

Supply chain

AREA, STRATEGIC GOALS AND METRICS

PROCUREMENT FUNCTION DEVELOPMENT



Target 12.4

- Establishing into long-term relationships for the supply of inventory
 - long-term agreements
 - consignment warehouses
 - online shops

Target — **30%** purchased range

- Further development of category strategies
- Lower reject rate

ESG EVALUATION OF SUPPLIERS



Targets 8,3, 12.4 and 13.2

- Maintaining an ESG evaluation coverage of

at least 50% of counterparties that participated in the procurement

at least 30% of procurement volume from the evaluated counterparties

- Audits
- Updating the information provided by counterparties as part of the ESG survey, if more than a year has elapsed since the information was provided

DIGITAL TRANSFORMATION



Target 9.1

- Process Mining development
- Introducing new robotic solutions

KEY PROJECTS AND HIGHLIGHTS OF 2022

20%

procurement from SMEs

17%

procurement from local suppliers

The category strategies cover:

15

raw material categories

2

categories of work and services

16

categories of materials and equipment

54%

of suppliers covered by ESG evaluation

to 35%

rise in procurement from evaluated suppliers

82

technical audits of potential suppliers of materials and equipment were carried out

49

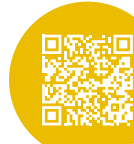
suppliers (60%) were recommended for cooperation based on the environmental and social assessment criteria included in the technical audit form



Setting up an ESG training system for suppliers



Mutual improvement agreement for services, raw materials, and inventories



Training materials are available on the [Company's official website](#) in the Procurement section

- Process Mining, an innovative method of data analysis and business process optimisation to manage procurement.
- SCOUT system to verify and monitor the integrity of suppliers.
- Further development and implementation of an automated procurement workstation.

Strategy

PhosAgro's procurement system seeks to ensure that the Group's subsidiaries receive the required resources, materials, and services of adequate quality in full and at reasonable prices. However, there is much more to the principles and business processes underlying our procurement activities. We believe that running a supply chain in an efficient and responsible manner is the cornerstone



of the Company's sustainable development. In 2022, our procurements of goods and services reached almost RUB 214 bln. Thousands of our suppliers and contractors benefit directly from these investments, and so do their employees, who have to provide for their families. We contribute to the public budget at various levels. But what is more important is that the tools that we employ,

including our environmental and social assessment of suppliers, as well as anti-corruption mechanisms, directly promote sustainable values across the Russian business community. These values are the bedrock of our business philosophy. We work to ensure that our procurement activities have a strong positive impact on all our stakeholders.



RUB 214 bln.
total procurement
of goods and services

Management approach

GRI 3-3

The main objective of procurement is to ensure that the Company's needs for equipment, materials, and services are met in a timely manner, in full and at the best possible prices.

The Group is committed to establishing and maintaining business relationships with companies that operate in line with high ethical standards and combat corruption. Therefore, any supplier that registers on the Company's electronic bidding platform (EBP) must read and understand the above regulations.

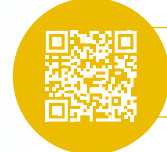
Procurement activities

The Company's procurement activities are governed by:

- [Procurement Policy](#);
- [Anti-Corruption Policy](#);
- [Code of Ethics](#);
- [Code of Conduct for Counterparties](#).



For the link to the registration form, main regulations, the EBP registration instructions and step-by-step guide, see the Procurement section of the Company's official website.



For information about the hotline, see the registration page of PhosAgro's electronic bidding platform.

Interaction with suppliers relies on full transparency in decision-making, market and formula pricing, and long-term relationships.

The Company operates a convenient open system for the procurement of goods and services. Procurement procedures are competitive, and information on the needs for materials, equipment or services is published on PhosAgro's EBP. To participate in the bidding, suppliers have to sign up and read the regulations. Evaluation and selection of a supplier are set out in the Company's procedures.

The Company has an anti-fraud and anti-corruption system in place.

PhosAgro seeks to minimise the risks of doing business with suppliers that might be involved in corruption. To this end, the Company has set up a corporate hotline for suppliers and other stakeholders to report on potential irregularities.

The Company's procurement process uses the following business solutions and tools to improve its efficiency.

1

Category management:

the development and implementation of category strategies can significantly reduce costs, increase reliability of supply and improve economic efficiency.

2

IT solutions:

- Process Mining, an innovative method of data analysis and business process optimisation to manage procurement;
- SCOUT system to verify and monitor the integrity of suppliers. The system helps to minimise the existing risks and losses by introducing a uniform auditing standard, monitor the condition of suppliers in real time and respond to changes in a timely manner.

3

Robotisation of processes

About Company

Strategic report

PERFORMANCE REVIEW

Corporate governance

Share capital

Appendices

Efficient structure

The past year saw significant changes to the structure of the Procurement Department aimed at both improving its overall efficiency and adapting to new economic realities.

