

# 2012

 URALCHEM

ANNUAL REPORT



# ANNUAL REPORT 2012



Except when otherwise specified, all information and data contained in this Annual Report are as of December 31, 2012.

Unless otherwise specified in the Annual Report, the financial information refers to the activities of the "Group."

Some statements in this document may refer to projects or forecasts with regard to forthcoming events or future financial results of the Company. The Company wishes to forewarn that such statements are nothing but assumptions, and the actual course of events or results may be different from those contained in the statements. The Company shall not obligate itself to reconsider such statements with a view to correlate them with actual results.

# THE COMPANY TODAY

THE COMPANY HAS THE REPUTATION OF A RELIABLE FERTILIZER SUPPLIER BOTH IN THE MARKET OF THE RUSSIAN FEDERATION AND TO THE COUNTRIES OF EUROPE, LATIN AMERICA, ASIA, AND THE FORMER SOVIET REPUBLICS.

THE COMPANY SELLS ITS PRODUCTS

TO MORE THAN **60** COUNTRIES IN WHICH THE PRODUCTS ARE WELL KNOWN AND IN DEMAND.

## URALCHEM IS ONE OF THE LARGEST PRODUCERS OF MINERAL FERTILIZERS IN RUSSIA, THE CIS, AND EASTERN EUROPE.

The assets of URALCHEM comprise Azot Branch of URALCHEM, OJSC in Berezniki, Mineral Fertilizer Plant of Kirovo-Chepetsk Chemical Works, OJSC (MFP KCCW), Voskresensk Mineral Fertilizers, OJSC, and since 2012 – Minudobrenia, OJSC.

As a result of the acquisition of Minudobrenia, OJSC URALCHEM strengthened its positions in the nitrogen fertilizer sector as the largest ammonia and ammonium nitrate producer, and the second largest urea producer. URALCHEM production facilities are capable of producing annually up to:

- > 2.8 million tonnes of ammonia,
- > 2.5 million tonnes of ammonium nitrate,
- > 1.2 million tonnes of urea
- > 0.8 million tonnes of mono- and diammonium phosphate,
- > 0.8 million tonnes of NPK/NPKS complex fertilizers.

In addition to the production assets, URALCHEM comprises URALCHEM-TRANS, LLC, a transport company which has a park of 8,500 of its own and leased rail cars. Besides, through its joint venture SIA "Riga fertilizer terminal", URALCHEM participates in the construction of a new terminal for transshipment and storage of fertilizers in Riga with a capacity of 2 million tonnes per year. When launched into operation in 2013, the terminal will strengthen logistics security of URALCHEM.

Russian URALCHEM Trading House, LLC responsible for sales in Russia and in the CIS, SIA URALCHEM Trading (Latvia) and URALCHEM TRADING DO BRASIL, LTDA. (Brasil) responsible for sales in the international markets are the trading units of URALCHEM.

The Company has the reputation of a reliable fertilizer supplier both in the market of the Russian Federation and to the countries of Europe, Latin America, Asia, and the former Soviet republics. Export plays a dominant role in the trade balance (75%, including 69% to far-abroad countries). The Company sells its products to more than 60 countries in which the products are well known and in demand.

URALCHEM products are represented in all segments - from basic to premium fertilizers. The product portfolio consists of 79 product names and is annually optimized in order to meet the needs of the maximum number of consumers and to flexibly respond to changing market conditions.

The company's products comply with the highest international standards of quality and environmental safety. ISO 9001 and ISO 14001 management systems have been introduced into the URALCHEM enterprises. In 2010, the Company's products were registered at the European Chemical Agency in accordance with the strict European Union's REACH regulations. URALCHEM is also a member of the international program of Responsible Care under the auspices of the UN.

One of the key competitive advantages of URALCHEM is its client-oriented policy. URALCHEM provides consumers with a wide range of related services including year-round "hot line" to get in touch with the Company's representatives, IT services for Russian agricultural clients, which allow tracking orders online, and offer a variety of optimal logistic solutions.

In 2012, the company celebrated its five-year anniversary. URALCHEM has successfully worked on the implementation of the set goals and strategic objectives, and eventually demonstrated a record performance. In 2012, its commercial output amounted to more than 6 million tonnes, which is higher by 47% than five years ago. The revenue has grown by 43% over

THE REVENUE HAS GROWN  
 BY **43%** OVER  
 FIVE YEARS (TO \$2.4 BILLION USD)

THE EBITDA HAS GROWN  
 BY **35%** OVER  
 FIVE YEARS (TO \$0.8 BILLION USD)

THE NET PROFIT INCREASED  
 MORE THAN **8** TIMES  
 (UP TO \$0.7 BILLION USD)

THE NET DEBT/EBITDA RATIO DECREASED FROM  
**2.1** IN 2008 TO **1.0** IN 2012

five years (to 2.4 billion USD), EBITDA - by 35% (to 0.8 billion USD), net profit increased more than eight times (up to 0.7 billion USD). The net debt/EBITDA ratio decreased from 2.1 to 1.0.

The company is becoming an ever more prominent player in the global fertilizer market. The key to the success of URALCHEM is the efficient business conduct allowing to conform to the market conditions and manufacture the products of highest quality, which are environmentally-friendly and popular among consumers.

URALCHEM is an innovation-oriented company which invests heavily in research and development and introduces the unique technologies into its operations. This results in higher productivity, lower consumption of raw materials, higher energy efficiency and environmentally-friendly production, higher quality and new types of products. Higher profit margin leads to improved financial performance of URALCHEM.

The production of two innovative fertilizers - anhydrous calcium nitrate and water-soluble mono-ammonium phosphate - is scheduled to begin in 2013. URALCHEM is also working to start the production of rare-earth metals from the waste products of phosphoric acid using an innovative technology.

URALCHEM makes significant investment in modernization of production facilities in order to increase the production efficiency.

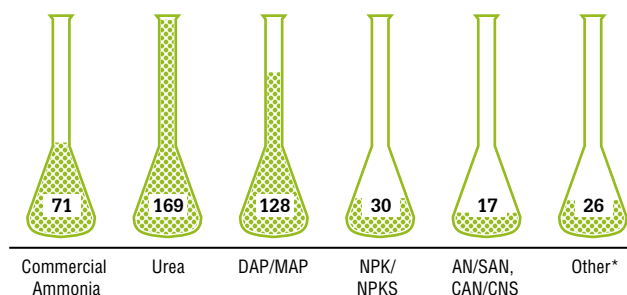
The development strategy up to 2015 adopted by the Company provides for strengthening of its leading positions in the industry and expanding the scale of production through re-equipment of production facilities, strict control over production cost, increase of production of high-profit products, ensuring of transport independence, access to new markets, and optimization of personnel management.

