,923</b>	<b>3,109</b>
<b>Impaired</b>				
45 to 90 days overdue	9	50	336	46
over 90 days overdue	6,665	6,589	8,296	4,513
<b>Total amount of impaired accounts receivable</b>	<b>6,674</b>	<b>6,639</b>	<b>8,632</b>	<b>4,559</b>
<b>Total financial receivables (gross)</b>	<b>209,630</b>	<b>17,315</b>	<b>347,362</b>	<b>12,067</b>
Provision for doubtful debt	(6,674)	(6,639)	(8,632)	(4,559)
<b>Total financial receivables</b>	<b>202,956</b>	<b>10,676</b>	<b>338,730</b>	<b>7,508</b>

As at 31 December 2016 and 2015 no trade and other receivables were pledged as collateral.

Management carried out the 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.

## 14 Cash and cash equivalents and restricted cash

	Interest rates	31 December 2016	31 December 2015
<b>Cash on hand and bank balances</b>			
RR denominated cash on hand and bank balances		47,176	12,876
US\$ denominated bank balances		1,035,325	551,739
EUR denominated bank balances		45,281	97,308
Other currencies denominated balances		12,390	11,509
<b>Term deposits</b>			
US\$ term deposits	0.51% p.a. - 1.73% p.a. (31 December 2015: 0.43% p.a.)	312,000	387,700
RR term deposits	5.21% p.a. - 9.40% p.a. (31 December 2015: 8.49% p.a. - 10.8% p.a.)	33,349	50,746
<b>Total cash and cash equivalents</b>		<b>1,485,521</b>	<b>1,111,878</b>
Restricted cash		-	200,000
<b>Total cash and cash equivalents, deposits and restricted cash</b>		<b>1,485,521</b>	<b>1,311,878</b>

As at 31 December 2016 and 31 December 2015, all term deposits have maturity within three months.

Restricted cash was cash reserved on the accounts of a related party as at 31 December 2015 for the purchase of treasury shares under Company's open market buyback programme (Notes 6, 15).

## 15 Equity

	Number of ordinary shares (in millions)	Number of treasury shares (in millions)	Ordinary shares	Treasury shares	Total
<b>At 1 January 2015</b>	<b>2,936</b>	<b>(370)</b>	<b>35,762</b>	<b>(5,759)</b>	<b>30,003</b>
Treasury shares purchased	-	(1,055)	-	(18,194)	(18,194)
<b>At 1 January 2016</b>	<b>2,936</b>	<b>(1,425)</b>	<b>35,762</b>	<b>(23,953)</b>	<b>11,809</b>
Treasury shares purchased	-	(171)	-	(2,956)	(2,956)
<b>At 31 December 2016</b>	<b>2,936</b>	<b>(1,596)</b>	<b>35,762</b>	<b>(26,909)</b>	<b>8,853</b>

The number of unissued authorised ordinary shares is 1,730 million (31 December 2015: 1,730 million) with a nominal value per share of 0.824 US cents (0.5 RR) (31 December 2015: 0.686 US cents (0.5 RR)). All shares stated in the table above have been issued and fully paid.

### 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.

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During 2016 the Company purchased 46,211 ordinary shares 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 2016 was US\$ 506,134 (2015: US\$ 3,366,878). All transaction costs were included into the purchase price of shares and GDRs. The difference between the purchase price of US\$ 506,134 and the nominal value of the shares of US\$ 2,956 was accounted for as a decrease in Share premium.

Treasury shares as at 31 December 2016 comprise 1,596,816,962 ordinary shares (31 December 2015: 1,425,357,033) represented by shares and GDRs of the Company owned by JSC "UK-Technologia", wholly owned subsidiary of the Group.

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.

Subsequent to the completed buyback and open-market programmes, the free float of the Company's shares declined to 5.6% of the issued shares. As a result, the Moscow Stock Exchange may downgrade the listing of the shares from Level 1 to Level 3. Under the current Listing Rules of the Moscow Stock Exchange a decrease of the free float of the shares to 7.5% of the issued shares or lower which lasts for 6 consecutive months constitutes a ground for exclusion of the shares from the Level 1 listing. The Moscow Exchange in this case may change the listing level of the shares to the Level 3.

#### Dividends

All dividends are declared and paid in RR. In April 2015 the Company adopted a new dividend policy providing flexibility to the Board of Directors in determining the amount of dividend payments.

In 2016 and 2015, at the General Meeting of Shareholders of the Company Shareholders resolved not to pay any dividends.

#### Cross shareholding

As at 31 December 2016 and 31 December 2015 cross shareholding is presented as follows:

	31 December 2016		31 December 2015	
	Number of treasury shares (in millions)	Percentage of ordinary shares	Number of treasury shares (in millions)	Percentage of ordinary shares
JSC "Uralkali-Technologia" ("UK-Technologia") - subsidiary	1,597	54.4%	1,397	47.6%
Enterpro Services Ltd. ("Enterpro") - subsidiary	-	-	28	1.0%
<b>Total</b>	<b>1,597</b>	<b>54.4%</b>	<b>1,425</b>	<b>48.6%</b>

As at 31 December 2015, 370,123,777 ordinary shares of UK-Technologia (which comprises 12.6% of the Company's ordinary shares) were transferred under a REPO agreement. As at 31 December 2016 ordinary shares under the REPO agreement were replaced by exchange bonds (Note 17).

## 16 Provisions

	Note	Provision for filling cavities	Restructuring provision	Resettlement provision	Mine flooding provision	Legal provision	Provision for asset retirement obligations	Total
Carrying amount at 1 January 2015		44,966	4,822	22,930	20,852	-	-	93,570
Recognition of asset retirement obligations and changes in estimates added to property, plant and equipment	8	33,646	-	-	-	-	35,084	68,730
Changes in estimates		-	4,675	-	-	-	-	4,675
Accrual of provision		-	-	-	22,310	17,031	-	39,341
Utilisation of provision		(10,975)	(2,772)	(21,162)	(24,655)	-	-	(59,564)
Reversal of provision		-	-	-	(7,546)	-	-	(7,546)
Unwinding of the present value discount		5,528	361	-	-	-	-	5,889
Effect of translation to presentation currency		(14,869)	(1,475)	(1,768)	(3,138)	(2,787)	-	(24,037)
<b>Current liabilities</b>		<b>9,678</b>	<b>438</b>	<b>-</b>	<b>1,060</b>	<b>-</b>	<b>-</b>	<b>11,176</b>
<b>Non-current liabilities</b>		<b>48,618</b>	<b>5,173</b>	<b>-</b>	<b>6,763</b>	<b>14,244</b>	<b>35,084</b>	<b>109,882</b>
Carrying amount at 31 December 2015		58,296	5,611	-	7,823	14,244	35,084	121,058
Changes in estimates added to property, plant and equipment	8	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
<b>Current liabilities</b>		<b>11,639</b>	<b>200</b>	<b>10,822</b>	<b>1,460</b>	<b>19,006</b>	<b>-</b>	<b>43,127</b>
<b>Non-current liabilities</b>		<b>86,543</b>	<b>6,087</b>	<b>-</b>	<b>7,763</b>	<b>-</b>	<b>64,290</b>	<b>164,683</b>
Carrying amount at 31 December 2016		98,182	6,287	10,822	9,223	19,006	64,290	207,810

### Provision for filling cavities

A provision for filling cavities is recorded in respect of the Group's obligation to replace the earth extracted from its mines.

A technical program for mining operations was agreed with the local State mine supervisory body in 2012 - 2016. Based on this framework program, the Group prepares annual mining plans and agrees them with the local State mine supervisory body.

The balance of the provision at the reporting date equals the total of expected future discounted cash outflows associated with replacing the earth extracted from the mine in accordance with the plan of filling cavities work agreed with the State mine supervisory body. The relevant cash flows are discounted at a rate reflecting the time value of money.

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#### Restructuring provision

In 2011 the Board of Directors decided to abandon the ore-treatment plant and carnallite plant at Berezniki 1. The decision to abandon the plants was driven by the lack of the raw materials base due to the flooding of Mine 1. The Company ceased production at the plants at the end of 2011 and commenced dismantling them. The provision is for costs of dismantling of the plants which is expected to be completed in 2019.

#### Resettlement provision

In 2013 the Government of the Perm Territory and the Administration of the town of Berezniki signed an agreement outlining the financing plan for the period between 2013 and 2015 for the relocation of people living in inadequate housing facilities in Berezniki, including the construction of new infrastructure facilities and demolition of the vacated buildings. The agreement was effected pursuant to the State programme on "Securing quality housing and facilities for the citizens of the Perm Territory" and was in line with the decisions adopted by the Governmental Commission on 24 May 2013. As part of its commitment to corporate social responsibility, the Group had undertaken to provide US\$ 34,851 (RUB 2,540 mln at the exchange rate on 31 December 2015) to the Perm Territory and the town of Berezniki by instalments in 2013-2015. In 2013-2015 the liability was paid out in full.

In 2016, the Government of the Perm Territory requested additional funding from the Company to complete the resettlement programme. At 31 December 2016, it remained the Company's intention to provide additional future financing of the resettlement programme of US\$ 10,822. As at the date of approval of the consolidated financial statement the Company has not signed any agreements with the Government of the Perm Territory.

#### Mine flooding provision

During the twelve months ended 31 December 2016, the Group re-estimated costs required for liquidation of the accident consequences. The updated provision for future expenses as of 31 December 2016 is US\$ 9,223.

#### Asset retirement obligations

During 2015, the Group completed its assessment of future costs to fulfil its decommissioning obligations for mines located in Berezniki and Solikamsk. Total estimated provision for asset retirement obligations amounts to US\$ 64,290 as at 31 December 2016 (2015: US\$ 35,084).

### 17 Borrowings

	31 December 2016	31 December 2015
<b>Bank loans</b>	<b>6,409,114</b>	<b>5,897,427</b>
Short-term bank loans	1,827,100	2,325,387
Long-term bank loans	4,582,014	3,572,040
<b>Finance lease payable</b>	<b>8,760</b>	<b>7,237</b>
Short-term finance lease payable	101	83
Long-term finance lease payable	8,659	7,154
<b>Total borrowings</b>	<b>6,417,874</b>	<b>5,904,664</b>



## Bank loans

As at 31 December 2016 and 31 December 2015 the fair value of borrowings is not materially different from their carrying amounts. The Group uses cross-currency interest rate and interest rate swaps to reduce interest payments (Note 19). The Group does not use hedge accounting.

	31 December 2016	31 December 2015
<b>Balance at 1 January</b>	<b>5,897,427</b>	<b>5,037,694</b>
Bank loans received, denominated in US\$	1,350,389	1,761,317
Bank loans received, denominated in RR	-	163,392
Bank loans repaid, denominated in US\$	(701,113)	(672,371)
Bank loans repaid, denominated in RR	(196,912)	(257,514)
Interest accrued	294,949	269,269
Interest paid	(296,476)	(254,929)
Recognition of syndication fees and other financial charges	(19,831)	(14,405)
Amortisation of syndication fees and other financial charges	12,338	8,010
Foreign exchange (gain)/loss, net	(1,055,914)	1,399,028
<b>Effect of translation to presentation currency</b>	<b>1,124,257</b>	<b>(1,542,064)</b>
<b>Balance at 31 December</b>	<b>6,409,114</b>	<b>5,897,427</b>

The table below shows interest rates as at 31 December 2016 and 31 December 2015 and the split of bank loans into short-term and long-term..

	Interest rates	31 December 2016	31 December 2015
<b>Short-term bank loans</b>			
Bank loans in US\$: floating interest	From 1 month Libor +2.15% to 6 month Libor +4.65% (31 December 2015: From 1 month Libor +2.15% to 6 month Libor +5.2%)	1,641,788	2,108,341
Bank loans in US\$: fixed interest	2.67%	-	28,495
Bank loans in RR: floating interest	MosPrime Rate 3M+2.59% (31 December 2015: MosPrime Rate 3M+2.59%)	185,312	188,551
<b>Total short-term bank loans</b>		<b>1,827,100</b>	<b>2,325,387</b>
<b>Long-term borrowings</b>			
Bank loans in US\$: floating interest	From 1 month Libor +2.15% to 6 month Libor +4.65% (31 December 2015: From 3 month Libor +3.1% to 6 month Libor +5.2%)	4,447,492	3,310,399
Bank loans in RR: floating interest	MosPrime 3M + 2.59% (31 December 2015: MosPrime 3M + 2.59%)	134,522	261,641
<b>Total long-term bank loans</b>		<b>4,582,014</b>	<b>3,572,040</b>

As at 31 December 2016 and 2015 no equipment or inventories were pledged as security for bank loans.

As at 31 December 2016, bank loans amounting US\$ 2,138,964 (31 December 2015: US\$ 1,268,998) were collateralised by future sales proceeds of the Group under export contracts with certain customers.

