

# Strategic risks

**Robust risk management is a sine qua non** for PhosAgro to achieve its strategic goals and sustainable development. We continuously develop and improve our risk management framework, which enables us to identify external and internal risks in a timely manner and develop effective mitigants.

## Risk appetite

In pursuing its goals, the Company is guided by risk appetite, or the level of risk it deems acceptable. Risk appetite is an integral part of strategic and operational decision-making. The Board of Directors defines the overall risk appetite when reviewing

the Company's risks and also as part of approving its strategy, budget and investment programme and considering other matters within the Board's scope of authority. Risk appetite is then reflected in the Company's specific procedures and key performance indicators.

## Strategic risks

The Company aims to identify and use opportunities that open up in the market as a result of changes in the external environment. The Company quickly responds to the changing operating landscape and targets priority markets that offer the best

terms and conditions to sell its products. At the same time, the Company's business model is designed in a way that strikes an optimal balance between sustainable development and operational efficiency.

## Production risks

The Company aims to minimise unscheduled downtime in production while at the same time making sure that its processes and end product quality meet all applicable requirements. Creating

a safe working environment is the Company's absolute priority. The Company makes every effort to minimise the negative impact of its production processes on the environment and climate.



## Financial risks

As a reliable borrower, the Company seeks to raise funding on the most attractive terms available in the market. The Company's core operations are FX-linked, so we use natural hedging methods to manage our

FX risk. We are not ready to take on credit risk related to our counterparties: in our relations with them, we either seek to secure terms and conditions we see as most beneficial to us or use risk transfer strategies.

## Operational risks

The Company aims to prevent any disruptions to its business processes and IT infrastructure performance and to also secure maximum protection from cyber threats and fraud. When planning and implementing its investment

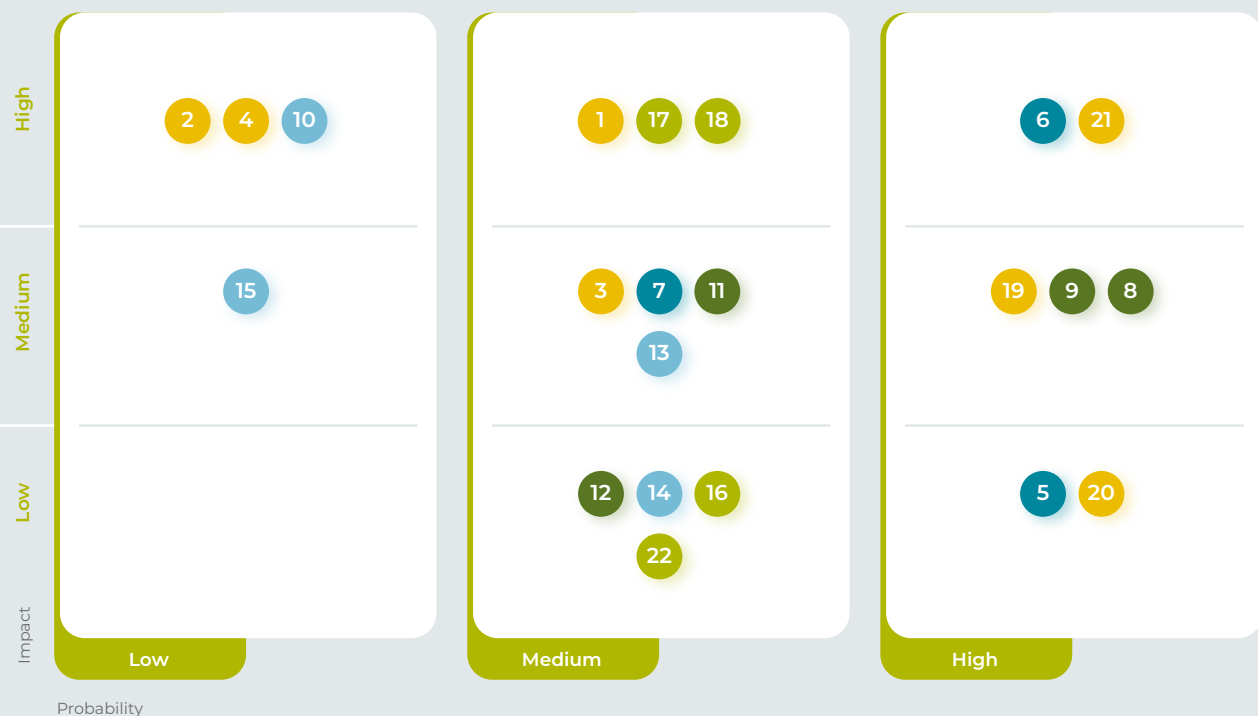
projects, the Company works to deliver against strategic priorities and key performance indicators while factoring in potential deviations as a result of changing external factors.