The Procurement Department is responsible for:

- strategic sourcing of raw materials and services;
- operational procurement;
- project-based procurement;
- local procurement;
- alternative procurement (including strategic sourcing of materials and equipment procurement);
- supply chain management;
- planning and analysis.

In order to assess performance, increase employee engagement and motivation, the Department has established KPIs in line with the Company's business objectives to evaluate the extent to which the Department's objectives have been achieved and processes streamlined.

The performance of the Company's procurement function is subject to annual review by PhosAgro's Board of Directors.



Procurement management structure

Level	Organisational unit	Key responsibilities
BOARD OF DIRECTORS LEVEL		
Board of Directors	Strategy and Sustainable Development Committee of the Board of Directors	<ul style="list-style-type: none"> • Setting strategic priorities in procurement; • review of the executive management's procurement reporting.
COMPANY MANAGEMENT LEVEL		
Procurement Department management	Director (Supervisor, officer-in-charge) of the Department	<ul style="list-style-type: none"> • Organising the overall operation, allocation of functions, business development strategies, definition of methodologies and procedures for the uninterrupted supply of tangible assets.
	Deputy Director	<ul style="list-style-type: none"> • Meeting the Company's needs for equipment and materials, controlled materials, and services in a timely manner, in full and at the best possible prices;
	Department Director	<ul style="list-style-type: none"> • Apatit's warehouse inventory management; • day-to-day functioning of the Department; • supervising operations of the Department's structural units, allocation of functions; • developing a strategy for re-engineering of business processes in the Department, etc.
	Head of Division	
OPERATIONAL LEVEL		
Operational staff of the Procurement Department	Heads of units and working groups	<ul style="list-style-type: none"> • Managing operations of subordinate business units, selecting and deploying staff, determining the relevance of their work; • improving the skills of the subordinate staff, creating a favourable social and psychological climate in the team, fostering and maintaining corporate relations; • organising and directly supervising the compliance of the subordinate staff with regulations; • acting in accordance with the requirements of the management system, contributing to its improvement within their remit, etc.
	Specialists	<ul style="list-style-type: none"> • Meeting the Company's needs for equipment and materials, controlled materials, and services in a timely manner, in full and at the best possible prices; • professional development and upskilling.

Challenges of 2022

Geopolitical factors had a significant impact on PhosAgro Group's supply chains in 2022. The US, EU, Japan, and a number of other countries ceased the supply of equipment. Many contracts had to be renegotiated with amendments to deadlines, prices and payment terms, logistics routes and, in many cases,

substitution of goods in signed deals. In addition, banking operations with foreign suppliers became more complicated. To respond to these challenges, PhosAgro introduced structural changes in the Procurement Department, organised alternative procurement with a shift in geographic priorities and new

supply chains in place, and took a number of steps to improve the Department's operational efficiency. The timely and successful action enabled us to adapt to the new conditions in a short space of time, restore the continuity of supply to our operations, and maintain an appropriate level of supply stability.

Risks and opportunities

The following strategic risks affect our procurement objectives (for more information, see the Strategic Risks section):

- 14** Corruption
- 18** Commodity risk
- 21** Sanctions risk

For more information, see the Strategic Risks section, p. 70

Procurement-specific risks are:

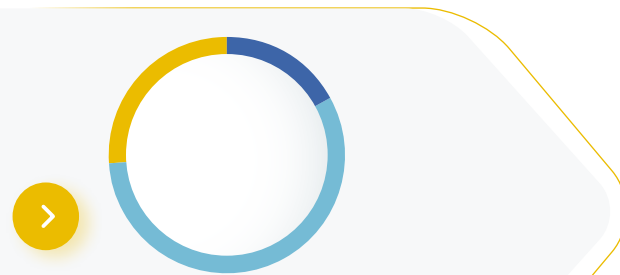


Key results in 2022

Cost budget in 2022

Breakdown of procurement costs

RUB 213.9 bln.
the Company's total procurement costs



- 17% Materials and equipment
- 57% Raw materials and fuel
- 26% Work and services

>50%
of procurement costs are related to raw materials and fuel

The Company's procurement costs in 2022 totalled RUB 213.9 bln, of which raw materials and fuel accounted for 57%.

One of PhosAgro's top procurement priorities is to cooperate with small- and medium-sized enterprises (SMEs), primarily in the regions where the Company's key assets are located. In the existing political and economic environment, we view active development of this cooperation benefiting all parties to be even more important.