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On 9 September 2015, the Company signed an agreement with PJSC Sberbank to open a non-revolving US\$ 1.5 billion credit line with maturity of 5 years. Funds under the committed credit line are available for utilisation from 9 September 2015 till 3 March 2017. The availability period of the loan assumes proportional increase of the limit in accordance with the Company's cash flows projections and the need in credit resources during 2016-2017. The final maturity date of the facility is 7 September 2020. As at the date of approval of these consolidated financial statements, the Company has not yet utilised the facility.

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). Funds under the committed credit line in the amount of US\$ 2.0 billion are available to be drawn down from 1 January 2018 till 31 December 2019; funds in the amount of US\$ 1.9 billion are available to be drawn down from 24 December 2017 till 23 February 2020. As at 31 December 2016, the Company has not yet used the facility.

In April 2016 the Company signed a Pre-Export Facility in the amount of US\$1.2 billion with 16 international banks. The interest rate is Libor +3.25% with a loan maturity of 5 years. The loan was used for general corporate purposes including refinancing of Company's existing loans.

On 29 August 2016 the Extraordinary General Meeting of PJSC "Uralkali" shareholders approved a number of interrelated transactions in respect of the placement of the Company's Exchange Traded Bonds in favor of JSC "Uralkali-Technology" with a total nominal value of US\$ 800 million and with a value of US\$ 1,000 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 million REPO deal signed on 23 September 2015 between JSC "Uralkali-Technology" and JSC "VTB Capital". In September 2016 Uralkali-Technology has terminated the pledge over the Company's GDRs and released Company's ordinary shares from REPO, constituting totally 20% of the Company's issued ordinary shares.

Due to the Russian Rouble devaluation as at 31 December 2015, financial covenants that require the Group to maintain a certain Net debt/Net worth ratio were breached, consequently loans which were subject to this restrictive covenant, in the amount of US\$ 1,528,573 were reclassified from non-current liabilities to current liabilities in the consolidated statement of financial position. The lenders did not request accelerated repayment of the loans.

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.

### 18 Bonds

In April 2013 the Group issued US\$ denominated bonds at the nominal value of US\$ 650 million bearing a coupon of 3.723% p.a. maturing in 2018:

	2016	2015
<b>Balance at 1 January</b>	<b>584,668</b>	<b>583,972</b>
Interest accrued	21,325	21,963
Interest paid	(21,215)	(23,113)
Amortisation of syndication fees	476	422
Foreign exchange (gain)/loss	(107,001)	160,820
Effect of translation to presentation currency	106,654	(159,396)
<b>Balance at 31 December</b>	<b>584,907</b>	<b>584,668</b>

Short-term part of bonds is represented by future coupon payment in the amount of US\$ 2,550 at 31 December 2016 (31 December 2015: US\$ 3,785).

The fair value of the outstanding bonds issued at 31 December 2016 was US\$ 580,084 according to Irish Stock Exchange quotations (31 December 2015: US\$ 545,531).

## 19 Derivative financial assets and liabilities

At 31 December 2016, the derivative financial liabilities were represented by cross-currency interest rate swap, entered into in conjunction with RR-denominated loan in the notional amount of US\$ 315,916 (31 December 2015: US\$ 444,052) and interest rate swaps with insignificant fair value amount as at reporting date, entered in conjunction with \$US-denominated loans in the aggregate notional amount of \$US 1 billion as at the reporting date (31 December 2015: nil) with the rate to be fixed in June 2017.

In accordance with cross-currency interest rate swap, the Group pays US\$ at floating rate USD-ISDA+4.2% (31 December 2015: floating rate USD-ISDA+4.2%) and receives RR at floating rates MosPrime 3m+2.59% (31 December 2015: MosPrime 3m+2.59%). Maturity of the swap is linked to loan redemption (2018).

	31 December 2016	31 December 2015
<b>Liabilities</b>		
Current derivative financial liabilities	153,372	227,480
Non-current derivative financial liabilities	123,753	358,123
<b>Total net derivative financial liabilities</b>	<b>277,125</b>	<b>585,603</b>

Movements of the carrying amounts of derivative financial assets and liabilities were as follows:

	Note	2016	2015
<b>Balance as at 1 January</b>		<b>585,603</b>	<b>554,897</b>
Cash proceeds from derivatives		14,671	49,621
Cash paid for derivatives		(215,620)	(94,337)
Changes in the fair value	26	(184,983)	232,759
Effect of translation to presentation currency		77,454	(157,337)
<b>Balance as at 31 December</b>		<b>277,125</b>	<b>585,603</b>

## 20 Trade and other payables

	31 December 2016	31 December 2015
Trade payables	61,098	39,721
Accrued liabilities	94,825	99,200
Salary payable and related accruals	50,493	38,731
Other payables	15,397	26,207
<b>Total financial payables</b>	<b>221,813</b>	<b>203,859</b>
Other non-financial payables	1,446	-
<b>Total non-financial payables</b>	<b>1,446</b>	<b>-</b>
<b>Total trade and other payables</b>	<b>223,259</b>	<b>203,859</b>

As at 31 December 2016 trade and other accounts payable of US\$ 13,437 (31 December 2015: US\$ 113,809) were denominated in foreign currencies: 79% of this balance was denominated in US\$ (31 December 2015: 94%) and 8% was denominated in Euro (31 December 2015: 6%).

## Notes to the Consolidated Financial Statements for the Year Ended 31 December 2016

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#### 21 Revenues

	2016	2015
Potassium chloride	1,482,803	2,156,680
Potassium chloride (granular)	736,041	901,392
Other revenues	59,405	65,230
<b>Total revenues</b>	<b>2,278,249</b>	<b>3,123,302</b>

#### 22 Cost of sales

	Note	2016	2015
Employee benefits		138,381	126,070
Depreciation	8	130,724	144,932
Materials and components		89,526	91,436
Fuel and energy		81,471	86,595
Amortisation of licences	10	40,671	50,336
Repairs and maintenance		36,054	59,667
Transportation between mines by railway		9,061	8,081
Change in work in progress, finished goods and goods in transit		4,578	452
Other costs		19,300	1,189
<b>Total cost of sales</b>		<b>549,766</b>	<b>568,758</b>

#### 23 Distribution costs

	Note	2016	2015
Railway tariff and rent of wagons		214,641	234,862
Freight		183,318	217,348
Transshipment		29,320	25,678
Transport repairs and maintenance		25,055	31,269
Employee benefits		16,468	17,349
Storage expenses		13,722	1,891
Commissions and marketing expenses		11,148	15,999
Depreciation	8	7,398	9,816
Other costs		46,606	50,052
<b>Total distribution costs</b>		<b>547,676</b>	<b>604,264</b>

Depreciation in the amount of US\$ 3,321 and amortisation in the amount of US\$ 0 is included into Transport repairs and maintenance and Transshipment costs (2015: US\$ 3,346 and 171 respectively).

## 24 General and administrative expenses

	Note	2016	2015
Employee benefits		87,354	87,531
Consulting, audit and legal services		8,713	9,853
Depreciation	8	6,784	7,731
Security		6,041	6,574
Mine rescue crew		5,123	4,891
Amortisation of intangible assets	10	4,367	4,014
Materials and fuel		4,263	5,572
Communication and information system services		4,016	2,963
Labour protection		3,159	3,228
Repairs and maintenance		3,059	4,226
Insurance		2,784	3,095
Rent		2,465	1,456
Bank charges		1,086	1,254
Other expenses		14,868	14,496
<b>Total general and administrative expenses</b>		<b>154,082</b>	<b>156,884</b>

## 25 Other operating income and expenses

	Note	2016	2015
<b>Other operating (income)/expenses related to non-current assets</b>			
Loss on disposals of property, plant and equipment and intangible assets		9,322	22,390
(Reversal)/impairment of prepayments for acquisition of property, plant and equipment and intangible assets		(2,207)	2,414
Loss on impairment of property, plant and equipment and assets under construction	8	3,773	1,558
Depreciation	8	885	-
Reversal of impairment of Solikamsk-2 property, plant and equipment and assets under construction	8	(582)	(27,248)
<b>Other operating (income)/expenses related to accounting estimates and accrued liabilities</b>			
Resettlement provision	16	9,792	-
Expenses related to mine flooding		207	10,113
(Income)/expenses related to accrued liabilities		(6,317)	12,760
(Reversal)/accrual of provision for impairment of receivables	13	(991)	8,337
Accrual of legal provision	16	-	17,031
<b>Other operating (income)/expenses</b>			
Social cost and charity		7,742	8,452
Other operating income, net		(8,883)	(12,478)
<b>Total other operating expenses, net</b>		<b>12,741</b>	<b>43,329</b>

## Notes to the Consolidated Financial Statements for the Year Ended 31 December 2016

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#### 26 Finance income and expenses

	Note	2016	2015
Foreign exchange gain		888,967	-
Fair value gain on derivative financial liabilities, net	19	184,983	-
Interest income		17,260	36,368
Gain from discounting and unwinding, net		1,694	-
Income from associates		279	-
Dividend income		172	-
Fair value gain on investments		-	24,910
<b>Total finance income</b>		<b>1,093,355</b>	<b>61,278</b>
Interest expense		(289,685)	(270,841)
Syndication fee and other financial charges		(30,407)	(23,401)
Letters of credit fees		(4,043)	(4,167)
Finance lease expense		(797)	(812)
Fair value losses on investments		(297)	-
Foreign exchange loss		-	(1,038,810)
Fair value loss on derivative financial liabilities, net	19	-	(232,759)
Unwinding of the present value discount and effect of changes in discount rates		-	(8,063)
Loss from associate		-	(67)
<b>Total finance expenses</b>		<b>(325,229)</b>	<b>(1,578,920)</b>
<b>Total finance income/(expenses), net</b>		<b>768,126</b>	<b>(1,517,642)</b>

Coupon income from corporate bonds classified as other financial assets held to maturity in the amount of US\$ 3,966 is included in interest income (2015: US\$ 3,789).

Capitalised interest expense and foreign exchange gain/loss in the cost of property, plant and equipment were as follows:

	2016	2015
Interest expense	26,949	20,391
Foreign exchange loss	-	19,332
<b>Total capitalised borrowing costs</b>	<b>26,949</b>	<b>39,723</b>

## 27 Income tax expense

	2016	2015
Current income tax expense	197,124	47,058
Adjustments recognised in the period for current income tax of prior periods	(449)	3,986
Deferred income tax expense/(benefit)	132,875	(27,213)
<b>Income tax expense</b>	<b>329,550</b>	<b>23,831</b>

Income before taxation and non-controlling interests for consolidated financial statements purposes is reconciled to income tax as follows:

	2016	2015
<b>Profit before income tax</b>	<b>(1,756,696)</b>	<b>(207,599)</b>
Theoretical tax charge	272,288	32,178
Corrections of profit tax for prior years	(449)	3,986
Tax effect of expenses which are not deductible, net	13,721	1,301
Effect of different tax rates in countries	176	(9,088)
Effect of changes in tax rate	39,452	-
Write-off of deferred tax asset	6,006	-
Other	(1,644)	(4,546)
<b>Income tax expense</b>	<b>329,550</b>	<b>23,831</b>

In the years ended 31 December 2016 and 2015, most companies of the Group were registered in the Russian Federation, Perm Territory and were taxed at a rate of 15.5% on taxable profits as at 31 December 2015 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 Territory 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 Territory, 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.

The 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 Territory, including the Company.

As at 31 December 2016 the Group had unused tax losses carried forward in the amount of US\$ 103,022 (31 December 2015: US\$ 137,322). Due to changes in the tax legislation taking effect since January 2017 tax losses may be now carried forward for an indefinite period. The carryforward period used to be limited to 10 years. In 2017-2020 the taxable profit can be reduced by maximum 50% losses of previous tax periods in any fiscal year. The deferred tax asset in the amount of US\$ 19,651 (31 December 2015: US\$ 23,215) was recognised in relation to these losses as the management believes that taxable profits would be received in the amount sufficient to utilize such losses.

In 2016 and 2015, foreign subsidiaries were taxed applying respective national income tax rates.

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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
<b>Tax effects of taxable and deductible temporary differences:</b>				
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	(3,581)	(10,094)	(1,784)	(15,459)
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 assets and liabilities	2,410	6,046	1,132	9,588
<b>Total net deferred tax liability</b>	<b>(320,411)</b>	<b>(132,875)</b>	<b>(78,543)</b>	<b>(531,829)</b>

The tax effect of the movements in the temporary differences for the year ended 31 December 2015 was the following:

	31 December 2014	Recognised in profit or loss	Effect of translation to presentation currency	31 December 2015
<b>Tax effects of taxable and deductible temporary differences:</b>				
Property, plant and equipment	(107,107)	(25,772)	28,657	(104,222)
Intangible assets	(493,680)	7,300	111,421	(374,959)
Inventories	4,416	32,350	(6,279)	30,487
Borrowings	(3,179)	(1,690)	1,000	(3,869)
Trade and other receivables	4,367	(8,284)	336	(3,581)
Derivative financial instruments	86,009	29,135	(24,382)	90,762
Trade and other payables	24,394	(21,786)	(2,018)	590
Tax loss carry-forward	28,234	1,706	(6,725)	23,215
Provisions	6,970	15,995	(4,209)	18,756
Other assets and liabilities	4,996	(1,741)	(845)	2,410
<b>Total net deferred tax liability</b>	<b>(444,580)</b>	<b>27,213</b>	<b>96,956</b>	<b>(320,411)</b>

Deferred tax balances presented in the consolidated statement of financial position were as follows:

	31 December 2016	31 December 2015
Deferred tax asset	47,408	56,721
Deferred tax liability	(579,237)	(377,132)
<b>Deferred tax liability, net</b>	<b>(531,829)</b>	<b>(320,411)</b>

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\$ 200,565 (31 December 2015: US\$ 199,444). The Group controls the timing of the reversal of these temporary differences and does not expect their reversal in the foreseeable future.