The main strategic goal of URALCHEM is to become the leader in the Russian nitrogen fertilizer market and to increase the commercial output to 6.5 million tonnes. The Company believes that the current asset structure creates all the prerequisites for achieving this goal without resorting to large loans and IPO proceeds.

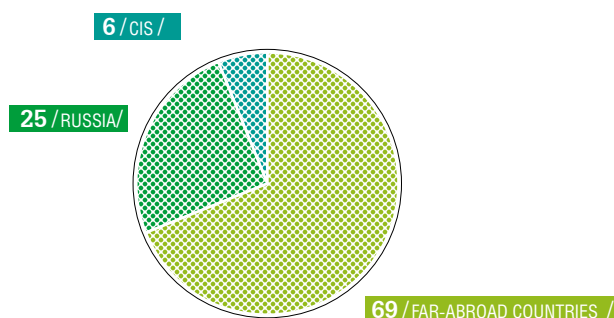
URALCHEM pays special attention to personnel development issues. The effectiveness of the Company depends in general on the performance of each employee. All the company's accomplishments over the last five years have become possible only due to well consolidated work of dynamic, close-knit team of professionals that can effectively carry out the set goals.

# REVIEW OF OPERATING FIGURES OF THE COMPANY

**PRODUCT GROWTH RATES OF URALCHEM GROUP OVER FIVE YEARS FROM 2008 TO 2012, %**



**SALES STRUCTURE IN 2012, %**



**URALCHEM GROUP PRODUCTION STRUCTURE BY TYPES OF PRODUCTS IN 2012, %**

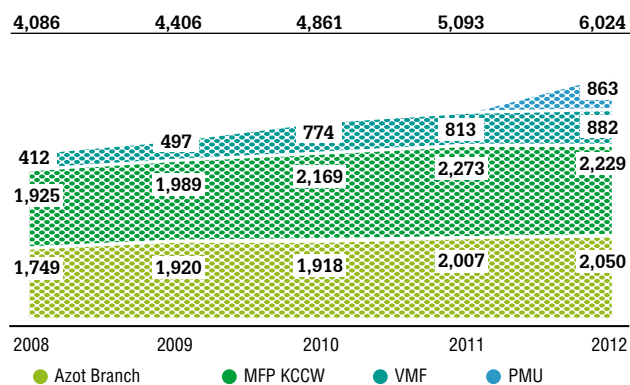
Product Type	Percentage (%)
AN/SAN, CAN/CNS	43
UREA	20
COMMERCIAL AMMONIA	13
NPK/NPKS	10
DAP/MAP	8
OTHER*	6

\* including acids

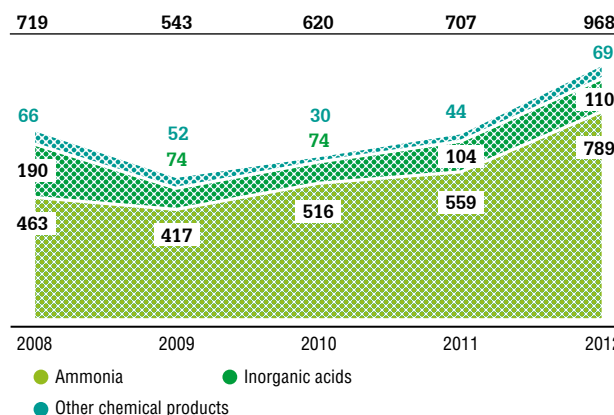
**COMMERCIAL OUTPUT STRUCTURE BY URALCHEM GROUP ASSETS IN 2012, %**

Asset	Percentage (%)
MFP KCCW	37
AZOT BRANCH	34
VMF	15
PMU	14

**URALCHEM GROUP COMMERCIAL OUTPUT, '000 tonnes**



**PRODUCT OF CHEMICAL RAW MATERIALS STRUCTURE, '000 tonnes**

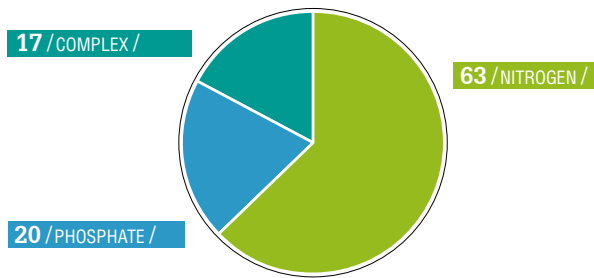


# REVIEW OF THE COMPANY'S FINANCIAL PERFORMANCE

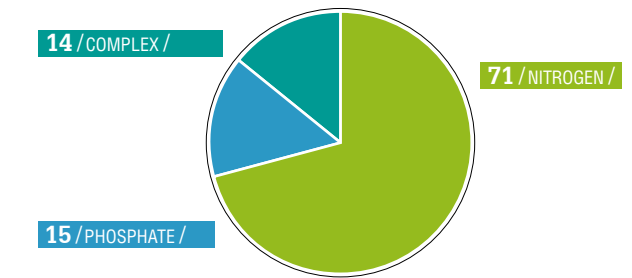


	2012	2011	2010	2009	2008	FIVE YEARS
<b>Revenue, mln USD</b>	<b>2,423</b>	<b>2,080</b>	<b>1,389</b>	<b>949</b>	<b>1,697</b>	<b>43%</b>
Rate of growth, %	16%	50%	46%	-44%	-	
<b>EBITDA, mln USD</b>	<b>839</b>	<b>750</b>	<b>309</b>	<b>110</b>	<b>622</b>	<b>35%</b>
EBITDA margin	35%	36%	22%	12%	37%	
<b>Net Profit (loss), mln USD</b>	<b>665</b>	<b>445</b>	<b>35</b>	<b>-97</b>	<b>76</b>	<b>775%</b>
Net profit margin	27%	21%	3%	-10%	4%	
<b>Net debt, mln USD</b>	<b>830</b>	<b>931</b>	<b>1,356</b>	<b>1,422</b>	<b>1,315</b>	<b>-37%</b>
Net debt/EBITDA	1.0	1.2	4.4	12.9	2.1	
<b>Revenue per employee, USD</b>	<b>196,898</b>	<b>183,924</b>	<b>108,583</b>	<b>67,487</b>	<b>115,639</b>	<b>70%</b>
Rate of growth, %	7%	69%	61%	-42%	-	
<b>Profit (Loss) per employee, USD</b>	<b>54,047</b>	<b>39,349</b>	<b>2,736</b>	<b>-6,898</b>	<b>5,179</b>	<b>944%</b>
Rate of growth, %	37%	1338%	-140%	-233%	-	