## Regulatory risks

The Company aims to remain 100% compliant with all applicable statutory regulations, including those related to taxation. As part of industry associations, the Company is involved in developing regulatory initiatives

in order to minimise any non-compliance risk. In addition to laws and regulations, the Company operates in line with corporate values and ethical principles so as to minimise potential reputational damage.

## KEY RISKS ASSOCIATED WITH PHOSAGRO'S ACTIVITIES



### STRATEGIC RISK

- 1 Strategic planning risk
- 2 Failure to deliver on SDGs
- 3 Social risk
- 4 HR risk
- 19 Climate risk
- 20 Infectious disease risk
- 21 Sanctions risk

### FINANCIAL RISK

- 16 Credit risk
- 17 Currency risk
- 18 Commodity risk
- 22 Interest rate risk

### REGULATORY RISK

- 10 Tax risk
- 13 Regulatory risk
- 14 Corruption risk
- 15 Reputational risk

### PRODUCTION RISK

- 5 Production risk
- 6 Health and safety risk
- 7 Environmental risk

### OPERATIONAL RISK

- 8 Project risk
- 9 Business processes and systems risk
- 11 Information security risk
- 12 Economic security risk

Nº	Risk	Description	Risk mitigants	Key indicators / risks materialised / changes in the risk
1	<b>Strategic planning</b> GRI 201, 202	Risk associated with the adoption of an incorrect strategic decision and ensuring management decisions, resulting from an erroneous assessment of internal and external factors that have an impact on the Company's prospects for development and its ability to achieve strategic objectives	The Company actively monitors both internal and external factors that could impact the strategy. PhosAgro also takes a systematic approach to assessing the potential costs and benefits of new strategic projects to facilitate and improve the decision-making process.  PhosAgro started updating its strategy to 2030 to reflect the latest changes in the external and internal environments.	Downside deviations of actual strategic performance from targets.  Geopolitical developments cause greater uncertainty and as a result increase this risk. 
2	<b>Failure to deliver on ESG and sustainable development goals</b> GRI 203, 308, 414	Risk factors include failure to set ESG targets and Sustainable Development Goals (SDGs) or update them in a timely manner, as well as the lack of resources and processes necessary to achieve these targets and goals	The Board of Directors' Sustainable Development Committee helped set and prioritise SDGs and strategic ESG targets. To achieve the same, PhosAgro developed and is successfully implementing the low-carbon transition plan, the Climate Strategy, the Water Strategy, the Energy Efficiency Programme, and other initiatives.  Significant work done in this area has enabled the Company to materially improve its ratings and become a leader in ESG. It should be noted that a result of certain geopolitical developments, a number of ESG rating agencies suspended their operations in Russia.  For more information on the Company's activities and indicators in this area, see the Navigator on UN SDGs section on page 14	Downside deviations of actual ESG and SDG performance from targets.  No material risk events occurred. 
3	<b>Social</b> GRI 413, 401	Risk of an adverse social environment in the regions of operation	With its commitment to the principles of partnership and cooperation between private business and the government, the Company runs a number of social programmes on a proactive basis. Social projects are designed, among other things, to support local authorities in promoting sports and culture, and enhancing the public utilities and opportunities for growth in the regions where the Company operates. Sustainable development in the regions of operation is one of the key goals the Company pursues in its community activities.  For more information on the Company's activities in this area, see the Contributing to Local Communities section on page 234	Downside deviations of actual ESG performance (social dimension) from targets.  No material risk events occurred. 