## 28 Contingencies, commitments and operating risks

### 28.1 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, the 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.

### 28.2 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 is not subject to inclusion into the tax base of the Company. 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, the 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.

### 28.3 Insurance policies

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 5.

### 28.4 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 5. 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.

### 28.5 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.

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#### 28.6 Capital expenditure commitments

As at 31 December 2016 the Group had contractual commitments for the purchase of property, plant and equipment and intangible assets for US\$ 425,742 (31 December 2015: US\$ 480,484) and US\$ 274 (31 December 2015: US\$ 1,760) from third parties, respectively. As at 31 December 2016, the Group had no contractual commitments for the purchase of property, plant and equipment from related parties (31 December 2015: US\$ 835).

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.

#### 28.7 Operating lease commitments

As at 31 December 2016 and 2015 the Group leased property, plant and equipment, mainly land plots. The future minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
Not later than 1 year	3,198	1,677
Later than 1 year and not later than 5 years	9,958	6,960
Later than 5 years	16,074	29,188
<b>Total operating lease commitments</b>	<b>29,230</b>	<b>37,825</b>

## 29 Financial risk management

### 29.1 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.

### 29.2 Categories of financial instruments

	Note	31 December 2016	31 December 2015
<b>Financial assets</b>			
Loan issued	6	188,762	-
Trade and other receivables	13	213,632	346,238
Other financial assets		68,267	67,599
Cash and cash equivalents	14	1,485,521	1,111,878
Restricted cash	14	-	200,000
<b>Financial liabilities</b>			
Borrowings	17	6,417,874	5,904,664
Bonds	18	584,907	584,668
Derivative financial liabilities	19	277,125	585,603
Trade and other payables	20	221,813	203,859

### 29.3 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 approximately 79% of potash fertilizers sales (2015: 82%). 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 2016, if during the year the RR had strengthened/weakened by 20% against the US\$ and Euro with all other variables held constant, the foreign exchange loss for the year would have been US\$ 815,925 lower/higher (31 December 2015: US\$ 940,062 lower/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 17, 18). 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 2016, if LIBOR and ISDA rates on US\$ denominated borrowings had been 200 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been US\$ 100,192 lower/higher (year ended 31 December 2015: post-tax profit for the year would have been US\$ 85,842 lower/higher). For the year ended 31 December 2016, if MosPrime rates on RR denominated borrowings had been 1,500 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been US\$ 45,799 higher/lower (year ended 31 December 2015: post-tax profit for the year would have been US\$ 73,372 higher/lower).

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 or invested in such counterparties. Financial assets, which potentially subject Group entities to credit risk, consist primarily of loan issued, trade receivables, other financial assets held to maturity, 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\$ 1,956,182 (31 December 2015: US\$ 1,725,715).

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### CONTINUED

The Group is not exposed to significant concentrations of credit risk. As at 31 December 2016 the Group had 28 counterparties (31 December 2015: 52 counterparties), each of them having receivables balances above US\$ 1,000. The total aggregate amount of these balances was US\$ 181,529 (31 December 2015: US\$ 320,612) or 85% of the total amount of financial trade and other receivables (31 December 2015: 89%). 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.

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. The 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 13). 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 13).

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 2016 and 2015, if otherwise not stated in table below:

Ratings – Moody's, Fitch, Standard&Poor's	31 December 2016	31 December 2015
From AAA / Aaa to A- / A3	255,146	155,572
From BBB+ / Baa1 to BBB- / Baa3	629,599	53,123
From BB+ / Ba1 to B- / B3	133,211	496,943
Unrated*	467,565	606,240
<b>Total cash and cash equivalents, deposits and restricted cash not past due nor impaired</b>	<b>1,485,521</b>	<b>1,311,878</b>

\* 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.

As at 31 December 2016	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	20	221,813	-	-	221,813
Bank 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
<b>TOTAL</b>		<b>2,545,594</b>	<b>5,827,165</b>	<b>113,501</b>	<b>8,486,260</b>

As at 31 December 2015	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	20	203,859	-	-	203,859
Bank borrowings		2,591,286	3,858,044	337,422	6,786,752
Bonds		20,588	677,356	-	697,944
Finance lease liabilities		744	2,976	28,687	32,407
Derivative financial liabilities		218,468	321,713	-	540,181
<b>TOTAL</b>		<b>3,034,945</b>	<b>4,860,089</b>	<b>366,109</b>	<b>8,261,143</b>

### 30 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\$) 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. As at 31 December 2016 and 31 December 2015, the estimated fair value of the current and non-current borrowings, trade and other payables is not materially different from their carrying amounts.

Financial assets	Stated at	Level	31 December 2016		31 December 2015	
			Carrying value	Fair value	Carrying value	Fair value
Trade and other receivables	Amortised cost	3	213,632	213,632	346,238	346,238
Other financial assets	Amortised cost (31 December 2015: Fair value)	3, 1	68,267	68,770	67,599	67,599
<b>TOTAL</b>			<b>281,899</b>	<b>282,402</b>	<b>413,837</b>	<b>413,837</b>

## Notes to the Consolidated Financial Statements for the Year Ended 31 December 2016

(in thousands of US dollars,  
unless otherwise stated)

### CONTINUED

Financial liabilities	Stated at	Level	31 December 2016		31 December 2015	
			Carrying value	Fair value	Carrying value	Fair value
Borrowings	Amortised cost	3	6,417,874	6,417,874	5,904,664	5,904,664
Bonds	Amortised cost	1	584,907	580,084	584,668	545,531
Derivative financial liabilities	Fair value	2	277,125	277,125	585,603	585,603
Trade and other payables	Amortised cost	3	221,813	221,813	203,859	203,859
<b>TOTAL</b>			<b>7,501,719</b>	<b>7,496,896</b>	<b>7,278,794</b>	<b>7,239,657</b>

### 31 Principal subsidiaries

The Group had the following principal subsidiaries as at 31 December 2016 and 31 December 2015:

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
LLC "SMT "BHSU"	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	80.00%	80.00%	Russia
JSC "VNII Galurgii"	Scientific institute	85.25%	85.25%	Russia
Uralkali Trading S.A.	Trading	100.00%	100.00%	Switzerland
Uralkali Trading SIA	Trading	100.00%	100.00%	Latvia
Uralkali Trading Chicago	Trading	100.00%	100.00%	USA

# Director's 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, which approved the making of the responsibility statement for the Company at a Board Meeting on 12.04.2017.**

# 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 Board of Directors of PJSC Uralkali on 12 April 2017. 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.

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
1.1	<b>The company should ensure the equal and fair treatment of all its shareholders in the course of their exercising their rights to participate in the management of the company.</b>			
1.1.1	The company should create the most favourable conditions possible for its shareholders, enabling them to participate in the general meetings and to develop informed positions on the issues forming its agenda, as well as providing them with the opportunity to coordinate their actions and express their opinions regarding the issues under discussion	<ol style="list-style-type: none"> <li>The internal document of the company which regulates the procedure for convening, preparing and holding general shareholders meetings, and which was approved by the general shareholders meeting, should be available within the public domain.</li> <li>During the period of preparation for the meeting, the company shall establish the necessary organisational and technical conditions to ensure that shareholders may pose questions to members of the company's executive bodies and board of directors, as well as to publicly express their opinions on the meeting's agenda items. To this end, a company with a large number of shareholders is recommended to support a special telephone line (hotline) for communication with shareholders, to establish a special email address, and to provide a forum for discussion of the meeting agenda on its website.</li> </ol>	observed	



#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
1.1.2	Procedures for notification of the general meeting and provision of materials for it should enable the shareholders to properly prepare themselves for participation therein	<p>1. A notice announcing a general shareholders meeting should be published on the website of the company at least 30 days before the date of the meeting.</p> <p>2. In addition to the information which under the law must be contained in the notice of the general meeting, it is recommended to specify therein the exact location of the general meeting, including details of the room in which it will be conducted and information on documents required for admission to the premises on which the general meeting is to be held.</p> <p>3. Information about who has proposed each item or nominated a particular candidate to a management body or other body of the company is of great importance for shareholders wishing to form an objective opinion on an agenda item.</p>	partially observed	The shareholders are not informed of who proposed agenda items for the AGM or nominated candidates for election to the bodies of the company. This has to do with the fact that the majority of items proposed to the shareholders in 2016 were (in compliance with the law and charter of the company) proposed by the board of directors with the board's recommendation to approve the indicated issues. In this case, as we believe, it does not matter who proposed the relevant item, because the board of directors accepts shareholders' proposals and provides shareholders with extracts from meeting minutes as part of the materials provided to shareholders in preparation for the general meeting. 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.
1.1.3	During the preparation for and holding of the general meeting, the shareholders should be able to freely and in a timely manner receive information about the meeting and its materials, to pose questions to members of the company's executive bodies and board of directors, and to communicate with each other.	<p>1. During the relevant reporting period shareholders should be provided with an opportunity to pose questions to members of the company's executive bodies and board members before and during the annual general meeting.</p> <p>2. The materials set out the positions of the board of directors regarding the general meeting's agenda, as well as dissenting opinions of board members on each item therein. Such materials are recommended for inclusion into the minutes of a meeting of the board of directors where such opinions have been expressed.</p> <p>3. The company is recommended to provide those shareholders who are entitled to review the list of persons authorized to participate in the meeting with the opportunity to review it starting from the date when the company receives such information</p>	partially observed	<p>The Charter of the company and the Law do not make it obligatory for board members to be present at the AGM; however board members can be invited to participate in the general meeting. Traditionally, attendance at general shareholders meetings, despite the fact that these meetings are held at the location of most shareholders of the company (Berezniki, Perm Territory), is very low and the presence of board members seems excessive and unnecessary as most members of the Management Board including the CEO (General Director), are present and willing to answer any questions that the shareholders might have. Shareholders also have the opportunity to pose their questions to board members (for example, via e-mail) and to members of the Management Board at any time during preparation for and the actual holding of the meeting.</p> <p>The position of the board of directors on agenda items is stated in the decisions adopted by the board of directors themselves. Notices of material corporate actions (significant facts) disclosed by the company reflect the number of votes cast by board members present at the meeting in support of a particular decision. There were no dissenting opinions of board members which had to be recorded in the minutes and subsequently disclosed. We deem unnecessary to disclose information about what directors and why preferred abstaining or voting against, as the board of directors is a collective body whose decisions are adopted by a quorum determined by the Law and the Charter.</p>

## Report on Compliance with the Principles and Recommendations of the Code of Corporate Governance

### CONTINUED

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
1.1.4	There should be no unjustified difficulties preventing shareholders from exercising their right to demand that a general meeting be convened, nominate candidates to the company's governing bodies, and to place proposals on its agenda.	<p>1. The shareholders have 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.</p> <p>2. If there are typos and other insignificant flaws in shareholder proposals, it is not recommended that the company refuse to include these proposals on the agenda or refuse to allow the proposed candidate to claim his/her place on the list of nominees for election as long as the contents of the proposal as a whole are sufficient to determine the will of the shareholder and to confirm his right to submit the proposal.</p>	observed	
1.1.5	Each shareholder should be able to freely exercise his right to vote in a straightforward and most convenient way.	To rule out any abuse, the company should include in its internal documents a provision whereby a person filling out a voting ballot may, until the end of the general meeting, request that a copy of the ballot filled out thereby be certified by the company's counting commission (or representatives of the registrar who carry out the functions of such counting commission).	not observed	No such provisions are made in the internal documents of the company; however, in reality no shareholder has ever been refused a copy of a ballot filled in by this shareholder and certified by the company's counting commission if ever such request was made by a shareholder.
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.	<p>1. The general meeting should be conducted in such a way as to enable the shareholders to make informed and reasoned decisions on all matters on the agenda. In order to do so, a sufficient time for reports on the agenda should be provided and there should be sufficient time to discuss these issues.</p> <p>2. The company should invite candidates nominated to its board of directors and internal audit commission to attend the respective general meeting (and such candidates are recommended to attend the same) so that shareholders will be able to ask them questions and make their judgments about such candidates.</p> <p>3. The board of directors considered the use of telecommunication systems to provide the shareholders with remote access to their general meetings (for example, by broadcasting its proceedings via the company's website or by using video conferencing).</p>	partially observed	Refer to comment to p. 1.1.3

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
<b>1.2</b>	<b>Shareholders should have equal and fair opportunities to participate in the profits of the company by means of receiving dividends.</b>			
1.2.1	The company should develop and put in place a transparent and clear mechanism for determining the amount of dividends and their payment.	1. The company has developed and disclosed its dividend policy approved by the board of directors. 2. If the dividend policy of the company utilizes 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.	observed	The dividend policy of the company was approved by the board of directors and disclosed on the official website of the company. The dividend policy is not linked to a specific financial indicator of the company's financial statements.
1.2.2	The company should not make a decision on the payment of dividends if such decision, without formally violating limits set by law, is nevertheless unjustified from the economic point of view and might lead to the formation of false assumptions about the company's activity.	The dividend policy of the company should contain 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.	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 its shareholders can obtain profit or gain at the company's expense other than dividends and distributions of its liquidation value.	The company has established appropriate control mechanisms in its internal documents to prevent its controlling persons from deriving a profit (income) from the company in ways other than dividends or liquidation value. Internal documents of the company contain provisions establishing control mechanisms for timely identification and approval of transactions with affiliated parties and major shareholders (persons entitled to control votes attached to voting shares) in cases when the law does not formally recognize these transactions as interested-party transactions.	partially observed	In 2015, for objective reasons, the company was unable to pay dividends due to several financial and accounting limitations imposed by the law, which could have led to the deterioration of the financial status of the company. The internal documents of the company (Regulations on the Audit Committee) provide for a specific procedure for the Committee's work in cases of strategic transactions which, inter alia, may include transactions with the company's substantial shareholders. Such transactions are concluded once a special committee comprised exclusively of independent directors has issued an appropriate recommendation. In 2016, the company initiated another program to repurchase shares and global depositary receipts which enabled the shareholders to sell their securities at market value, since no dividends would be paid in the foreseeable future.