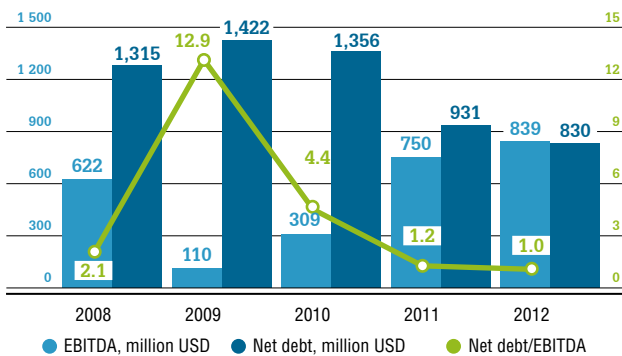
**URALCHEM GROUP STRUCTURE OF REVENUE FROM FERTILIZER SALES IN 2011, %**



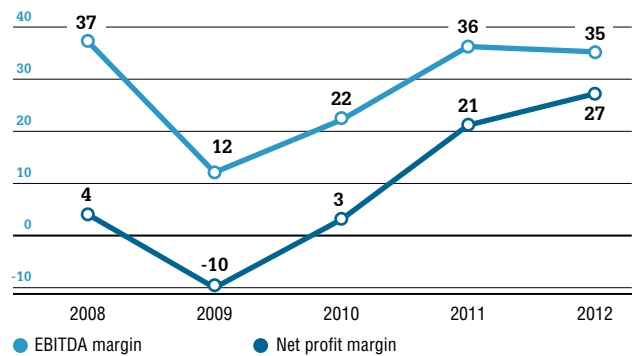
**URALCHEM GROUP STRUCTURE OF REVENUE FROM FERTILIZER SALES IN 2012, %**



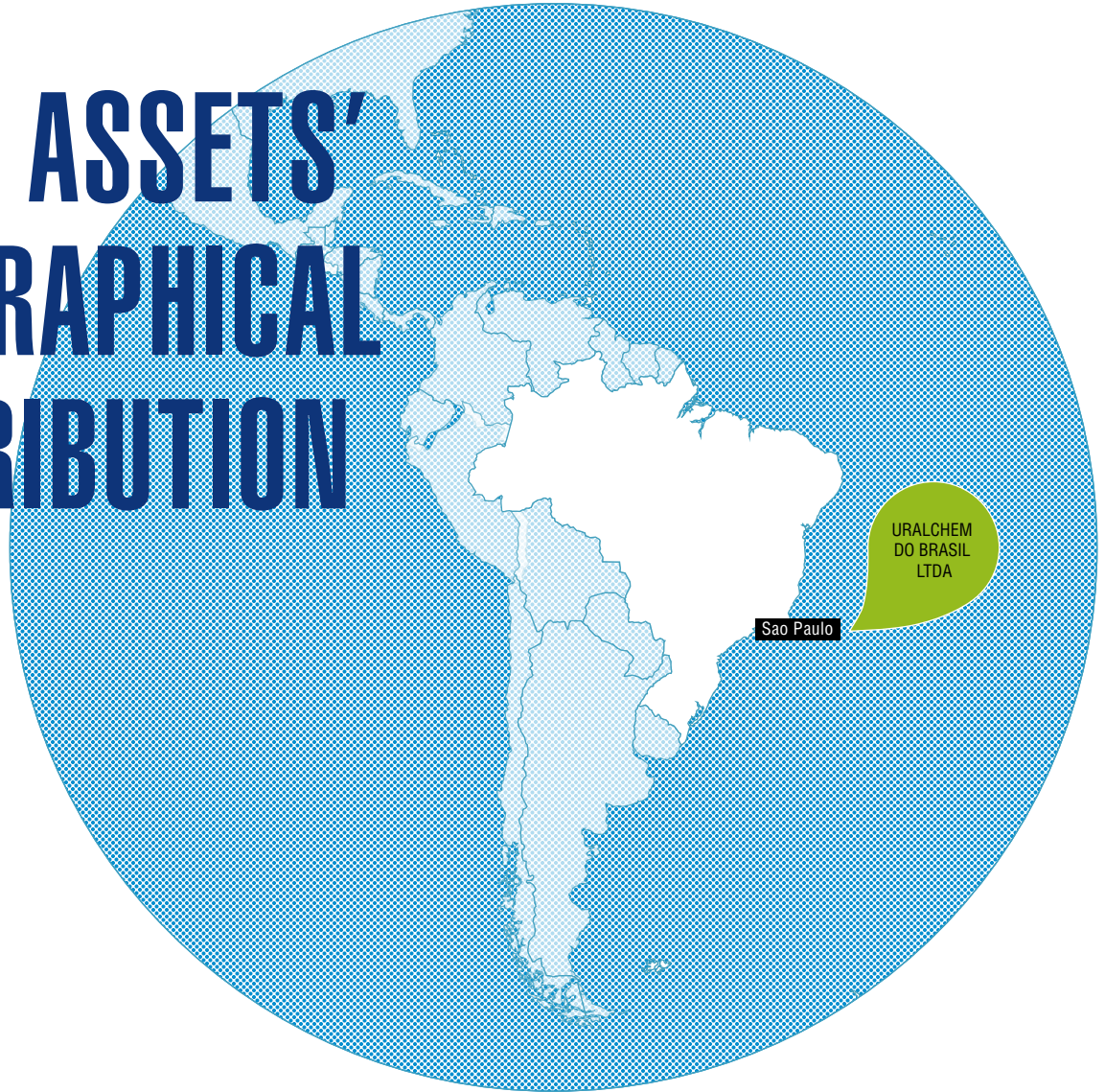
**URALCHEM GROUP DEBT BURDEN, in mln USD**



**URALCHEM GROUP PROFIT MARGIN DYNAMICS, %**



# MAIN ASSETS' GEOGRAPHICAL DISTRIBUTION



OJSC MFP KCCW

PRODUCTION OUTPUT

**2,229** THOUSAND TONNES



VOSKRESENSK MINERAL FERTILIZERS OJSC

PRODUCTION OUTPUT

**882** THOUSAND TONNES



MINUDOBRENIYA OJSC (PERM)