Risk appetite

- high
- medium
- low

Change in the risk

- up
- flat
- down

N°	Risk	Description	Risk mitigants	Key indicators / risks materialised / changes in the risk
4	<b>HR</b> 401, 402, 403, 404, 405	Developments and decisions related to the hiring, development and retention of employees	PhosAgro runs independent and joint programmes seeking to train and attract young talents, including those from other regions, develop employee skills and enhance motivation as a way to improve retention and productivity. Given the rising number of employees working from home, the Company has introduced an online personnel appraisal system along with additional motivational arrangements.  For more information on the Company's activities in this area, see the People Development section on page 142	Personnel turnover and skill mismatch. No material risk events occurred. —
5	<b>Production</b> 201, 302	Technical/industrial disruptions of production processes resulting in unscheduled equipment downtime	PhosAgro seeks to ensure uninterrupted operation of machinery and reduce unscheduled equipment downtime. To that end, the Company invests in the construction and upgrade of equipment and carries out preventative maintenance and major overhauls by relying on backup equipment and a reserve pool of components, accessories and spare parts.  The Company's insurance programme covers the risk of production disruptions.	Unscheduled equipment downtime. No material risk events occurred. —
6	<b>Health and safety</b> 403	Risk associated with injuries, occupational illnesses, accidents and incidents at production facilities, and non-compliance with statutory requirements in the realm of health and safety	PhosAgro enforces health and safety in workplaces in line with applicable laws and global best practices. To that end, the Company trains staff in health and safety and regularly checks their knowledge, promotes safety culture, and makes sure that all contractors adhere to the health and safety standards. In addition, safety audits and inspections ensure compliance with applicable regulations and OHSAS 18001 requirements. Tasks and measures to reduce the corresponding risks in various Company activities are defined in its health and safety documents.  For more information on the Company's indicators in this area, see the Health and Safety Review section on page 168	Workplace injuries and other incidents.  2022 saw some risks materialise in terms of workplace injuries. The Company carefully investigated each accident, with remedial action plans developed to prevent their recurrence.  —

N°	Risk	Description	Risk mitigants	Key indicators / risks materialised / changes in the risk
7	<b>Environmental</b> 303, 304, 305, 306, 308	Risk of actual and potential environmental damage resulting from the Company's operations	The Company has put in place the Environmental Policy, the Water Strategy, and the Code of Conduct for Counterparties setting out key environmental requirements for suppliers and contractors. PhosAgro conducts regular analysis and assessment of its impact on the environment. The environmental impact is mitigated through the upgrade of treatment and warehousing facilities and the implementation of energy efficiency programmes. The Company implements projects to address all the main areas of environmental impact (water use, greenhouse gas and other emissions, waste, biodiversity).  The Company partners with the UNESCO and the International Union of Pure and Applied Chemistry (IUPAC) to provide research grants as part of the Green Chemistry for Life project seeking to protect the environment and human health through energy efficient processes and eco-efficient technologies based on innovative solutions. PhosAgro's investment projects harness the best available techniques to reduce unit feedstock and energy costs while also cutting unit emissions of regulated substances. The Company discloses its environmental impact minimisation goals and performance in line with applicable laws and as part of global initiatives.  Assessment of environmental factors, including potential scarcity of water and other natural resources, is integrated into PhosAgro's overall risk management system.  For more information on the Company's activities in this area, see the Environmental Review section on page 190	Exceeding maximum permissible levels of negative environmental impact. No material risk events occurred. —