## Report on Compliance with the Principles and Recommendations of the Code of Corporate Governance

### CONTINUED

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
1.3	<b>The system and practices of corporate governance should ensure equal terms and conditions for all shareholders owning shares of the same class (category) in a company, including minority and foreign shareholders. Equal treatment should be unilateral and beyond dispute.</b>			
1.3.1	The company should create conditions which would force its governing bodies and controlling personnel to treat each shareholder fairly, especially in the area of negating the possibility of any abuse of minority shareholders by major shareholders.	During the reporting period the procedures adopted for management of potential conflict between major shareholders were effective, and the board of directors paid sufficient attention to conflicts, if any, between shareholders.	observed	
1.3.2	The company should not perform any acts which would or could result in artificial reallocation of corporate control therein.	There were no quasi-treasury shares or they did not participate in voting during the course of 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 meeting of shareholders (securing a quorum that makes the meeting eligible), as well as taking decisions on a number of issues of the company's activities (in particular, approval of the revised company's 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) became impossible without the use of a quasi-treasury block. At the same time, considering that the quasi-treasury block of the Company is divided into several smaller blocks, the Company used only a small portion of quasi-treasury shares necessary to ensure the eligibility of the meeting and the adoption of the revised charter, approved in connection with the need to bring the provisions of the charter into compliance with the requirements of current Russian legislation, namely, the Federal Law On Joint Stock Companies and the Civil Code of the Russian Federation. In voting on other items of the agendas, the quasi-treasury block was not used.
1.4	<b>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 a non-onerous manner.</b>			
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 a non-onerous manner.	The quality and reliability of the work performed by the registrar of the company answers the requirements of the company and its shareholders.	observed	

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
<b>2.1</b>	<b>The board of directors shall be in charge of strategic management of the company, determine major principles of and approaches to creation of a risk management and internal control system within the company, monitor the activity of the company's executive bodies, and carry out other key functions.</b>			
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 failure of the latter to properly perform their duties. The board of directors should also guarantee that the company's executive bodies act in accordance with an approved development strategy and the 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. During the reporting period the board heard reports of the one-person executive body and members of the collective executive body on the implementation of the strategy, with particular attention to conformity with the company's performance in targeting indicators set forth by the company's strategy.	partially observed	According to the charter, 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 General Director (one-person executive body) of the company. Members of the Management Board are appointed and dismissed by the board of directors; however, the terms and conditions of their employment contracts are not determined by the board of directors in compliance with the Law and the charter of the company. The Nomination and Remuneration committee is charged with the preparation of recommendations regarding the principles and criteria of establishing the amount of the remuneration payable to members of the Management Board. The board of directors regularly reviews reports of the General Director on the results of the company's activities (quarterly), which also include information about the status of implementation of the strategy of the company. In addition, the company has a practice of holding annual strategic sessions.
2.1.2	The board of directors should establish basic long-term targets of the company's activity, evaluate and approve its key performance indicators and principal business goals, as well as evaluate and approve its strategy and business plans in respect of its principal areas of operations.	During the reporting period the board of directors has reviewed matters related to the status of execution of the strategy of the company, approval of its financial plan (budget) and the review of criteria and indicators (including interim) pertaining to the execution of the strategy and business plans of the company.	observed	
2.1.3	The board of directors should determine principles of and approaches to creation of the risk management and internal control system in the company.	1. The board of directors has determined the principles and approaches to creation of the risk management and internal control system in the company. 2. The board of directors has evaluated the risk management and internal control system during the reporting period.	observed	
2.1.4	The board of directors should determine the company's policy on remuneration due to and/or reimbursement of costs incurred by its board members, members of its executive bodies and other key managers.	1. The company has developed and implemented a policy (policies) on remuneration and/or reimbursement of costs incurred by its board members, members of executive bodies and other key managers. This policy (policies) was approved by the board of directors. 2. During the reporting period the board of directors reviewed matters related to the indicated policy (policies).	partially observed	The company developed and implemented Regulations on Remuneration and Reimbursement of Members of the Board of Directors (hereinafter – the Regulations on Remuneration), which were approved by the general shareholders meeting. During the reporting year, the general meeting of shareholders of PJSC Uralkali approved amendments to the Regulations on Remuneration, according to which the right to receive remuneration was also granted to non-executive members of the board of directors. Over the course of the reporting period there was no need to update or adjust documents related to remuneration and reimbursement of executive bodies or key managers of the company.

## Report on Compliance with the Principles and Recommendations of the Code of Corporate Governance

### CONTINUED

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
2.1.5	The board of directors should play 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 has created a system of identification of transactions related to a conflict of interest and a system of measures intended to resolve such conflicts.	observed	
2.1.6	The board of directors should play 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 has approved a regulation on information policy. 2. The company has appointed persons in charge of the implementation (enforcement) of the information policy.	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.	During the reporting period the board of directors reviewed the corporate governance practices in the company.	observed	
<b>2.2</b>	<b>The board of directors should be accountable to the company's shareholders.</b>			
2.2.1	Information about the board of directors' work should be disclosed and provided to the shareholders.	1. The annual report of the company for the reporting period contains information regarding the directors' attendance at board and committee meetings. 2. The annual report contains information about the key results of the evaluation of the work of the board of directors in the reporting period.	observed	
2.2.2	The chairperson of the board of directors should be available for communication with shareholders.	The company has a transparent procedure allowing shareholders to send questions to the chairperson of the board of directors and clarify their position on them.	observed	

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
2.3	<b>The board of directors should be an efficient and professional governing body of the company able to make objective and independent judgments and pass resolutions in the best interests of the company and its shareholders.</b>			
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.	<p>1. The performance assessment procedure for the board of directors adopted in the company includes the evaluation of professional qualifications of board members.</p> <p>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.</p>	partially observed	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 board members. In addition, over the course of the reporting period the board of directors did not evaluate candidates nominated to the board of directors in terms of their experience, knowledge, business reputation or absence of a conflict of interest, because candidates to the board are nominated and elected by shareholders and the Law does not provide for a procedure of refusal to accept candidates or to appoint candidates to the board of directors due to their not possessing certain knowledge or 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 minimized 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 2016, the Nomination and Remuneration Committee for the first time assessed the compliance of candidates for election to the board of directors with the independence criteria set by the Listing Rules of the Moscow Stock Exchange. Information on compliance with the independence criteria and on the absence of a conflict of interest was taken into account.
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.	Biographical data on all candidates nominated to the board of directors, and the results of the evaluation of such candidates conducted by the board of directors (or its nominations committee), information regarding the 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	The results of the evaluation of candidates conducted by the board of directors or the Nomination and Remuneration Committee in 2016 were not provided to shareholders; however, detailed biographies of candidates indicating their status (independent, non-executive, executive) were made available to them.

## Report on Compliance with the Principles and Recommendations of the Code of Corporate Governance

### CONTINUED

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
2.3.3	The composition 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.	During the procedure of assessment of the work of the board of directors conducted in the reporting period, the board analysed its composition in terms of the qualifications and expertise of its members.	not observed	Refer to comment to p. 2.3.1
2.3.4	The membership of the board of directors of the company must 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 to enable substantial minority shareholders of the company to put forth a candidate to the board of directors for whom they would vote	During the procedure of assessment of the work of the board of directors 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 an assessment procedure was not carried out by the board of directors. The issue of conformity of the board's membership with the needs of the company and interests of shareholders has never been raised as the company has never had any shareholders' request to change the board's composition or to provide any information confirming that the number of board members does not correlate with the interests of the company or its shareholders. The number of board members is in line with the law, and the Company sees no reason to change it.
<b>2.4</b>	<b>The board of directors should include a sufficient number of independent directors.</b>			
2.4.1	An independent director should mean any person who has the required professional skills and expertise and is sufficiently able to have his/her own position and make objective and bona fide 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 normal 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.	During the reporting period all independent board members met all the all requirements of recommendations 102-107 of the Code or were deemed independent pursuant to a decision of the board of directors.	observed	



#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
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.	<p>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 the appropriate conclusion.</p> <p>2. At least once in the reporting period the board of directors (or its nominations committee) evaluated the independence of current members of the board of directors indicated by the company in the annual report as independent directors.</p> <p>3. The company has developed procedures indicating the actions which must 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 fashion.</p>	partially observed	<p>Refer to comment to p. 2.3.1.</p> <p>The company does not have any special procedures determining what actions must be taken by board members in cases when they cease to be independent. We do not consider the development of such procedures necessary, because the Law On Joint Stock Companies and the Regulation on the Board of Directors of the company sufficiently regulate this issue by providing that board members must notify the board of directors (supervisory board) of the company, the revision commission and/or auditor of the company of the following:</p> <ul style="list-style-type: none"> <li>- legal entities where they independently or together with their affiliates own 20% or more of voting shares (stakes);</li> <li>= legal entities where they are members of governance bodies;</li> <li>= all current or potential transactions where they may be deemed to be interested parties.</li> </ul>
2.4.3	Independent directors should account for at least one-third of all directors elected to the board of directors.	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 prevention of internal conflicts in the company and performance by the latter of material corporate actions.	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	
<b>2.5</b>	<b>The chairperson of the board of directors should help it carry out the functions imposed thereon in a most efficient manner.</b>			
2.5.1	It is recommended to either elect an independent director to the position of chairperson of the board of directors or identify the senior independent director among the company's independent directors who would coordinate work of the independent directors and liaise with the chairperson of the board of directors.	<p>1. The chairperson of the board of directors is an independent director or a senior independent director who was appointed from among the independent directors<sup>39</sup>.</p> <p>2. The role, rights and responsibilities of the chairperson of the board (and, if applicable, of the senior independent director) are clearly determined in the internal documents of the company.</p>	partially observed	The chairperson of the board of directors is an independent director. Also, the board of directors has elected a senior independent director; however his role, rights and obligations are not determined under any internal document. Nevertheless, every year, the company discloses information about the role of the senior independent director in the annual report.