PRODUCTION OUTPUT

**863** THOUSAND TONNES



AZOT BRANCH

PRODUCTION OUTPUT

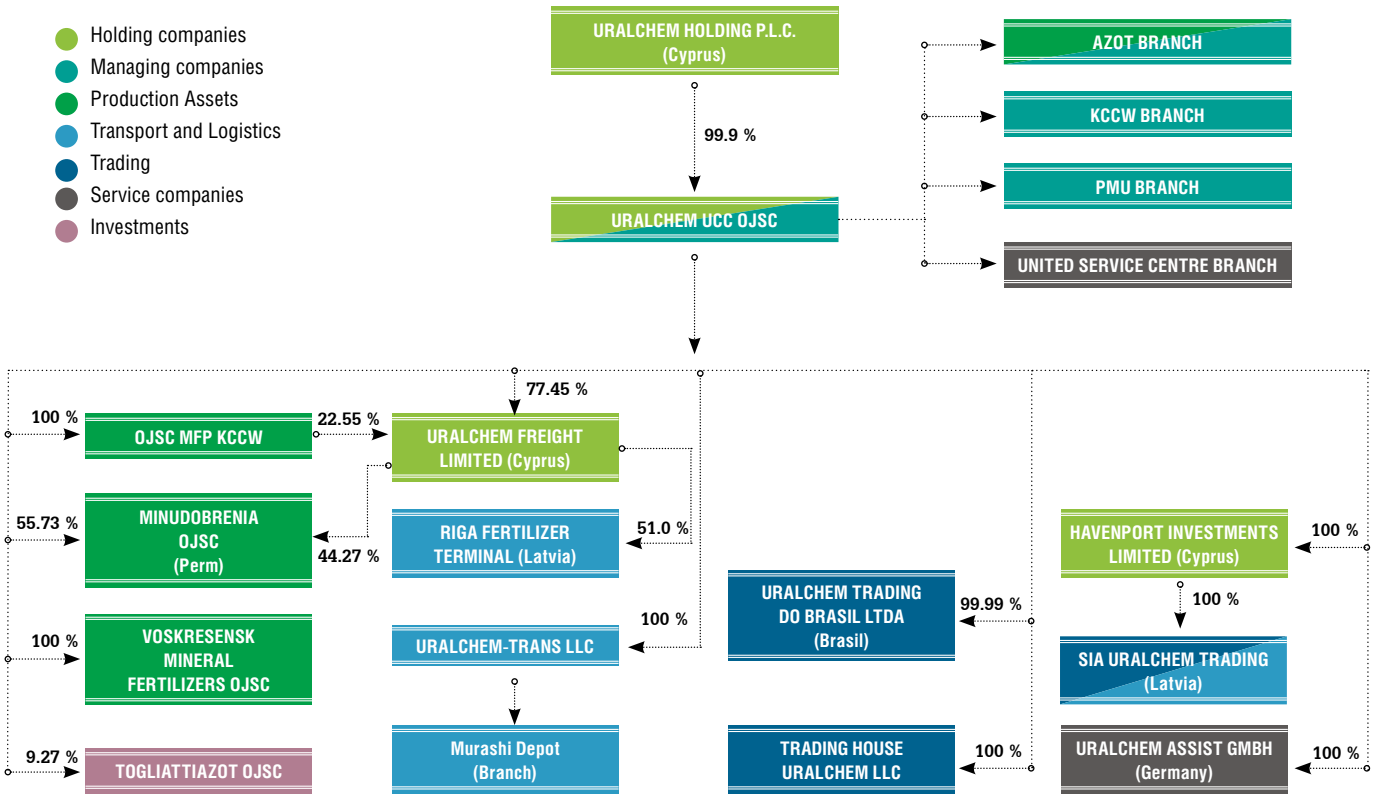
**2,050** THOUSAND TONNES





### MAIN ASSETS STRUCTURE

- Holding companies
- Managing companies
- Production Assets
- Transport and Logistics
- Trading
- Service companies
- Investments



\* This Chart shows only key subsidiaries and investments of URALCHEM and our ownership in such entities

# CONTENT

<b>LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS</b> .....	<b>10</b>	<b>CORPORATE GOVERNANCE POLICY</b> .....	<b>60</b>
<b>LETTER FROM THE CHIEF EXECUTIVE OFFICER</b> .....	<b>12</b>	<b>CORPORATE GOVERNANCE STRUCTURE</b> .....	<b>60</b>
<b>MANAGEMENT REPORT</b> .....	<b>14</b>	<b>THE GENERAL MEETING OF SHAREHOLDERS</b> .....	<b>60</b>
<b>MAINTAINING STABLE MARKET POSITIONS</b> .....	<b>14</b>	<b>THE BOARD OF DIRECTORS</b> .....	<b>61</b>
International mineral fertilizer market .....	14	<b>COMMITTEES OF THE BOARD OF DIRECTORS</b> .....	<b>64</b>
Mineral Fertilizer Market in Russia .....	21	<b>THE CHIEF EXECUTIVE OFFICER</b> .....	<b>64</b>
<b>EXTENDING THE SCALE OF BUSINESS, WHILE INCREASING OPERATING PERFORMANCE</b> .....	<b>26</b>	<b>REMUNERATION OF KEY MANAGEMENT</b> .....	<b>64</b>
Key Events Over the Last Five Years of Operation .....	26	<b>INTERNAL CONTROL AND AUDIT</b> .....	<b>64</b>
Operating result: Five years of growth – Five success factors .....	27	<b>STRUCTURE OF SHARE CAPITAL</b> .....	<b>65</b>
Distribution System: Five Years of Customer Orientation .....	34	<b>DIVIDENDS</b> .....	<b>65</b>
Logistics: Five Years On the Way To Independence .....	36	<b>HUMAN RESOURCES AND SOCIAL POLICY</b> .....	<b>66</b>
<b>IMPLEMENTATION OF THE LARGE-SCALE INVESTMENT PROGRAM</b> .....	<b>38</b>	<b>KEY EVENTS IN THE FIELD OF HUMAN RESOURCES AND SOCIAL POLICY</b> .....	<b>66</b>
Investments into fixed and intangible assets .....	38	<b>PERSONNEL STRUCTURE</b> .....	<b>67</b>
Investments into acquisition of subsidiaries .....	41	<b>LABOR COMPENSATION</b> .....	<b>67</b>
Innovations and R&D .....	41	<b>PERSONNEL TRAINING AND RETRAINING</b> .....	<b>68</b>
<b>IMPROVEMENT OF FINANCIAL PERFORMANCE</b> .....	<b>44</b>	<b>SOCIAL PROGRAMS AND CHARITY</b> .....	<b>69</b>
Operating Results of URALCHEM Group over Five Years .....	44	<b>HEALTH AND SAFETY</b> .....	<b>70</b>
Key Financial Ratios .....	44	<b>PROTECTING THE ENVIRONMENT</b> .....	<b>71</b>
Revenue .....	46	<b>ANNEXES</b> .....	<b>74</b>
Cost of Production .....	48	<b>ANNEX 1: MAJOR TRANSACTIONS AND RELATED-PARTY TRANSACTIONS</b> .....	<b>74</b>
Selling, Administrative and Other Operating Expenses .....	49	<b>ANNEX 2: COMPLIANCE WITH CORPORATE CODE OF CONDUCT</b> .....	<b>75</b>
Profit Figures .....	50	<b>ANNEX 3: LEGEND AND ACRONYMS</b> .....	<b>77</b>
Debt Burden .....	50	<b>CONTACT INFORMATION</b> .....	<b>78</b>
Cash Flow .....	51		
Balance Sheet .....	52		
<b>DEVELOPMENT STRATEGY</b> .....	<b>53</b>		
<b>KEY PROVISIONS OF THE STRATEGY</b> .....	<b>53</b>		
<b>RISK MANAGEMENT SYSTEM</b> .....	<b>55</b>		
<b>CORPORATE GOVERNANCE</b> .....	<b>59</b>		
<b>KEY EVENTS IN THE FIELD OF CORPORATE GOVERNANCE OF URALCHEM GROUP IN 2012</b> .....	<b>59</b>		

# LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

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Looking back at what URALCHEM has achieved in five years, I can say with confidence that this period has turned into a success story, the story of the formation of an effective, dynamic, vertically integrated company. Every year we set ambitious goals and objectives, and consistently achieved and sometimes exceeded them.

It can be asserted now, that our development strategy for the past five years has fully justified itself. Since its establishment, URALCHEM has strived to expand the production base by acquiring promising assets. In 2007, the company became the leader among Russian companies in the production of ammonium nitrate. Having purchased the controlling interest in Voskresensk Mineral Fertilizers, OJSC in 2008, we were able to enter the market of phosphate fertilizers, and hold a solid third place in it now. The main event of 2012 was the acquisition of the controlling interest of Minudobrenia, OJSC (Perm). This allowed URALCHEM to secure the leading position in Russia in production of ammonia and come finish second in production of urea in 2012.

In 2012, URALCHEM achieved a number of record-breaking operating and financial results - a new level of production, revenue, net profit, profitability, and productivity of labor was achieved.

It is remarkable that we have achieved all that under the changing market conditions and volatility of the global economic environment. However,

the company's management was quick and flexible in its response to changes in external conditions, and was able to make sound and well-grounded decisions which ensured the sustainable growth of the company's key figures.

In 2012, we adopted a new development strategy of the company up to 2015. It is directed at strengthening its leading position in the industry and improving the company's efficiency. It was worked out with a view to increasing production, improving logistics security and developing distribution infrastructure, reducing the cost of production and increasing the share of products with high added value in sales pattern, and entering new markets.

The strategic objective of the Board of Directors and the company's management for the next three years is to ensure an increase of marketable output to 6.5 million tonnes per year through organic growth, i.e. without regard to acquisition of new assets. We plan to implement this objective using our own resources without resorting to large loans and IPO funds.

We attach great importance in our strategy to human resources development. I am strongly convinced that all achievements of the company for the last five years, outlined in the annual report, are the result of the work of a solid team of professionals which would not be possible without a contribution of each individual employee. I consider the investment in human resources to be the key to long-term prosperity of the company.

**THE STRATEGIC OBJECTIVE OF THE BOARD OF DIRECTORS AND THE COMPANY'S MANAGEMENT FOR THE NEXT THREE YEARS IS TO ENSURE AN INCREASE OF MARKETABLE OUTPUT TO 6.5 MILLION TONNES PER YEAR THROUGH ORGANIC GROWTH.**



Right from the start, URALCHEM was established as a company providing favorable environment for highly motivated, responsible and professional staff. We will keep supporting the urge to professional and personal growth through the programs aimed at adaptation, support and training of young employees, professional and career development, and promotion of effective staff members.

A particular emphasis in the coming three years will be placed on social and environmental programs. URALCHEM is a responsible producer, our enterprises play the key role in the economic and social life of the regions where they are located. Therefore, we care about the living conditions of the people whose interests are connected to the activities of our enterprises. The company's profit in 2012 has enabled us to significantly increase funding for social programs. We will keep providing social support to the regions and improving industrial and ecological safety in 2013 and in the long run.

Over the last five years, we have laid a strong foundation for the future growth of the company, and are now raising our standards to a new level. We should not only strengthen this foundation, but succeed in achieving the set strategic goals and objectives.

I thank the Board of Directors, the management and all employees for effective performance and hope that the URALCHEM team will continue

strengthening the trust of our partners and clients, their confidence in the company's high potential. I am certain that together we will improve the results and reach new heights!

**Dmitry A. Mazepin**  
**Chairman of the Board of Directors**  
**URALCHEM UCC, OJSC**

# LETTER FROM THE CHIEF EXECUTIVE OFFICER

In 2012, we celebrated the fifth anniversary of URALCHEM. The company has achieved impressive results by this date. In such a short span of time, URALCHEM has managed to become an innovative, efficient, dynamic company and hold strong positions on the list of the largest agrochemical producers in Europe.

Summing up, I would like first of all to emphasize the record-breaking growth of operating figures of the company. In 2012, the marketable output exceeded the milestone of 6 million tonnes, having exceeded the level of 2011 by 18%, while the production volume increased by 47% in five years. The new level of production achieved in 2012 allowed URALCHEM to become the leader among Russian producers of ammonia and ammonium nitrate, as well as to become the second-largest producer of urea. And we are not going to stop there. The strategic goal is to become the largest Russian producer of nitrogen fertilizers in 2015 with total marketable production volume of 6.5 million tonnes.

We managed to achieve high results in five years through a combination of factors, including the expansion of the production facilities due to acquisition of new assets, and the improved production efficiency of each enterprise, and, of course, the product line of the company, which is one of the broadest and the most balanced ones among the Russian representatives of the industry. The successful integration of "Minudobrenia" OJSC (Perm), one of the leading and most innovative producers of nitrogen fertilizers in Russia, into the structure of URALCHEM played an important role in achieving high production results in 2012. The contribution of Minudobrenia accounted for 14% of the total marketable output in 2012. The enterprise has become one of the key assets of URALCHEM having significantly strengthened the company's position in the global markets and having provided the conditions for achieving strategic goals.

The production of URALCHEM is now represented in all product niches - from basic to premium fertilizers. In 2012, we produced 79 types of products which were in demand in the Russian market, and in more than 60 countries all over the world. In five years, the product line has significantly expanded thereby catering to the needs of the maximum number of consumers, including those in the niche segments, and responding flexibly to changes in the external environment and promptly adjusting the structure of production to the new market demands. In 2013, we plan to start the production of two innovative fertilizers - anhydrous calcium nitrate and water-soluble mono-ammonium phosphate.