Nº	Risk	Description	Risk mitigants	Key indicators / risks materialised / changes in the risk
8	<b>Project</b> GRI 201	Risk associated with delays and budget overruns in construction and upgrade projects, along with failure to deliver project efficiency targets	PhosAgro strives to adhere to approved project budgets and schedules and to take a unified implementation approach leveraging a variety of project management tools. All projects go through a multi-step review and approval process. For large-scale and strategically important projects, dedicated project management offices are set up. The Company regularly monitors progress against project budgets and deadlines.	Downside deviations of actual project efficiency indicators from targets.  No material risk events occurred. That said, geopolitical developments of 2022 caused deviations related to shipments of imported equipment. The Company sets up its business processes in a way that makes sure such risk is minimised, including by relying on import substitution efforts. 
9	<b>Business processes and systems</b> GRI 402	Inefficiency or disruption of the Company's business processes, including risks related to counterparties and supply chain	PhosAgro seeks to maximise efficiency of all its business processes and systems. Business process efficiency reviews are conducted on a regular basis to identify potential bottlenecks and develop and implement efficiency improvement initiatives. The Company strives to minimise the risk of disruptions in supplies of key materials and feedstock. To that end, PhosAgro uses multi-stage tender procedures and enters into long-term contracts with its most reliable suppliers. In addition, it continuously works to optimise the logistics infrastructure and ensure sufficient rolling stock. The Company also monitors its IT infrastructure on an ongoing basis and carries out a number of initiatives to mitigate risks associated with business process disruptions caused by technological factors or cyberattacks.	Downside deviations of actual business process indicators (by focus area) from targets.  No material risk events occurred. That said, geopolitical developments of 2022 caused deviations related to shipments of imported materials, use of software, and performance of logistics infrastructure outside of Russia. The Company sets up its business processes in a way that makes sure such risk is minimised, including by relying on import substitution efforts. 

Nº	Risk	Description	Risk mitigants	Key indicators / risks materialised / changes in the risk
10	<b>Tax</b> GRI 207	Potential claims lodged by tax authorities in response to the Company's failure to correctly file tax returns or pay taxes in due time	PhosAgro complies with tax legislation in the countries where it operates. The Company tracks all changes (including the planned ones) in tax laws, analyses the law enforcement practices, and seeks clarifications from the government on taxes. In addition, law and accountancy experts are engaged to advise on the administration of applicable tax laws. The Company also has a tax monitoring system in place to quickly identify and minimise tax risks in coordination with the Federal Tax Service.	Tax claims.  No material risk events occurred. 
11	<b>Information security</b> GRI 410	Losses incurred on the Company's property and assets as a result of unauthorised access to its information systems or disclosure of confidential data	PhosAgro implements a number of initiatives to prevent unauthorised access to its information systems and disclosure of confidential data. A wide variety of technical and software solutions, including those based on encryption, are used to control access to information resources and systems. Access rights are granted to specific user groups. There is a clear definition of what constitutes confidential information and how it should be handled. The Company undertakes regular audits to ensure strict compliance with its confidentiality policy. The Company's Board of Directors adopted the Information Security Policy.	Unauthorised disclosure of confidential data, unauthorised access to IT systems.  No material risk events occurred. 
12	<b>Economic security</b> GRI 410	Losses incurred on the Company's property and assets as a result of economic crimes committed by employees or third parties, including fraud and theft	The Company takes steps to prevent potential damage to its property and assets as a result of economic law infringements, including, in particular, by introducing access authorisations to the Company's administrative and production facilities, clearly differentiating between responsibilities as part of contract or transaction execution, vetting counterparties before signing a contract, and putting in place a dedicated hotline. Moreover, additional checks are undertaken by a variety of the Company's functions.	Theft and fraud incidents.  No material risk events occurred. 