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#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
2.5.2	The board chairperson should ensure that board meetings are held in a constructive atmosphere and that any items on the meeting agenda are discussed freely. The chairperson should also monitor fulfilment of decisions made by the board of directors.	The performance of the chairperson of the board of directors was evaluated within the framework of the board performance assessment procedure in the reporting period.	partially observed	The individual role of the chairperson 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 chairperson 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 chairperson of the board of directors in 2016.
2.5.3	The chairperson of the board of directors should take any and all measures as may be required to provide the board members in a timely fashion with information required to make decisions on issues on the agenda.	The obligation of the chairperson of the board of directors to take any and all measures to provide the board members in a timely fashion with information required to make decisions is stipulated in the internal documents of the company.	observed	
<b>2.6</b>	<b>Board members must act reasonably and in good faith in the best interests of the company and its shareholders, being sufficiently informed, with due care and diligence.</b>			
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.	<p>1. Internal documents of the company should 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.</p> <p>2. According to internal documents of the company, 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.</p> <p>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.</p>	partially observed	<p>According to p. 3.3 of the Regulations on the Board of Directors, board members must inform the board of directors, the revision commission and the authority of the company of information specified in Article 82 of the Federal Law On Joint Stock Companies, and inform the board of any changes in the indicated information in a timely fashion. It is not required that board members must refrain from voting on any matter where he/she has a conflict of interest; however, the company has never had a case of voting when there was a conflict of interest. The absence of such provision in the company's internal documents is, in our opinion, compensated by the provisions of p. 3.3 of the Regulations 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.</p> <p>Pursuant to p. 3.1 of the Regulations on the Board of Directors, board members have the right to request that experts and consultants be retained by the company at the expense of the company whenever the need arises. The procedure for retention of such experts is not formalized, but, as a rule, board members who wish to retain a consultant address their requests (as with any other matter related to the work of the board of directors) to the Corporate Secretary of the company who, in compliance with the Regulations on the Corporate Secretary of PJSC Uralkali, provides organisational support to the board of directors and ensures effective coordination between board members and the company's management.</p>
2.6.2	Rights and duties of board members should be clearly stated and documented in the company's internal documents.	The company adopted and published an internal document whereby the rights and duties of board members are clearly stated.	observed	

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2.6.3	Board members should have sufficient time to perform their duties.	1. Individual attendance at board and committee meetings and time devoted to preparation for participation in meetings was considered during the procedure of assessment of the board of directors in the reporting period. 2. In accordance with internal documents of the company, board members should notify the company's board of directors of their intention to take a position in management bodies of other entities and, immediately after their election (appointment) to the management bodies of such other entities, of such election (appointment).	partially observed	The company's internal documents do not require that board members notify the board of directors of their intention to take a position in management bodies of other entities. Board members must inform the board of directors of the fact of their appointment (election) to the management bodies of other entities in compliance with the Law and p. 3.3 of the Regulations on the Board of Directors. Imposing an obligation on board members to inform the company of their intentions seems excessive for the following reasons: 1) until the moment of their appointment this information may constitute insider information and cannot be made known to the company; 2) their appointment may not be finalized for various reasons.
2.6.4	All board members should have equal opportunity to access the company's documents and information. Newly elected board members should be provided with sufficient information about the company and work of its board of directors as soon as possible.	1. In accordance with internal documents of the company, board members are given an opportunity to obtain any and all information required to perform their duties, including information on legal entities controlled by the company. The duty of the company's officials to provide the board members with such information is set forth by the company's internal documents. 2. The company has a formal induction program for newly elected board members.	observed	
<b>2.7</b>	<b>Meetings of the board of directors, preparation for them, and participation of board members therein should ensure efficient work of the board.</b>			
2.7.1	It is recommended to hold meetings of the board of directors as needed, with due account of the company's scope of activities and its then current goals.	The board of directors held at least 6 meetings in the reporting period.	observed	
2.7.2	It is recommended to develop a procedure for preparing for and holding meetings of the board of directors and setting it out in the company's internal documents. The above procedure should enable the shareholders to prepare themselves properly for such meetings.	The company has an internal document in place regulating the procedure for preparation and holding of board meetings which, inter alia, requires that the notice of a meeting must be made, as a rule, at least 5 days before the date of the meeting.	observed	Note: The company's internal documents require that notices of meetings and materials thereto must be provided to board members not later than 3 business days before the meeting (5 calendar days at the most). In exceptional cases, materials may be provided one business day in advance.
2.7.3	The form of a meeting of the board of directors should be determined with due account of the importance of the issues on the agenda of the meeting. Most important issues should be decided at the meetings held in person.	1. According to the charter or an internal document of the company, the most important issues (in accordance with the list provided in recommendation 168 of the Code) must be considered and decided at meetings held in person.	partially observed	The Regulations on the Board of Directors determine a list of issues which cannot be reviewed at absentee meetings; however, formally this list does not meet the requirements of p. 168 of the Code. Nevertheless, almost all issues listed in p. 168 of the Code are reviewed at meetings in person

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#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
2.7.4	Decisions on most important issues relating to the company's business should be made at a meeting of the board of directors by a qualified majority vote or by a majority vote of all elected board members.	According to the charter of the company, the most important issues as described by recommendation 170 of the Code must be decided by a qualified majority vote of at least three quarters of the votes or by a majority vote of all elected board members.	partially observed	The charter of the company does not provide for the issues listed in recommendation 170 of the Code to 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 enjoy almost a 100% attendance by board members, almost all decisions are adopted by the majority vote of all elected board members.
<b>2.8</b>	<b>The board of directors should form committees for preliminary consideration of the most important issues of the company's business.</b>			
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.	<ol style="list-style-type: none"> <li>The board of directors formed an audit committee comprised exclusively of independent directors.</li> <li>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.</li> <li>At least one member of the audit committee, who is an independent director, has experience and knowledge of preparation, analysis, evaluation and audit of accounting (financial) statements.</li> <li>Meetings of the audit committee were held at least once every quarter during the reporting period.</li> </ol>	observed	
2.8.2	For the purpose of preliminary consideration of any matters of development of efficient and transparent remuneration practices, it is recommended to form a remuneration committee comprised of independent directors and chaired by an independent director who should not concurrently be the board chairperson.	<ol style="list-style-type: none"> <li>The board of directors formed a remuneration committee comprised exclusively of independent directors.</li> <li>The committee is chaired by an independent director who is not the board chairperson at the same time.</li> <li>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.</li> </ol>	partially observed	Most members of the Audit Committee are independent directors, which is in line with the Listing Rules of the Moscow Exchange. For objective reasons the company cannot form the Audit Committee exclusively of independent directors as the chairperson of the board of directors of the company is not a member of board committees and oversees only the board of directors as a whole. All other recommendations are fully observed.

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
2.8.3	For the purpose of preliminary consideration of any matters relating to human resources planning (making plans regarding successor directors), professional composition 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 nominations committee (or its objectives indicated in recommendation 186 of the Code are implemented by a different committee <sup>40</sup> ), with a majority of its members being independent directors. 2. The objectives of the nominations committee (or the relevant committee performing these functions) including the objectives indicated in recommendation 186 of the Code are determined in the internal documents of the company.	partially observed	Combined with the Nomination and Remuneration Committee. See comment to p. 2.8.2.
2.8.4	Taking account of its scope of activities and levels of related risks, the company should form other committees with its board of directors, in particular, 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.	In the reporting period the board of directors considered the conformity of the composition of its committees to the objectives of the board of directors and of the company. Additional committees were either formed or were deemed unnecessary.	observed	The company has additionally formed an Investment and Development Committee and a Corporate Social Responsibility Committee.
2.8.5	The composition of the committees should be determined in such a way that it would allow a comprehensive discussion of issues being considered on a preliminary basis with due consideration of differing opinions	1. Board committees are chaired by independent directors. 2. Given the specific nature of issues considered by the audit committee, the nominating committee and the remuneration committee, persons who are not members of the above committees can attend their meetings only at the invitation of their chairpersons.	partially observed	Board committees are chaired by independent directors. At the same time, committee chairpersons always welcome other board members, who are not members of a particular board committee, to attend committee meetings. This is standard practice for board committees despite the fact that this is not formalized in the company's internal documents.
2.8.6	Committee chairpersons should inform the board of directors and its chairperson of the work of their committees on a regular basis.	During the reporting period chairpersons of board committees presented regular reports to the board of directors on their activities.	observed	
<b>2.9</b>	<b>The board of directors should make an exhaustive evaluation of the quality of its work and that of its committees and board members.</b>			
2.9.1	Evaluation of the quality of the board of directors' work should be aimed at determining how efficiently the board of directors, its committees and board members work and whether their work meets the company's needs, as well as at making their work more intensive and identifying areas of improvement.	1. Self-evaluation or external evaluation of the work of the board of directors in the reporting period included the evaluation of the work of the board committees, separate members of the board of directors and of the board of directors as a whole. 2. The results of the self-evaluation or external evaluation of the board of directors in the reporting period were reviewed by the board of directors at meetings held in person.	partially observed	The self-evaluation did not include an assessment of individual board members - at this stage the company does not deem this to be necessary. The results of the evaluation were reviewed at a board meeting held in person.

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#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
2.9.2	Quality of work of the board of directors, its committees and board members should be evaluated on a regular basis, at least once a year. To carry out an independent evaluation of the quality of the board of directors' work, it is recommended to retain a third party entity (consultant) on a regular basis, at least once every three years.	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	No external consultant was invited by the company. The culture of performance assessment is being developed by the company gradually. At this stage retaining an external consultant seems premature.
<b>3.1</b>	<b>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 its board of directors.</b>			
3.1.1	The corporate secretary should have knowledge, experience, and qualifications sufficient for performance of his/her duties, as well as an impeccable reputation and should enjoy the trust of the shareholders.	<ol style="list-style-type: none"> <li>The company has adopted and disclosed an internal document - regulation on the corporate secretary.</li> <li>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.</li> </ol>	partially observed	The biography of the corporate secretary was not disclosed on the website or in the Annual Report as the disclosure of this information was not a priority in accordance with the information policy of the company in 2016.
3.1.2	The corporate secretary should be sufficiently independent of the company's executive bodies and be vested with powers and resources required to perform his/her tasks.	The board of directors approves the appointment, termination of appointment, and additional remuneration of the corporate secretary.	observed	
<b>4.1</b>	<b>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.</b>			
4.1.1	It is recommended that the level of remuneration paid by the company to its board members, executive bodies, and other key managers should be sufficient to motivate them to work efficiently and enable the company to attract and retain knowledgeable, skilled, and duly qualified persons. The company should avoid setting the level of remuneration any higher than necessary, nor allowing for an excessively large gap between the level of remuneration of any of the above persons and that of the company's employees.	The company has adopted an internal document (documents) - a remuneration policy (policies) in relation to its board members, members of executive bodies and other key managers whereby the approaches to the remuneration of the indicated persons are clearly determined.	observed	

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
4.1.2	The company's remuneration policy should be developed by its remuneration committee and approved by the board of directors. With the help of its remuneration committee, the board of directors should monitor implementation of and compliance with the remuneration policy by the company and, should this be necessary, review and amend the same.	During the reporting period the remuneration committee reviewed the remuneration policy (policies) and the practice of its (their) implementation and, when necessary, provided the board of directors with the relevant recommendations.	not observed	The board of directors did not see the need to revise the policy in relation to the company's executive bodies and key managers in 2016.
4.1.3	The company's remuneration policy should provide for transparent mechanisms to be used to determine the amount of remuneration due to members of the board of directors, the executive bodies, and other key managers of the company, as well as to regulate any and all types of payments, benefits, and privileges provided to any of the above persons.	The remuneration policy (policies) of the company contains (contain) transparent mechanisms to be used to determine the amount of remuneration due to members of the board of directors, executive bodies and other key managers of the company and regulates (regulate) all types of payments, benefits and privileges provided to any of the indicated persons.	observed	
4.1.4	The company is recommended to develop a policy on reimbursement of expenses which would contain a list of reimbursable expenses and specify service levels provided to members of the board of directors, the executive bodies, and other key managers of the company. Such a policy can form part of the company's policy on compensations.	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	
<b>4.2</b>	<b>The system of remuneration of board members should ensure harmony between the financial interests of the directors and the long-term financial interests of the shareholders.</b>			
4.2.1	A fixed annual fee shall be a preferred form of monetary remuneration of the board members. It is not advisable to pay a fee for participation in individual meetings of the board of directors or its committees. It is not advisable to use any form of short-term incentives or additional financial incentives in respect of board members.	A fixed annual fee has been the only form of monetary remuneration of board members for their services on the board in the reporting period.	observed	

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#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
4.2.2	Long-term ownership of shares in the company contributes most to aligning the financial interests of board members with the long-term interests of the company's shareholders. However, it is not recommended to make the right to dispose of shares dependent on the achievement by the company of certain performance results; nor should board members take part in the company's option plans.	If the company has a practice (policy) of paying remuneration to the board members in the form of its shares, its policy (internal document) of remuneration payable to the board members should set out clear and transparent rules regulating the ownership of shares by the board members. These rules should encourage them to increase their shareholdings and own the shares on a long-term basis.	observed	Board members do not own company shares. The information about share ownership by the company's directors is disclosed in the Annual Report of the company.
4.2.3	It is not recommended to provide for any additional allowance or compensation in the event of early dismissal of board members in connection with a change of control over the company or other circumstances.	The company does not provide for any additional allowance or compensation in the event of early dismissal of board members in connection with a change of control over the company or other circumstances.	observed	
<b>4.3</b>	<b>The system of remuneration due to 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.</b>			
4.3.1	Remuneration due to the executive bodies and other key managers of the company should be set in such a way as to procure a reasonable and justified ratio between its fixed portion and its variable portion that is dependent on the company's performance results and employees' personal (individual) contributions to the achievement thereof.	<ol style="list-style-type: none"> <li>In the reporting period annual key performance indicators approved by the board of directors were used to determine the amount of variable remuneration of members of executive bodies and other key managers of the company.</li> <li>During the last evaluation of the system of remuneration of members of executive bodies and other key managers of the company, the board of directors (remuneration committee) made sure that the company used an effective ratio between the fixed and variable remuneration.</li> <li>The company has a procedure ensuring that any award/bonus funds wrongfully obtained by members of executive bodies or managers are repaid to the company.</li> </ol>	partially observed	<p>Recommendation 1 - observed</p> <p>Recommendation 2 - the system of remuneration was not reviewed in 2015 by the board of directors (Nomination and Remuneration Committee). In the opinion of the board of directors, in 2016, there was no need to revise this system.</p> <p>Recommendation 3 - the company does not have a formalized procedure for having wrongfully obtained award/bonus funds returned to the company by members of executive bodies and key managers, because bonuses are paid on the basis of approved performance charts where the real KPI result is shown, which makes wrongful payments impossible. Should any such error occur in the future, the necessary repayments will be made in compliance with the law.</p>