It is noteworthy that in recent years we have been systematically reducing the debt burden. The total debt in 2012 decreased by 15%, including its short-term part - by 69%. Net debt has decreased since 2008 almost twofold to 830 million USD and fell below the EBITDA for the first time in five years. The debt refinancing will result in savings on interest payments and improve cash flow which can later be used to meet strategic objectives of URALCHEM. Despite the comfortable debt level, we plan to keep reducing the debt burden and optimizing of the credit portfolio.

We also continue to invest heavily in the ongoing repair and modernization of worn-out equipment in order to increase the production efficiency. In 2012, the capital investment in the reconstruction of outdated facilities accounted for 38% of the total annual investment, and together with capital repairs accounted for 50%.

Over the last 5 years, 2012 became the most successful year for us. We have been flexible and responsive towards the changing external environment and thus were able to demonstrate the growth of key financial figures under difficult market conditions. According to IFRS, the revenue increased by 16%

**IN 2012, WE CELEBRATED THE FIFTH ANNIVERSARY OF URALCHEM. THE COMPANY HAS ACHIEVED IMPRESSIVE RESULTS BY THIS DATE. IN SUCH A SHORT SPAN OF TIME, URALCHEM HAS MANAGED TO BECOME AN INNOVATIVE, EFFICIENT, DYNAMIC COMPANY AND HOLD STRONG POSITIONS ON THE LIST OF THE LARGEST AGROCHEMICAL PRODUCERS IN EUROPE.**



to 2.4 billion USD in 2012. The net profit exceeded last year's level by 49% having reached 665 million USD, EBITDA increased by 12% to 839 million USD. On the whole, in five years we have been able to increase the revenue nearly 1.4 times, and net profit 8.8 times. In terms of EBITDA profitability which amounted to 35%, URALCHEM joined the pool of the best global players in the industry.

The autonomy of the logistics remains an important strategic objective. Over five years, the company has made significant progress in achieving this goal by developing its own railway and port infrastructure. The number of rail cars under the management of our subsidiary URALCHEM-TRANS LLC has almost tripled in five years from 3,000 to 8,500 by the beginning of 2013. In 2013, the transfer of all the railway facilities of all the Group's enterprises to URALCHEM-TRANS LLC must be completed.

In 2012, the construction of the 1st phase of a 2 million tonnes a year fertilizer transshipment terminal in the port of Riga was well underway. About 62 million USD, or 79% of the estimated cost of construction, was invested by the end of the year into the project. Putting the terminal in operation, thereby significantly improving URALCHEM's logistics security and ensuring the growth of sales efficiency in the export markets will be a milestone event in 2013.

Behind all the achievements and successes of the company, there are people working for it. The principles of primary importance of human resources and adequate evaluation of each employee's contribution were laid down at the establishment of the company and ensured the growth of the average monthly salary in the Group by 58% from 2008 to 2012. In addition to a competitive level of remuneration, the system of bonuses for employees as well as additional programs to motivate staff members became an important part of personnel management policy of URALCHEM.

Summing up, I want to proudly note that during the past five years we have been able to witness an impressive growth of both production and economic figures. The soundness of the chosen course has been confirmed by sustainable performance of the company in the mineral fertilizer markets in Russia and Europe, as well as by successful and mutually beneficial cooperation with our partners - suppliers, lending institutions, consumers, and by the image of an attractive employer.

I thank the entire URALCHEM team for solid work, accomplishment of the set objectives, support of the management initiatives which ensured dynamic development of the company over the five years since its establishment!

**Dmitry V. Konyaev**  
**Chief Executive Officer**  
**URALCHEM UCC, OJSC**

# MANAGEMENT REPORT

## MAINTAINING STABLE MARKET POSITIONS

### INTERNATIONAL MINERAL FERTILIZER MARKET

#### GLOBAL MINERAL FERTILIZER CONSUMPTION

In recent years, the global demand for mineral fertilizers has been growing steadily. According to the International Fertilizer Industry Association (IFA) forecast, consumption of fertilizers went up by 14% over the past five years, and by the end of 2012 has reached 180 million tonnes in nutrient value. The demand for phosphate and potassium fertilizers has shown the highest rates of growth – it went up by 23% and 17% compared to the levels of 2008. Consumption of nitrogen fertilizers went up by 11%. Incidentally, the average increase in demand for all types of mineral fertilizers over the past five years amounted to 3.4% per annum.

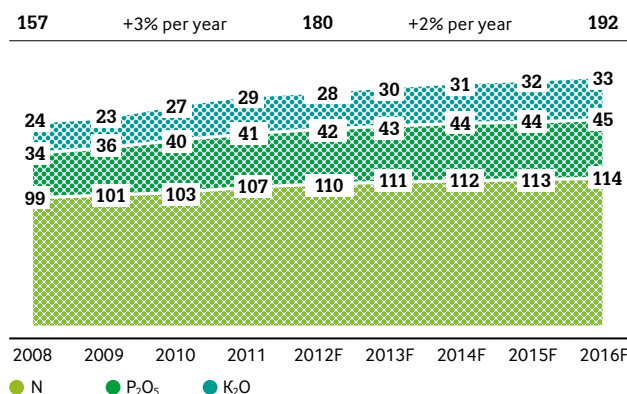
Over the past five years, absolutely every region of the world has demonstrated an increase in consumption. However, the fastest growth rate of demand occurred in the countries of Asia and of North and Latin America. According to IFA data, Southern and Eastern Asia accounted

for 56% of increase in aggregate demand over the period of 2008-2012 (i.e., 19 million tonnes in nutrient value), while combined with the Latin and North Americas – 88%. According to the IFA preliminary estimates, in 2012 the global demand for nitrogen fertilizers went up by 1.9% (to 110 million tonnes, N), for phosphate fertilizers – by 2.5% (to 42 million tonnes, P<sub>2</sub>O<sub>5</sub>), the demand for potassium fertilizers practically stayed at the same level – it declined by 0.3% (to 28 million tonnes, K<sub>2</sub>O). Overall, the growth in the global demand for fertilizers in 2013 is expected to be at 1.7%, up to 180 million tonnes in nutrient value, which means complete market recovery to the pre-crisis level of 2007, including potassium.