Nº	Risk	Description	Risk mitigants	Key indicators / risks materialised / changes in the risk
13	<b>Regulatory</b> GRI 303, 304, 305, 306	Untimely receipt/ extension of licences; legislative changes that might bring about higher cost of doing business, restrictive policies by regulators, weaker equity story of the Company and/ or adverse transformation of the competitive landscape	PhosAgro is in full compliance with applicable laws. To make sure it gets timely updates on potential legislative changes, the Company closely tracks initiatives of legislators, the government and regulators, and takes part in discussing such initiatives and drafting relevant recommendations in partnership with professional associations. The Company prepares and submits documents in due time to receive or extend licences required for its business.	Deviations related to regulatory compliance.  No material risk events occurred. 
14	<b>Corruption</b> GRI 204, 205	Losses resulting from non-compliance or inadequate compliance with applicable anti-corruption laws by the Company or its employees (penalties levied against the Company by government authorities and other damages)	PhosAgro makes sure its facilities and partners fully comply with applicable anti-corruption laws. To that end, it provides training in combating corruption and administering the anti-corruption law, and promotes zero tolerance towards corruption among the Company's employees and partners. Among other things, the Company has approved the Anti-Fraud and Anti-Corruption Policy, the Code of Ethics, and the Regulations on Conflict of Interest. The Company's counterparties are obliged to declare their compliance with anti-corruption laws.  The Company is a member of the Anti-Corruption Charter of Russian Business.	Corrupt practices, conflicts of interest.  No material risk events occurred. 
15	<b>Reputation</b> GRI 206	Damage caused to the Company's business reputation as a result of misleading or defamatory information or allegations about the Company made publicly available, leakages of confidential information, and breaches of business ethics on the part of the Company's employees	In its operations, PhosAgro demonstrates commitment to transparency by disclosing all relevant material facts and circumstances. The Company has adopted an information policy and a media engagement policy. Information about the Company is available on its website and in the mass media. PhosAgro provides comments in response to media enquiries and regularly monitors coverage in both Russian and international (social) media.  To protect its business reputation, the Company has approved the Code of Ethics setting out unified rules for PhosAgro's employees based on the principles of integrity, good judgement, fair play and partnership and designed to support the Company's success.	Stakeholder confidence.  No material risk events occurred. 

Nº	Risk	Description	Risk mitigants	Key indicators / risks materialised / changes in the risk
16	<b>Credit</b> GRI 201	Financial losses caused by the failure of buyers, commercial contractors and other financial counterparties to fulfil their financial obligations to the Company in full and on time	PhosAgro has approved policies on managing credit risks to institutionalise a number of credit risk mitigation techniques, including deliveries against full or partial prepayments with full or partial insurance of credit risks, use of letters of credit, and factoring (securitisation) of accounts receivable. Providing advance payments to suppliers and contractors is only considered after the counterparties have proved their reliability or after they have offered adequate bank guarantees for advance payments that exceed approved internal limits. The Company partners with banks, financial organisations and insurance companies that boast a high level of financial stability and meet the criteria set out in the Company's treasury policy. PhosAgro monitors all covenants under the existing loan agreements on an ongoing basis.  For more information on the Company's activities and indicators in this area, see the Financial Risk Management. Credit Risk section of the Notes to the consolidated financial statements on page 371	Overdue accounts receivable, provision for bad debt.  No material risk events occurred. 
17	<b>Currency</b> GRI 201	Financial losses arising from unfavourable changes in FX rates against the Company's base currency	In the context of oil price volatility and fluctuations of the rouble exchange rate against major international currencies, the Company seeks to align the currency breakdown of its debt financing with the FX structure of its sales. As of now, most of PhosAgro's debt is denominated in US dollars as a natural hedge against predominantly USD-denominated sales. The Company carefully tracks analyst forecasts and factors that may influence the rouble exchange rate against major currencies.  If need be, PhosAgro can hedge its FX positions either fully or partially.  For more information on the Company's activities and indicators in this area, see the Financial Risk Management. Currency Risk section of the Notes to the consolidated financial statements on page 369	Adverse changes in exchange rates.  No material risk events occurred. 