#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
4.3.2	Companies whose shares are admitted to trading at organised markets are recommended to put in place a long-term incentive program for the company's executive bodies and other key managers involving the company's shares (or options or other derivative financial instruments the underlying assets for which are the company's shares).	<p>1. The company has put in place a long-term incentive program for the company's executive bodies and other key managers of the company involving the company's shares (financial instruments for which the company's shares are the underlying assets).</p> <p>2. The long-term incentive program should provide that the right to dispose of shares or exercise options shall arise no earlier than in three years from the date when such shares were provided. In addition, the right to dispose of the same, upon the expiration of a respective period, should be made conditional on the achievement of certain targets by the company, including non-financial targets, if applicable.</p>	not observed	The company does not have a long-term incentive program because at this moment, amidst financial instability in Russia, and considering a number of financial constraints in the Company, we believe that such a program would be untimely.
4.3.3	The amount of severance pay (so-called «golden parachute») payable by the company in the event of early dismissal of an executive body or other key manager at the initiative of the company, provided that there have been no bad faith actions on the part of such person, should not exceed double the fixed portion of his/her annual remuneration.	The amount of severance pay (golden parachute) payable by the company in the event of early dismissal of an executive or other key manager at the initiative of the company, provided that there have been no bad faith actions on the part of such persons, did not exceed double the fixed portion of his/her annual remuneration.	observed	The policies of the company do not provide for the payment of "golden parachutes".
<b>5.1</b>	<b>The company should have in place an efficient risk management and internal control system designed to provide reasonable confidence that the company's goals will be achieved.</b>			
5.1.1	The board of directors should determine the principles of and approaches to creation of the risk management and internal control system in the company.	The functions of various governance bodies and divisions of the company in the risk management and internal control system are clearly determined in the internal documents of the company/policy of the company approved by the board of directors.	observed	
5.1.2	The company's executive bodies should ensure the establishment and continuing operation of the efficient risk management and internal control system in the company.	The company's executive bodies ensured the distribution of functions and authority in relation to risk management and internal control among managers (heads) of divisions and departments subordinate to them.	observed	

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5.1.3	The company's risk management and internal control system should enable all concerned to obtain an objective, fair and clear view of the current condition and prospects of the company, integrity and transparency of its accounts and reports, and reasonableness and acceptability of risks being assumed by the company.	1. The company has a corruption prevention policy in place. 2. The company has 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 is recommended to take required and sufficient measures to guarantee that the existing risk management and internal control system of the company is consistent with the principles of and approaches to its creation as set forth by the board of directors and that it operates efficiently.	During the reporting period the board of directors reviewed the organisation, operation, and efficiency of the risk management and internal control system and, if necessary, made recommendations for its improvement. The results of such review of the system's efficiency were communicated to the shareholders as part of the annual report of the company.	observed	
<b>5.2</b>	<b>To independently evaluate, on a regular basis, the reliability and efficiency of the risk management and internal control system and corporate governance practices, the company should arrange for internal audits.</b>			
5.2.1	It is recommended that internal audits be carried out by a separate structural division (internal audit department) to be created by the company or through retaining an independent third-party entity. To ensure the independence of the internal audit department, it should have separate lines of functional and administrative reporting. Functionally, the internal audit department should report to the board of directors, while from the administrative standpoint, it should report directly to the company's one-person executive body.	A separate structural division (internal audit department) that reports directly to the board of directors or the audit committee was created in the company; an external independent organisation with the same status was retained to conduct the audit.	observed	
5.2.2	When carrying out an internal audit, it is recommended to evaluate the efficiency of the internal control system and the risk management system, as well as to evaluate corporate governance and apply generally accepted standards of internal auditing.	1. In the reporting period, within the framework of internal audit procedures, the efficiency of the internal control system and the risk management system was evaluated. 2. The company uses generally accepted approaches to internal control and risk management.	observed	

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
<b>6.1</b>	<b>The company and its activities should be transparent to its shareholders, investors, and other stakeholders.</b>			
6.1.1	The company should develop and implement an information policy enabling the company to efficiently exchange information with its shareholders, investors, and other stakeholders.	<ol style="list-style-type: none"> <li>The board of directors approved an information policy developed in compliance with the recommendations of the Code.</li> <li>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.</li> </ol>	observed	
6.1.2	The company should disclose information on its corporate governance system and practices, including detailed information on compliance with the principles and recommendations of this Code.	<ol style="list-style-type: none"> <li>The company discloses information on its corporate governance system and the corporate governance principles applied in the company on its official website.</li> <li>The company discloses information regarding the composition of its executive bodies and the board of directors, independence of board members and their membership in board committees (in compliance with the Code).</li> <li>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.</li> </ol>	observed	Note: The company does not have a controlling person.
<b>6.2</b>	<b>The company should disclose, on a timely basis, full, updated and reliable information about itself so as to enable its shareholders and investors to make informed decisions.</b>			
6.2.1	The company should disclose information in accordance with the principles of regularity, consistency and timeliness, as well as accessibility, reliability, completeness and comparability of disclosed data.	<ol style="list-style-type: none"> <li>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.</li> <li>If the company's securities are traded on international organised markets, material information is disclosed both in the Russian Federation and on such markets in the same amount and at the same time or within the reporting period.</li> <li>If foreign shareholders own a substantial number of shares in the company, the company discloses information not only in Russian, but in one of the most commonly-used foreign languages as well.</li> </ol>	observed	

## Report on Compliance with the Principles and Recommendations of the Code of Corporate Governance

### CONTINUED

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
6.2.2	The company is advised against using a formalistic approach to information disclosure; it should disclose material information on its activities, even if disclosure of such information is not required by law.	<p>1. During the course of the reporting period the company disclosed annual and semiannual financial statements prepared in compliance with IFRS. The annual report of the company for the reporting period contains annual financial IFRS statements and the relevant audit report.</p> <p>2. The company discloses full information about the structure of the capital of the company in compliance with Recommendation 290 of the Code in the annual report and on the website of the company.</p>	partially observed	The disclosure of information about the structure of share capital by the company is not fully in line with the Recommendation 290 of the Code; however, in the opinion of the company, the current scope of disclosure provides sufficient information about the structure of the share capital, and greater detail is not required.
6.2.3	The company's annual report, as one of the most important tools of its information exchange with its shareholders and other stakeholders, should contain information enabling one to evaluate the company's performance results for the year.	<p>1. The annual report of the company contains information about the key aspects of the company's operational activities and financial results.</p> <p>2. The annual report of the company contains information about the environmental and social aspects of the company's activities.</p>	observed	
<b>6.3</b>	<b>The company should provide information and documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.</b>			
6.3.1	Exercise by the shareholders of their right to access the company's documents and information should not be unreasonably burdensome.	The procedure of information provision to shareholders (including information about the organisations controlled by the company) upon their request is not unreasonably burdensome.	observed	
6.3.2	When providing information to its shareholders, the company should maintain a reasonable balance between the interests of individual shareholders and its own interests related to the fact that the company is interested in keeping confidential sensitive business information that might have a material impact on its competitiveness.	<p>1. During the reporting period the company did not deny shareholders' requests to provide information or such refusals were justified.</p> <p>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.</p>	observed	

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
7.1	<b>Any actions which will or may materially affect the company's share capital structure and its financial position and, accordingly, the position of its shareholders ("material 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.</b>			
7.1.1	Material corporate actions shall be deemed to include reorganisation of the company, acquisition of 30 or more percent of its voting shares (takeover), entering by the company into any material transactions, increasing or decreasing its share capital, listing and delisting of its shares, as well as other actions which might result in material changes in the rights of its shareholders or violation of their interests. It is recommended to include in the company's articles of association a list of (criteria for identifying) transactions or other actions falling within the category of material corporate actions and provide therein that decisions on any such actions should fall within the jurisdiction of the company's board of directors.	1. The company's articles of association (charter) include a list of (criteria for identifying) transactions or other actions falling within the category of material corporate actions and provide therein that decisions on any such actions fall within the jurisdiction of the company's board of directors. In cases when the indicated actions are within the purview of the general shareholders meeting in compliance with the requirements of the law, the board of directors issues recommendations to the shareholders. 2. The charter of the company determines the following (as a minimum) as material corporate actions: reorganisation of the company, acquisition of 30% and more of voting shares (takeover), major transactions, increase or reduction of the charter capital of the company, as well as the listing or delisting of the company's shares.	not observed	The charter of the company does not provide a list of material corporate actions and transactions. Nevertheless, the Regulations on the Audit Committee provide for a special procedure for work on strategic transactions which are described (criteria are provided) in the text of the Regulations
7.1.2	The board of directors should play a key role in passing resolutions or making recommendations relating to material corporate actions; for that purpose, it should rely on the opinions of the company's independent directors.	The company has a procedure in place whereby independent directors state their position/opinion on material corporate actions prior to their approval	partially observed	The Regulations on the Audit Committee provide for a special procedure for the execution of strategic transactions, which implies the establishment of a special committee consisting of independent directors of the company. There are no additional procedures for independent directors to voice their opinions on material corporate actions, but such decisions are taken by the board of directors after discussion at meetings of specialised committees or the board of directors' meetings, during which all directors of the company, including independent directors, have the right to express their position on any issue under consideration, including material corporate actions.

## Report on Compliance with the Principles and Recommendations of the Code of Corporate Governance

### CONTINUED

#	Principles of corporate governance	Criteria used to evaluate whether the principle is observed	Status of compliance with the principle of corporate governance	Explanation of deviation from compliance/non-compliance with the principles of corporate governance
7.1.3	When taking any material 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.	<p>1. The company's articles of association (charter) establish lower criteria than those specified under the law for the categorization of the company's transactions as material corporate actions.</p> <p>2. During the reporting period all material corporate actions were subject to approval prior to their execution.</p>	partially observed	Refer to p. 7.1.3. Recommendation 2 is observed by the company.
<b>7.2</b>	<b>The company should have in place such a procedure for taking any material 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, and which would also guarantee that the shareholders' rights are observed and duly protected in the event of taking such actions.</b>			
7.2.1	When disclosing information about material corporate actions, it is recommended to give explanations concerning reasons for, conditions and consequences of such actions.	During the course of the reporting period the company disclosed information (in detail) about material corporate actions in a timely fashion, including the reasons for, conditions and consequences of such actions.	observed	
7.2.2	Rules and procedures in relation to material corporate actions taken by the company should be set out in its internal documents.	<p>1. The company's internal documents specify a procedure for the retention of the services of an independent appraiser to determine the value of the property being transferred or acquired under a major transaction or an interested-party transaction.</p> <p>2. The company's internal documents specify a procedure for the retention of the services of an independent appraiser to determine the purchase or buyback value of the shares of the company.</p> <p>The 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.</p>	partially observed	The company's internal documents do not provide for a special procedure applicable to the retention of an independent appraiser; the company retains an appraiser in cases specified by the law and also, if necessary, in cases when the company is taking material corporate actions because this is in line with the high standards of corporate governance adopted in the company.

# Mineral Resources Review



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**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.

## Mineral Resources Review

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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 (km <sup>2</sup> )
Berezniki 2	2546	1st January 2021	Mining <sup>2</sup>	67.25
Berezniki 4	2545	1st January 2018*	Mining <sup>1</sup>	183.60
Ust-Yayvinsky	2543	15th April 2024	Exploration and Mining <sup>3</sup>	83.31
Solikamsk 1	2547	1st January 2018**	Mining <sup>1</sup>	44.47
Solikamsk 2	2548	1st January 2021	Mining <sup>2</sup>	50.38
Solikamsk 3	2549	1st January 2018***	Mining <sup>2</sup>	110.01
Polovodovsky	2551	1st July 2028	Exploration and Mining <sup>2</sup>	381.01
Romanov	2550	25th July 2039	Exploration and Mining <sup>3</sup>	58.07
Solikamsk 1	2541	6th April 2035	Exploration and Mining <sup>4</sup>	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 December 2016 till 1 January 2043.  
 \*\* The licence was extended in December 2016 till 1 January 2047.  
 \*\*\* The licence was extended in December 2016 till 1 January 2055.

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 Solikamsk-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;

The resource and reserve estimates are therefore primarily based 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 sylvinitic 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.

## Mineral Resources Review

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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<sub>2</sub>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 of the estimated tonnes and grade.