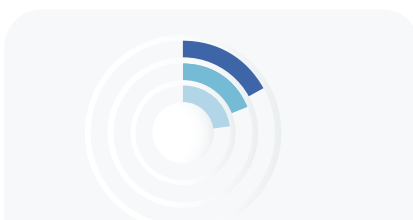
In 2022, as part of the Synergy of Growth agreement signed in 2020 between the government of the Vologda region, Apatit, Severstal and Urban Development Agency coordinating business development in Cherepovets, we published detailed information on the Company's need for import-substituting products on Electronic Business Cooperation, an information platform, to identify opportunities for local producers to make and supply these products.

PhosAgro also regularly participates in online and offline meetings held in the regional

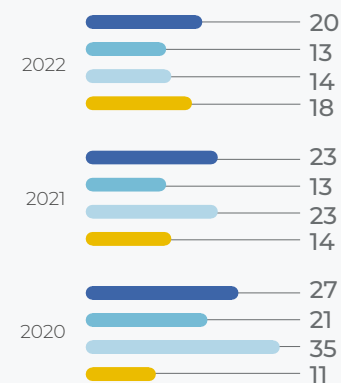
offices of the Russian Union of Industrialists and Entrepreneurs and the Urban Development

GRI 204-1

Share of local procurement, %



- 17 2022
- 19 2021
- 23 2020



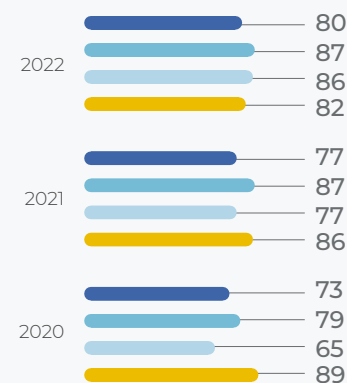
- Apatit
- Balakovo branch of Apatit
- Volkhov branch of Apatit
- Kirovsk branch of Apatit

Agency in Cherepovets, as well as at exhibitions and strategy sessions.

Share of procurement from other suppliers, %

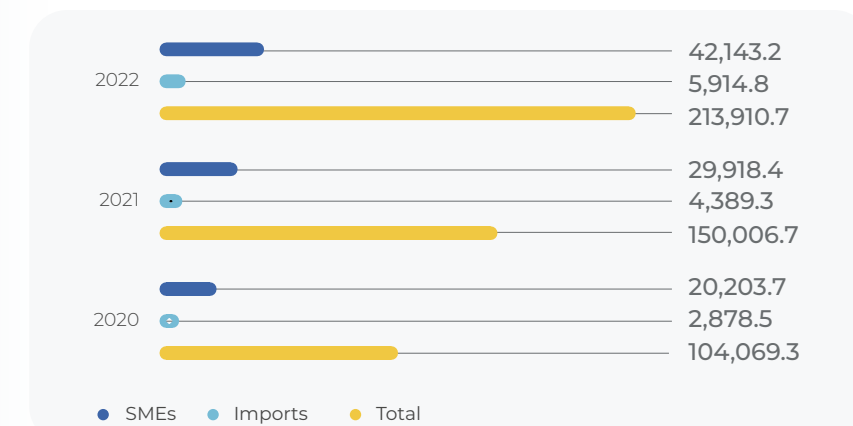


- 83 2022
- 81 2021
- 77 2020

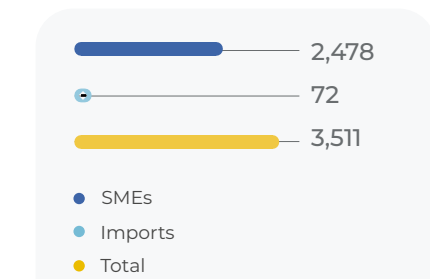


- Apatit
- Balakovo branch of Apatit
- Volkhov branch of Apatit
- Kirovsk branch of Apatit

Procurement in 2022, RUB mln



Number of suppliers in procurement in 2022



Service procurement

No.	KPI	Scale			Actual
		Worst	Critical	Target	
1	Average number of tender participants in the reporting period	3	5	7	4
2	Tender price reduction in the reporting period, %	5	7	12	10
3	Holding tenders on time, %	90	95	100	99
4	Bidders' motivation assessment with respect to procurement quality	3.5	4.5	5	5

Commodity procurement

No.	KPI	Scale			Actual
		Critical	Target	Challenge	
1	Timeliness of procurement, %	87	90	93	89
2	Reject rate at incoming control, %	5	3	2	6
3	Commodity price control index, %	1.05	1	0.95	0.93

Raw materials procurement

No.	KPI	Scale			Actual
		Critical	Target	Challenge	
1	Raw materials procurement index	1.05	1	0.95	0.79

Supplier ESG evaluation

In 2020, based on the principles of sustainable development set forth in the Code of Conduct for Counterparties, PhosAgro developed a system to evaluate suppliers against ESG criteria relying on the Sustainable Procurement Indicators checklist. The checklist is part of an overall framework

for assessing the Company's and suppliers' performance to ensure sustainability and reliability in order to benefit our consumers. It includes questions on compliance with the principles of environmental and social responsibility guiding PhosAgro's operations. The completed checklist confirms that the Company's

supplier shares these principles. An individual supplier rating is based on the checklist.