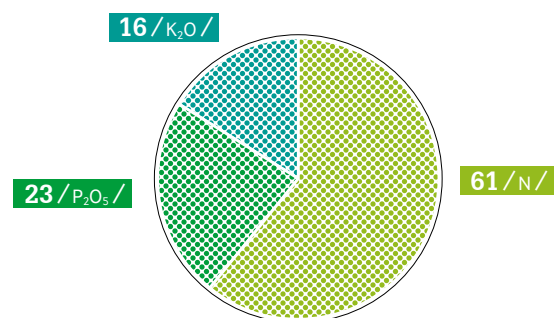
The consumption structure by types of fertilizers over the past five years has been relatively stable, and in 2012 had the following characteristics: nitrogen fertilizers accounted for 61%, phosphate – for 23%, potassium – for 16% of total fertilizer consumption.

Based on the available data, it is expected that by the end of 2012 there will be no significant changes in the geographical pattern of

**MINERAL FERTILIZER CONSUMPTION DYNAMICS, mln tonnes in nutr. value**

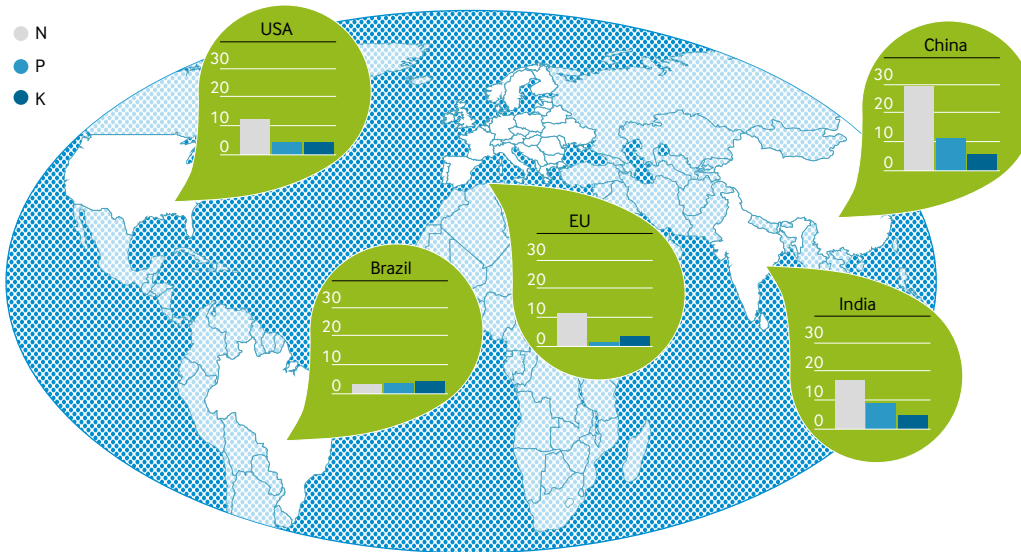


**STRUCTURE OF MINERAL FERTILIZER CONSUMPTION IN 2012, %**



Source: IFA data

**STRUCTURE OF MINERAL FERTILIZER CONSUMPTION IN 2012, million metric tonnes in nutrient value**



**THE GROWTH IN THE GLOBAL DEMAND FOR FERTILIZERS IN 2013 IS EXPECTED TO BE AT 1.7%, UP TO 180 MILLION TONNES IN NUTRIENT VALUE, WHICH MEANS COMPLETE MARKET RECOVERY TO THE PRE-CRISIS LEVEL OF 2007.**

Source: CRU Group

consumption. More than 70% of demand will still be formed by India, China, USA, Europe and Brazil. Due to inclement weather in the middle of 2012, a decrease in consumption of fertilizers is expected in Southern Asia.

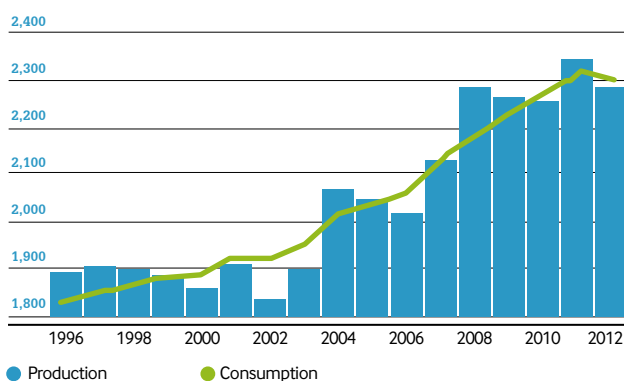
In 2012, a major impact on the global market was made by such factors as the unfavorable weather conditions for farmlands and an overall lack of macroeconomic stability.

Inclement weather which made a noticeable impact on the fertilizer market dynamics affected the following countries:

- > **In Latin America:** La Niña jet stream led to a drought that has caused diminished corn, soy and sugar-cane yields. In Mexico, the most severe drought for the last 70 years led to a 7% crop failure in the central and northern regions of the country.
- > **In the USA:** the most severe drought in 56 years led to diminished corn and soy yields. The yield of corn in the 2012/2013 period is estimated as the minimal for 17 years – 123.4 bushels per acre.

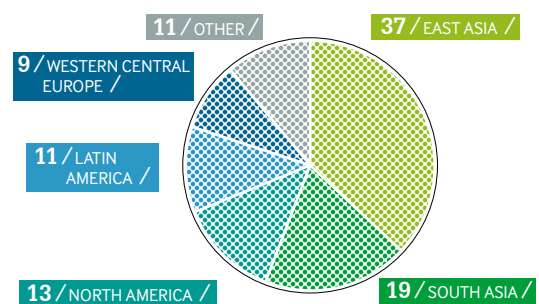
- > **In Europe:** cold weather at the beginning of 2012 led to partial failure of winter crops. Later, cold weather was followed by a dry one, which persisted until the end of April, thus making a negative impact on the potential yields in Spain, Portugal, Romania, Bulgaria, Italy, and Hungary. The forecast of yield in Spain was lowered by 29%. In contrast, Great Britain had one of the rainiest seasons over the last 100 years, which resulted in degradation of the wheat quality. 97% of the winter wheat showed the evidence of fungus diseases.
- > **In Africa:** drought in the regions south of Sahara became a reason for yield decrease in Eastern Africa (Ethiopia, Somalia, Kenya), as well as in the Sahel region.
- > **In Aisa:** in China, grain harvest decreased due to winter drought in the north of the country. The drought in India and Pakistan in the middle of May-September season complicated the field works and sharply decreased the fertilizer application volume. In Thailand, floods covered up to 5 million hectares of farmlands and stopped grain trading for several weeks.