N°	Risk	Description	Risk mitigants	Key indicators / risks materialised / changes in the risk
18	<b>Commodity</b> 204, 417	Losses associated with unfavourable changes in the market prices for mineral fertilizers and other products or a hike in prices for key feedstock and equipment sourced by the Company	Given the volatility in prices for its main products, the Company constantly seeks to streamline its sales structure in terms of the fertilizer grade offering based on market priorities, as a way to maximise margins. PhosAgro also continues to increase the share of sales to end consumers, improve production efficiency and offer its customers add-on services such as packaging, blending and storage. To reduce its feedstock and equipment expenses, PhosAgro invites multiple suppliers to take part in tenders, enters into long-term supply contracts and develops lasting relationships with its suppliers.	Adverse changes in product and feedstock prices.  No material risk events occurred. However, potential correction in mineral fertilizer prices following their strong growth in 2022 contributes to a moderate increase in this risk. ↑
19	<b>Climate</b> 203, 302, 305	Risks associated with changes in natural processes or phenomena amid climate change (physical factors) or with political, economic, financial or other decisions made by governments, multilateral organisations, financial institutions, or producer or consumer associations or other NGOs to curb climate change by reducing GHG emissions through carbon regulations or restrictions on the use of fossil fuels or non-renewable energy (transitional factors)	Processes to identify and assess climate change risks are being set up throughout the value chain and form an integral part of the Company's risk management and internal control framework.  The Board of Directors approved PhosAgro's Climate Strategy, the key elements of which are analysis of climate risks and opportunities, scenario analysis, science-based targets, and a low-carbon transition plan. In accordance with the climate strategy, priority actions are being taken to develop and implement the following measures: direct (Scope 1) emission reduction programmes; an internal energy efficiency programme, and communication with energy suppliers to improve the climate profile of energy supplies (Scope 2); and a supplier and customer engagement plan and supplier ESG ratings (Scope 3).  Thanks to these actions, the Company has improved its ratings for climate disclosure and sustainable development.	Adverse deviations resulting from climate impacts (by focus area).  In 2022, there were abnormal weather events. However, at this stage it is quite difficult to assess the extent to which these were caused by climate change. In any case, the Company did not incur any significant losses associated with these natural phenomena. At the same time, potential changes related to transition climate factors contribute to higher exposure to this risk. ↑

N°	Risk	Description	Risk mitigants	Key indicators / risks materialised / changes in the risk
20	<b>Infectious diseases</b> 403	Risks associated with the outbreak and spread of infectious diseases that pose a threat to business continuity	2022 saw further spread of a newly discovered coronavirus (COVID-19) around the world. At the same time, complications associated with this disease became considerably less severe.  The Company took a set of measures to prevent mass infection and to support vaccination among its employees and local communities in its regions of operation (jointly with government agencies). Thanks to these measures, the Company managed to minimise the negative impact of COVID-19 (in its active stage) on its operations, ensure business continuity and deliver on its business targets. The Company's successful experience of COVID-19 response and the procedures it has established help react to further developments associated with COVID-19, as well as to other infectious disease outbreaks.	Confirmed cases, business process disruptions.  The number of confirmed cases among the Company's employees in 2022 generally follows overall trends in the Company's regions of operation. By quickly developing and putting in place anti-COVID-19 response measures, the Company ensured business continuity and delivered on its targets. ↓
21	<b>Sanctions</b> 201, 202, 203, 204	Foreign sanctions imposed on the Group's companies	The global nature of international economy creates a background for various sanctions to be imposed on the Russian economy and the Company's operations by individual countries or their groups. The Company's flexible business model helps minimise any negative impact of such sanctions or restrictions.	Losses associated with sanctions.  In 2022, geopolitical developments caused this risk to materialise. By quickly developing and putting in place response measures, the Company ensured business continuity and delivered on its targets. ↑
22	<b>Interest rates</b> 201	The Company borrows money to finance its investment programme and working capital requirements, including via floating interest rate loans. Rising floating rates might lead to higher debt service costs and adversely impact the bottom line	Should the Company accumulate significant floating interest rate borrowings, it would hedge this risk using interest rate derivatives. PhosAgro closely monitors and manages its fixed-to-floating debt ratio to mitigate interest rate risk.  For more information on the Company's activities and indicators in this area, see the Financial Risk Management. Interest Risk section of the Notes to the consolidated financial statements on page 370	Losses associated with changes in interest rates.  No material risk events occurred. —