We believe that making suppliers aware of the Company's system of values will contribute to a more responsible and sustainable business culture in the long run.



To raise awareness of the existing evaluation system and of the need to complete the checklist, training materials on engaging with suppliers in sustainable development were published on the official PhosAgro website.

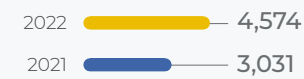
Key ESG evaluation indicators

The indicators for 2022 are based on the total number of suppliers taking part in procurement and the number of rated suppliers. This methodology will apply to future periods as well.

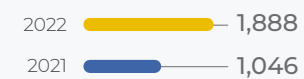
All categories of suppliers were assessed for environmental impact. Suppliers with an environmental management system certified to comply with ISO 14001 or a similar standard accounted for 33% of evaluated producers of raw materials, fuel, energy, and commodities.

No.	Indicators	2022
1	Number of suppliers that participated in the evaluation on PhosAgro's EBP	4,574
2	Number of suppliers taking part in procurement	3,511
	Number of rated suppliers	1,888
	Share of rated suppliers, %	54
3	Total procurement, RUB bln	213.9
	Procurement from rated suppliers, RUB bln	74.8
	ESG evaluation coverage by procurement volume, %	35
4	Average supplier rating (on a 100 point scale), points	62

Number of suppliers that participated in the evaluation on PhosAgro's EBP



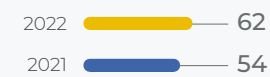
Number of rated suppliers



ESG evaluation coverage by procurement volume, %



Average supplier rating (on a 100 point scale), points



Environmental assessment indicators show that 33% of suppliers have an innovative and forward-looking environmental policy and contribute to the protection of the environment.



Technical audits have not identified any counterparties failing to comply with recognised standards with regard to environmental impact.

Supplier environmental assessment in 2022

GRI 308-1, 308-2

No.	Indicators	2022
1	Number of rated suppliers	1,888
2	Number of rated suppliers producing raw materials, fuel, energy, and commodities	847
3	Number of rated suppliers producing raw materials, fuel, energy, and commodities that have an environmental management system certified to comply with ISO 14001 or a similar standard	276
4	Share of rated suppliers producing raw materials, fuel, energy, and commodities among counterparties that have an environmental management system certified to comply with ISO 14001 or a similar standard, %	33

33%

of the evaluated suppliers in the key category have a certified environmental management system in place



39%

of suppliers exhibit proactive and responsible behaviour towards occupational safety

The results show that more than half of suppliers share PhosAgro's commitment to equal opportunity policies, do not tolerate harassment or other disrespectful behaviour towards employees and adopted a zero-tolerance stance on child labour.

Some 39% of suppliers in the stated categories exhibit proactive and responsible behaviour towards occupational safety and ensure compliance with international standards set to control working conditions and mitigate occupational and industrial risks.



Technical audits have not identified any counterparties failing to comply with recognised standards with regard to environmental impact

Supplier social assessment in 2022

GRI 414-1, 414-2

No.	Item	Result
	Number of rated suppliers	1,888
1	Number of rated suppliers in the categories "Producers of raw materials, fuel, energy, and commodities"; "Logistics services"; "Construction and installation, repairs"	1,174
	Number of rated suppliers in the above categories that have an occupational health and safety management system certified to comply with ISO 45001 (OHSAS 18001), or a similar system	452
	Share of rated suppliers in the above categories that have an occupational health and safety management system certified to comply with ISO 45001 (OHSAS 18001), or a similar system, %	39
2	Number of rated suppliers taking part in procurement that adopted a zero-tolerance policy on child labour*	1,091
	Share of rated suppliers in the above categories that adopted a zero-tolerance policy on child labour, %	58
3	Number of rated suppliers in the categories "Producers of raw materials, fuel, energy", "Commodity producers and intermediaries"; "Logistics services"; "Construction and installation, repairs"	1,524
	Number of rated suppliers in the above categories that adopted a zero-tolerance policy on discrimination	831
	Share of rated suppliers in the above categories that adopted a zero-tolerance policy on discrimination, %	55
4	Number of rated suppliers in the categories "Producers of raw materials, fuel, energy", "Commodity producers and intermediaries"; "Logistics services"; "Construction and installation, repairs"	1,524
	Number of rated suppliers in the above categories that adopted a zero-tolerance policy on forced labour	856
	Share of rated suppliers in the above categories that adopted a zero-tolerance policy on forced labour, %	56