### 3.3 Uralkali Resource Statements

Table 3 1 below summarises SRK's understanding of the sylvinitic 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<sub>2</sub>O (Polovodovsky) and 15.5% K<sub>2</sub>O (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 Sylvinitic Mineral Resource Statement at 1 January 2016

Mine	Category	Tonnage (Mt)	K <sub>2</sub> O (%)	K <sub>2</sub> O (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	-	-	-
Summary 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

## Mineral Resources Review

### CONTINUED

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 Uralkali 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 sylvinites 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 Sylvinites Mineral Resource Statement at 1 January 2016

Category	Tonnage (Mt)	K <sub>2</sub> O (%)	K <sub>2</sub> O (Mt)
<b>Berezniki 2</b>			
Measured	55.3	24.6	13.6
Indicated	175.5	25.1	44.1
Measured + Indicated	230.8	25.0	57.7
Inferred	-	-	-
<b>Berezniki 4</b>			
Measured	647.9	22.4	145.0
Indicated	1,003.1	20.6	206.8
Measured + Indicated	1,651.0	21.3	351.8
Inferred	310.3	26.8	83.3
<b>Ust-Yayvinsky</b>			
Measured	480.9	19.5	94.0
Indicated	809.7	19.8	160.4
Measured + Indicated	1,290.6	19.7	254.4
Inferred	-	-	-
<b>Solikamsk 1</b>			
Measured	109.4	17.8	19.4
Indicated	165.4	17.1	28.4
Measured + Indicated	274.8	17.4	47.8
Inferred	-	-	-

Category	Tonnage (Mt)	K <sub>2</sub> O (%)	K <sub>2</sub> O (Mt)
<b>Solikamsk 2</b>			
Measured	145.3	16.5	24.0
Indicated	809.2	17.5	141.4
Measured + Indicated	954.5	17.3	165.3
Inferred	-	-	-
<b>Solikamsk 3</b>			
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	-	-	-
<b>Polovodovsky</b>			
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	-	-	-
<b>Summary All Mines</b>			
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)
<b>Solikamsk 1</b>			
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 carnalite 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.

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#### 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

The 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 sylvinitic 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<sub>2</sub>O/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.

Table 4 1: SRK Modifying Factors

Description	Tonnage Conversion Factor (%)	Grade Conversion Factor (%)
Solikamsk 1 (sylvinitic)	41%	92%
Solikamsk 1 (sylvinitic)	31%	97%
Solikamsk 2	46%	88%
Solikamsk 3	51%	88%
Berezniki 2	36%	82%
Berezniki 4	44%	88%
Ust-Yayvinsky	37%	85%

##### 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.

SRK'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.

SRK can confirm that the Ore Reserve Statements presented in Table 4 2 and Table 4 3 below, for sylvinitic 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 Sylvinitic Ore Reserve Statement at 1 January 2016

Category	Tonnage (Mt)	K <sub>2</sub> O (%)	K <sub>2</sub> O (Mt)
<b>Berezniki 2</b>			
Proven	19.9	20.2	4.0
Probable	61.8	20.6	12.7
Total	81.7	20.5	16.8
<b>Berezniki 4</b>			
Proven	162.1	19.7	31.9
Probable	163.0	19.3	31.5
Total	325.1	19.5	63.4
<b>Ust-Yayvinsky</b>			
Proven	53.8	16.6	8.9
Probable	110.0	16.7	18.4
Total	163.8	16.7	27.3
<b>Solikamsk 1</b>			
Proven	44.9	16.3	7.3
Probable	47.1	15.8	7.4
Total	91.9	16.1	14.8
<b>Solikamsk 2</b>			
Proven	66.8	14.5	9.7
Probable	101.6	15.4	15.6
Total	168.4	15.1	25.3
<b>Solikamsk 3</b>			
Proven	133.6	15.0	20.1
Probable	137.4	15.1	20.8
Total	271.0	15.1	40.9
<b>Polovodovsky</b>			
Proven	-	-	-
Probable	-	-	-
Total	-	-	-
<b>Summary All Mines</b>			
Proven	481.1	17.0	82.0
Probable	620.8	17.1	106.4
Total	1,102.0	17.1	188.4

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Table 4 3: SRK Audited Carnalite Ore Reserve Statement at 1 January 2016

Category	Tonnage (Mt)	MgO (%)	MgO (Mt)
<b>Solikamsk 1</b>			
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-Yayvinsky 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.

#### 4.4SRK 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 Solikamsk-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

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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,



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## APPENDIX. JORC CHECKLIST TABLES

### Section 1 Sampling Techniques and Data

Criteria	JORC Code explanation	Commentary
Sampling techniques	<ul style="list-style-type: none"> <li>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.</li> <li>Include reference to measures taken to ensure sample representivity and the appropriate calibration of any measurement tools or systems used.</li> <li>Aspects of the determination of mineralisation that are Material to the Public Report.</li> <li>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.</li> </ul>	<p>The Mineral Resource and Ore Reserve estimates derived for Berezniki projects are primarily based on surface exploration drilling undertaken between 1972 and 1998.</p> <p>The Mineral Resource and Ore Reserve estimates derived for Solikamsk projects are primarily based on surface exploration drilling undertaken between 1925 and 2012.</p> <p>Exploration was generally undertaken by State enterprises based in Solikamsk and Berezniki.</p> <p>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.</p>
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	<ul style="list-style-type: none"> <li>Method of recording and assessing core and chip sample recoveries and results assessed.</li> <li>Measures taken to maximise sample recovery and ensure representative nature of the samples.</li> <li>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.</li> </ul>	Core recovery through the sylvinitic 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	<ul style="list-style-type: none"> <li>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.</li> <li>Whether logging is qualitative or quantitative in nature. Core (or costean, channel, etc.) photography.</li> <li>The total length and percentage of the relevant intersections logged.</li> </ul>	<p>Drill core samples are subject to the follow analysis:</p> <ul style="list-style-type: none"> <li>detailed description based on visual identification of units, seams and layers;</li> <li>field identification of mineral and lithological composition;</li> <li>photography (recent years);</li> <li>assaying (see below);</li> <li>geophysical logging (for all holes since 1952);</li> </ul> <p>During drilling from the surface, the following geophysical analysis is undertaken:</p> <ul style="list-style-type: none"> <li>gamma-logging;</li> <li>neutron gamma-logging;</li> <li>caliper logging;</li> <li>inclinometer survey;</li> <li>electric logging;</li> <li>resistivity metering;</li> <li>thermometric measurements;</li> <li>gas logging.</li> </ul> <p>For Berezniki operating mines some 76,600m of core from exploration holes have been logged.</p> <p>For Solikamsk operating mines some 69,600m of core from exploration holes have been logged.</p>

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Criteria	JORC Code explanation	Commentary
Sub-sampling techniques and sample preparation	<ul style="list-style-type: none"> <li>• If core, whether cut or sawn and whether quarter, half or all core taken.</li> <li>• If non-core, whether riffled, tube sampled, rotary split, etc. and whether sampled wet or dry.</li> <li>• For all sample types, the nature, quality and appropriateness of the sample preparation technique.</li> <li>• Quality control procedures adopted for all sub-sampling stages to maximise representivity of samples.</li> <li>• 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.</li> <li>• Whether sample sizes are appropriate to the grain size of the material being sampled.</li> </ul>	<p>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.</p> <p>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.</p>
Quality of assay data and laboratory tests	<ul style="list-style-type: none"> <li>• The nature, quality and appropriateness of the assaying and laboratory procedures used and whether the technique is considered partial or total.</li> <li>• 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.</li> <li>• 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.</li> </ul>	See comments above.
Verification of sampling and assaying	<ul style="list-style-type: none"> <li>• The verification of significant intersections by either independent or alternative company personnel.</li> <li>• The use of twinned holes.</li> <li>• Documentation of primary data, data entry procedures, data verification, data storage (physical and electronic) protocols.</li> <li>• Discuss any adjustment to assay data.</li> </ul>	<p>See comments above.</p> <p>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).</p>
Location of data points	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Specification of the grid system used.</li> <li>• Quality and adequacy of topographic control.</li> </ul>	<p>Since 1939, topographic and geodesic surveys have been undertaken to generate topographic maps scales 1:10,000 and 1:5,000.</p> <p>Topographic and geodesic surveys are performed by specialist organisations under the instruction of Uralkali.</p> <p>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.</p>
Data spacing and distribution	<ul style="list-style-type: none"> <li>• Data spacing for reporting of Exploration Results.</li> <li>• 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.</li> <li>• Whether sample compositing has been applied.</li> </ul>	<p>The general drill spacing of surface drill holes relative to Russian Resource classification categories (see Section 3 below) is as follows:</p> <p><b>Berezniki Mines</b>  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</p> <p><b>Solikamsk Mines</b>  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</p> <p>In addition to the above, underground drilling is undertaken at the operating mine on a general spacing of approximately 400m.</p>

Criteria	JORC Code explanation	Commentary
Orientation of data in relation to geological structure	<ul style="list-style-type: none"> <li>Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type.</li> <li>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.</li> </ul>	All drill holes have been drilled vertically through a flat lying/gently dipping and undulating orebody, which SRK considers is appropriate.
Sample security	<ul style="list-style-type: none"> <li>The measures taken to ensure sample security.</li> </ul>	<p>Core samples taken from surface holes are kept in covered storage, until the state Examination is passed, after which this is discarded.</p> <p>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.</p>
Audits or reviews	<ul style="list-style-type: none"> <li>The results of any audits or reviews of sampling techniques and data.</li> </ul>	<p>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.</p> <p>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.</p>

### Section 3 Estimation and Reporting of Mineral Resources

Criteria	JORC Code explanation	Commentary
Database integrity	<ul style="list-style-type: none"> <li>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.</li> <li>Data validation procedures used.</li> </ul>	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	<ul style="list-style-type: none"> <li>Comment on any site visits undertaken by the Competent Person and the outcome of those visits.</li> <li>If no site visits have been undertaken indicate why this is the case.</li> </ul>	SRK has undertaken an annual site visit since 2007 to the operating mines, processing plants and associated surface infrastructure facilities.
Geological interpretation	<ul style="list-style-type: none"> <li>Confidence in (or conversely, the uncertainty of) the geological interpretation of the mineral deposit.</li> <li>Nature of the data used and of any assumptions made.</li> <li>The effect, if any, of alternative interpretations on Mineral Resource estimation.</li> <li>The use of geology in guiding and controlling Mineral Resource estimation.</li> <li>The factors affecting continuity both of grade and geology.</li> </ul>	<p>High confidence in the geological interpretation of the deposit based on various phases of exploration and first hand observation from underground mining operations.</p> <p>The upper and lower limits of the mineralisation are well defined.</p>

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Criteria	JORC Code explanation	Commentary
Dimensions	<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>Each deposit is flat lying/gently dipping and with minor undulations:</p> <p><b>Berezniki Mine 2 (Durmanski Licence Area).</b> This licence extends some 7.9km north-south and 7.7km east-west and covers an area of about 67km<sup>2</sup>. The average depth of the seams mined is about 345m and the average thickness between 2.5m and 4.5m.</p> <p><b>Berezniki Mine 4 (Bygelso-Troitski Licence).</b> This licence extends some 12km north-south and 17km east-west and covers an area of about 183km<sup>2</sup>. The average depth of the seams mined is about 320m and they have an average thickness of 3m.</p> <p><b>Ust-Yayvinsky Mine (Ust-Yayvinsky Licence).</b> This is currently under construction. The licence extends up to some 10.8km by 10.3km and covers an area of about 83km<sup>2</sup>. The average depth of the seams to be mined is about 390m and they have an average thickness of between 3 and 5m.</p> <p><b>Solikamsk Mine 1 (Solikamsk Lease Northern Part).</b> This licence extends some 6.3km by 6.3km and covers an area of about 44km<sup>2</sup>. The depth of the seams mined is between 260 and 350m with they have a thickness of between 3 and 5.5m.</p> <p><b>Solikamsk Mine 2 (Solikamsk Lease Southern Part).</b> This licence extends some 8.6km by 7.3km and covers an area of about 50km<sup>2</sup>. The depth of the seams mined is between 200 and 300m and they have a thickness of between 4.5 and 6m.</p> <p><b>Solikamsk Mine 3 (Novo-Solikamsk Licence).</b> This licence extends some 16.4km by 8.9km and covers an area of about 110km<sup>2</sup>. The depth of the seams mined is between 250 and 380m with they have a thickness of between 3 and 4m.</p> <p><b>Polovodovsky.</b> This licence extends up to some 30km by 29km and covers an area of about 381km<sup>2</sup>. The average depth of the seams is about 270m 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).</p>
Estimation and modeling techniques	<ul style="list-style-type: none"> <li>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.</li> <li>The availability of check estimates, previous estimates and/or mine production records and whether the Mineral Resource estimate takes appropriate account of such data.</li> <li>The assumptions made regarding recovery of by-products.</li> <li>Estimation of deleterious elements or other non-grade variables of economic significance (e.g. sulphur for acid mine drainage characterisation).</li> <li>In the case of block model interpolation, the block size in relation to the average sample spacing and the search employed.</li> <li>Any assumptions behind modelling of selective mining units.</li> <li>Any assumptions about correlation between variables.</li> <li>Description of how the geological interpretation was used to control the resource estimates.</li> <li>Discussion of basis for using or not using grade cutting or capping.</li> <li>The process of validation, the checking process used, the comparison of model data to drill hole data, and use of reconciliation data if available.</li> </ul>	<p>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.</p> <p>Specifically, composited K<sub>2</sub>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.</p> <p>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.</p> <p>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.</p> <p>SRK considers the Mineral Resource estimation methodology to be appropriate for the geometry and style of mineralisation and available data.</p>

Criteria	JORC Code explanation	Commentary
Moisture	<ul style="list-style-type: none"> <li>Whether the tonnages are estimated on a dry basis or with natural moisture, and the method of determination of the moisture content.</li> </ul>	The resource estimates are expressed on a dry tonnage basis and in-situ moisture content is not estimated.
Cut-off parameters	<ul style="list-style-type: none"> <li>The basis of the adopted cut-off grade(s) or quality parameters applied.</li> </ul>	Uralkali's sylvinitic 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 <sub>2</sub> 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	<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>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.</p> <p>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.</p> <p>Polovodovsky is currently reported as a Mineral Resource only and feasibility studies are underway for the development of this.</p>
Metallurgical factors or assumptions	<ul style="list-style-type: none"> <li>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.</li> </ul>	Refer to comment above regarding mining factors and assumptions and also to Section 4 regarding Ore Reserves.
Environmental factors or assumptions	<ul style="list-style-type: none"> <li>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.</li> </ul>	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	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>Discuss assumptions for bulk density estimates used in the evaluation process of the different materials.</li> </ul>	Bulk density measurements are taken from historical drill core samples and also actual measurements during the course of operations.
Classification	<ul style="list-style-type: none"> <li>The basis for the classification of the Mineral Resources into varying confidence categories.</li> <li>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).</li> <li>Whether the result appropriately reflects the Competent Person's view of the deposit.</li> </ul>	<p>SRK has reclassified the Russian classification categories in accordance with the JORC Code.</p> <p>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.</p> <p>SRK considers the quantity and quality of data that underpins the estimation and classification given to be appropriate for the categories used.</p>

## Mineral Resources Review

### CONTINUED

Criteria	JORC Code explanation	Commentary
Audits or reviews	<ul style="list-style-type: none"> <li>The results of any audits or reviews of Mineral Resource estimates.</li> </ul>	<p>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.</p> <p>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.</p>
Discussion of relative accuracy/ confidence	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.</li> </ul>	<p>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).</p> <p>The resource quantities should be considered as global estimates.</p> <p>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).</p>

### Section 3 Estimation and Reporting of Ore Reserves

Criteria	JORC Code explanation	Commentary
Mineral Resource estimate for conversion to Ore Reserves	<ul style="list-style-type: none"> <li>Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve.</li> <li>Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves.</li> </ul>	<p>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.</p> <p>The Mineral Resources presented are inclusive of those Mineral Resources converted to Ore Reserves.</p> <p>SRK has restricted the Ore Reserves to the material planned to mined during the next 20 years.</p>
Site visits	<ul style="list-style-type: none"> <li>Comment on any site visits undertaken by the Competent Person and the outcome of those visits.</li> <li>If no site visits have been undertaken indicate why this is the case.</li> </ul>	<p>SRK has undertaken an annual site visit since 2007 to the operating mines, processing plants and associated surface infrastructure facilities.</p>
Study status	<ul style="list-style-type: none"> <li>The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves.</li> <li>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.</li> </ul>	<p>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.</p> <p>Ust-Yayvinsky is currently under construction and has been the subject of Feasibility Studies to determine the technical and economic viability of this.</p> <p>No Ore Reserves are declared for the Polovodovsky site.</p>
Cut-off parameters	<ul style="list-style-type: none"> <li>The basis of the cut-off grade(s) or quality parameters applied.</li> </ul>	<p>Refer to Section 3 above.</p>



Criteria	JORC Code explanation	Commentary
Mining factors or assumptions	<ul style="list-style-type: none"> <li>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).</li> <li>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.</li> <li>The assumptions made regarding geotechnical parameters (eg pit slopes, stope sizes, etc), grade control and pre-production drilling.</li> <li>The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate).</li> <li>The mining dilution factors used.</li> <li>The mining recovery factors used.</li> <li>Any minimum mining widths used.</li> <li>The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion.</li> <li>The infrastructure requirements of the selected mining methods.</li> </ul>	<p>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.</p> <p>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 sylvinitic 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.</p> <p>No Inferred Mineral Resources are included within the Mine Plan</p> <p>Each mine requires access via shafts and is supported by appropriate surface infrastructure.</p> <p>A new shaft complex is currently under construction for the Ust-Yayvinsky mine.</p>
Metallurgical factors or assumptions	<ul style="list-style-type: none"> <li>The metallurgical process proposed and the appropriateness of that process to the style of mineralisation.</li> <li>Whether the metallurgical process is well-tested technology or novel in nature.</li> <li>The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied.</li> <li>Any assumptions or allowances made for deleterious elements.</li> <li>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.</li> <li>For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications?</li> </ul>	<p>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.</p> <p>Mined material from Ust-Yayvinsky will be processed in one of the existing processing facilities located in Berezniki.</p>
Environmental	<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>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.</p> <p>Uralkali has confirmed that all environmental permits required for all current and future operations are in place. This includes permits related to:</p> <ul style="list-style-type: none"> <li>Harmful (polluting) emissions into atmospheric air;</li> <li>Discharges of polluting substances and micro-organisms into water bodies;</li> <li>Resolutions regarding use of water bodies;</li> <li>Documents establishing limits of wastes generation and wastes disposal.</li> </ul> <p>When the validity of issued permits expires, new permits are obtained as required</p>
Infrastructure	<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>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.</p>

## Mineral Resources Review

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Criteria	JORC Code explanation	Commentary
Costs	<ul style="list-style-type: none"> <li>The derivation of, or assumptions made, regarding projected capital costs in the study.</li> <li>The methodology used to estimate operating costs.</li> <li>Allowances made for the content of deleterious elements.</li> <li>The source of exchange rates used in the study.</li> <li>Derivation of transportation charges.</li> <li>The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc.</li> <li>The allowances made for royalties payable, both Government and private.</li> </ul>	<p>Forecast operating costs are based on actual costs incurred and adjusted as required.</p> <p>Project capital costs are derived on a project by project basis in-house from first principles by a team of experienced engineers.</p>
Revenue factors	<ul style="list-style-type: none"> <li>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.</li> <li>The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products.</li> </ul>	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	<ul style="list-style-type: none"> <li>The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future.</li> <li>A customer and competitor analysis along with the identification of likely market windows for the product.</li> <li>Price and volume forecasts and the basis for these forecasts.</li> <li>For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract.</li> </ul>	<p>Detailed analysis on demand, supply and stocks for the potash sector are widely available in the public domain.</p> <p>Uralkali has been successfully producing and selling potash products for a number of years.</p>
Economic	<ul style="list-style-type: none"> <li>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.</li> <li>NPV ranges and sensitivity to variations in the significant assumptions and inputs.</li> </ul>	<p>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.</p> <p>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.</p>
Social	<ul style="list-style-type: none"> <li>The status of agreements with key stakeholders and matters leading to social licence to operate.</li> </ul>	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	<p>To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves:</p> <ul style="list-style-type: none"> <li>Any identified material naturally occurring risks.</li> <li>The status of material legal agreements and marketing arrangements.</li> <li>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.</li> </ul>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

Criteria	JORC Code explanation	Commentary
Classification	<ul style="list-style-type: none"> <li>The basis for the classification of the Ore Reserves into varying confidence categories.</li> <li>Whether the result appropriately reflects the Competent Person's view of the deposit.</li> <li>The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any).</li> </ul>	<p>SRK's audited Ore Reserve statement is confined to those seams that are currently being considered for mining within the next 20 years only.</p> <p>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.</p>
Audits or reviews	<ul style="list-style-type: none"> <li>The results of any audits or reviews of Ore Reserve estimates.</li> </ul>	SRK has derived the Ore Reserve estimates presented in this report.
Discussion of relative accuracy/confidence	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>Documentation should include assumptions made and the procedures used.</li> <li>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.</li> <li>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.</li> </ul>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

# Glossary

<b>BBT</b>	Baltic Bulk Terminal, St. Petersburg, Russia
<b>Berezniki-1, 2, 3, 4</b>	Potash production units in Berezniki
<b>Bushel</b>	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
<b>EGM</b>	Extraordinary General Meeting
<b>GDR</b>	Global Depositary Receipt
<b>AGM</b>	Annual General Meeting
<b>The Group</b>	PJSC Uralkali, its subsidiaries and affiliates
<b>US\$</b>	US dollar
<b>Carnallite</b>	A hydrated potassium magnesium chloride with formula $KMgCl_3 \times 6H_2O$
<b>Headframe</b>	A structural frame above an underground mine shaft
<b>KPI</b>	Key Performance Indicator
<b>CSR</b>	Corporate Social Responsibility
<b>LSE</b>	London Stock Exchange
<b>IFRS</b>	International Financial Reporting Standards
<b>Mln</b>	Million
<b>Bln</b>	Billion
<b>Moscow Exchange</b>	Moscow Exchange Group, Russia
<b>Soil subsidence</b>	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
<b>VAT</b>	Value added tax
<b>GMS</b>	General Meeting of Shareholders
<b>HSE</b>	Health, Safety and Environment
<b>LS</b>	Labour Safety
<b>IS</b>	Industrial Safety
<b>RAFP</b>	Russian Association of Fertiliser Producers
<b>RAS</b>	Russian Accounting Standards
<b>RUB</b>	Russian rouble, RF
<b>ICS</b>	Internal Control System
<b>CIS</b>	Commonwealth of Independent States
<b>Solikamsk-1, 2, 3</b>	Potash production units in Solikamsk
<b>RMICS</b>	Risk Management and Internal Control System
<b>thous.</b>	thousand
<b>Tubbing</b>	Prefabricated fastening element for underground structures (tunnels, shafts, etc.)
<b>FAS</b>	Federal Antimonopoly Service of the Russian Federation

<b>CDP</b>	Carbon Disclosure Project
<b>CFR</b>	Cost and Freight, title transfers when goods pass the rail of the ship in the port of shipment
<b>COSO ERM</b>	Enterprise Risk Management Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission
<b>CUSIP</b>	Committee on Uniform Security Identification Procedures
<b>EBITDA</b>	Earnings Before Interest, Taxes, Depreciation and Amortization; throughout the report EBITDA means adjusted EBITDA that does not include one-off expenses
<b>FAO</b>	Food and Agriculture Organization
<b>FCA</b>	Free Carrier, title transfers when goods are loaded on the first carrier (railway carriages)
<b>Fertecon</b>	Fertiliser Economic Market Analysis and Consultancy, UK, provider of market information and analysis of the fertiliser market
<b>FIFR</b>	Work related fatal injury frequency rate
<b>FMB</b>	Fertiliser Market Bulletin, FMB Limited, UK
<b>FOB</b>	Free On Board, title to goods transfers as soon as goods are loaded on the ship
<b>FSU</b>	Former Soviet Union
<b>GRI</b>	Global Reporting Initiative
<b>IFA</b>	International Fertilizer Industry Association, France
<b>IPNI</b>	International Plant Nutrition Institute, USA
<b>ISIN</b>	International Securities Identification Number
<b>JORC</b>	Joint Ore Reserves Committee standards for public reporting on mineral resources and mineral (ore) reserves, Australia
<b>K</b>	Potassium, chemical element
<b>K<sub>2</sub>O</b>	Potassium oxide
<b>KCl</b>	Potassium chloride (1 KCl=1.61 K <sub>2</sub> O)
<b>LDR</b>	Lost days rate
<b>LTIFR</b>	Lost time injury frequency rate
<b>MSCI Russia</b>	Morgan Stanley Capital International Russia Index
<b>NPK</b>	Nitrogen-phosphorus-potassium fertiliser
<b>TSR</b>	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 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.

## Uralkali 2016 Annual Report Approval



D.V. Osipov  
CEO

A.V. Orlova  
Chief Accountant

This Uralkali Annual Report was approved by Uralkali Board of Directors on 12 April 2017 (Minutes of the Board of Directors No333 dated 12 April 2017).

The Uralkali Revision Commission has confirmed the accuracy of the data included in this Annual Report.

# Contacts

## Auditor

### ZAO Deloitte & Touche CIS

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Tel: +7 (495) 787-06-00

## 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](mailto:info@vtbreg.ru)  
Website: [http:// www.vtbreg.ru/](http://www.vtbreg.ru/)

## Perm branch:

Address: 94 Sibirskaya Street, Perm,  
Russian Federation, 614002  
(entrance from Belinskogo Street)  
Tel: +7 (342) 257-57-61,  
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## 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, 22nd Floor  
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