**GLOBAL CROP PRODUCTION AND CONSUMPTION, mln tonnes in nutr.value**



Source: IFA data

**STRUCTURE OF MINERAL FERTILIZER CONSUMPTION IN 2012, %**





Inclement weather negatively affected crop production in many of the producing and exporting regions, which led to decrease in global grain production at the end of 2012. However, fast growth in prices for grain, corn and soy provided strong support for nitrogen and phosphate fertilizer segments and, eventually, led to increase in mineral fertilizer consumption by 1.7% in 2012.

**GLOBAL MINERAL FERTILIZER SUPPLY**

Since 2008, fertilizer producers have been announcing a massive investment into construction of new facilities to provide for growing demand of the global fertilizer market. Some of these projects are now either being wound up or their commissioning is being postponed. Among the announced projects, the following may be highlighted: new facilities for urea production in Algeria, China and Qatar; phosphoric acid facilities in Tunisia and Jordan; MAP and DAP fertilizer facilities in China and Morocco.

In 2012, fertilizer production did not really change compared to 2011, and was 228 million tonnes in nutrient value (N, P<sub>2</sub>O<sub>5</sub> and K<sub>2</sub>O). With that, in 2012 production capacities increased by 4%. However, a quarter of the projects to launch new facilities, planned to be commissioned in 2012, were postponed until 2013-2014.

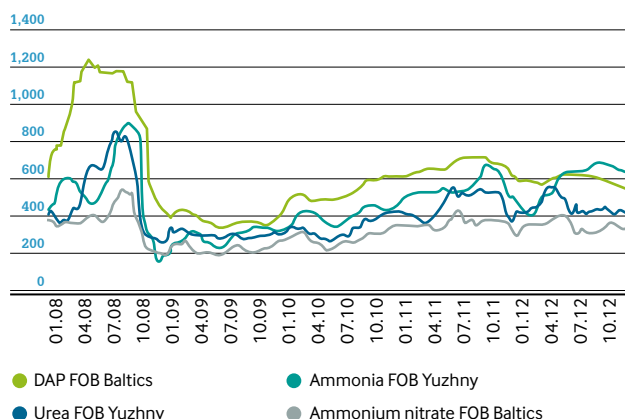
Overall capacity utilization in the mineral fertilizer industry decreased by 3% in 2012 and amounted to approximately 82%. The maximum capacity utilization was observed in ammonia and urea production, the minimal – in potassium (due to the slow recovery rate of potassium segment to pre-crisis levels).

As a result, in 2012 traditional surplus of supply was formed in the mineral fertilizer market. The surplus was particularly noticeable was in the potassium fertilizer segment – at the level of about 4% of the global supply.

**GLOBAL PRICE DYNAMICS FOR MINERAL FERTILIZERS**

As a result of excess of supply over demand on the global fertilizer market, an imbalance was formed that led to decrease in prices for all types of

**MINERAL FERTILIZER PRICE DYNAMICS, USD per tonne**



Source: Fertecon, ICIS, Profercy Argus FMB

mineral fertilizers compared to 2011 levels. The prices for all types of mineral fertilizers remain substantially lower than the levels achieved in 2008.

The prices for **phosphate fertilizers** turned out to be under the biggest pressure, mainly due to the lack of demand in India and Pakistan. The drought that occurred in this region led to decrease in fertilizer application and to a sharp increase in reserves. As a result, price for ammophos decreased by 12% (to 557 USD per tonne), for DAP by 13% (to 552 USD per tonne).

The price for **urea** decreased by 4% (to 408 USD per tonne) at the end of the year. The decisive factor in this sector was the record amount of export from China in the second half of the year – 6.6 million tonnes. Despite the influx of such a large supply volume in a short period of time, the prices for urea remained relatively stable. The supporting factor was high grain prices in the USA entailing expanding of cultivated areas for corn three years in a row thereby encouraging the growth of demand for urea.

Prices for **ammonium nitrate** were also under pressure (-3% down to 304 USD per tonne).

Price for **ammonia** increased by 5.2% (to 544 USD per tonne) by the end of the year. The main factors for increase were high corn prices and the expansion of cultivated areas in the USA by 4.4% in 2012 (by estimate of the United States Department of Agriculture).

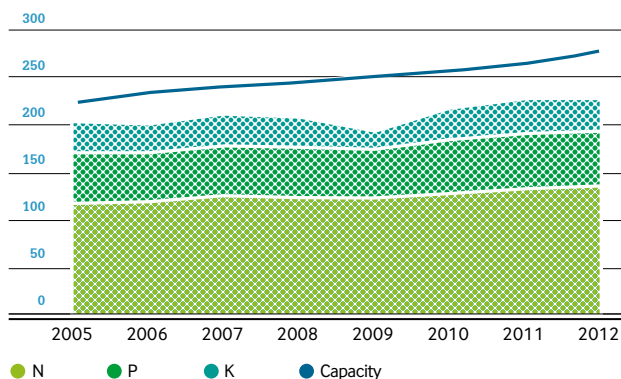
**RAW MATERIAL MARKET TRENDS**

According to IFA data, over the last five years there has been a significant growth in global prices for raw materials used in fertilizer production, especially in prices for natural gas and rock phosphate. It leads to costs increase for fertilizer producers and provides an advantage to companies having access to cheap resources. An active tendency already emerges for vertical integration of fertilizer producers into holdings of complete production cycle – from extraction of raw materials to production of fertilizers and complex chemical products.

**NATURAL GAS**

The world prices for natural gas in all producing and consuming regions keep rising, except for North America. Increase in the raw materials

**GLOBAL PRODUCTION CAPACITY AND PRODUCTION OF MINERAL FERTILIZERS, IN 2005-2012, million tonnes in nutr. value**



Source: IFA data

THE RATE OF CAPACITY GROWTH BY 2015 WILL AMOUNT TO:

**+17%**  
IN AMMONIA/NITROGEN  
FERTILIZER PRODUCTION

**+19%**  
IN PHOSPHORIC ACID/PHOSPHORIC  
FERTILIZER PRODUCTION

**+42%**  
IN POTASSIUM  
FERTILIZER PRODUCTION

costs significantly influences the competitiveness of the nitrogen fertilizer producers. In midterm, the natural gas prices are expected to keep growing.

- > **In the USA**, the average price for natural gas in 2012 was 2.8 USD per million BTU (British Thermal Unit), which equals 100 USD per cubic meter based on the rate of one thousand cubic meters = 35.8 million BTU. At the same time, futures contracts for December 2014, which demonstrate expectations for the future price changes of natural gas, are traded on the New York Stock Exchange at 4.4 USD per million BTU (158 USD per thousand cubic meters).
- > **In the Russian Federation**, according to the policy declared by the Government, the annual growth of prices for natural gas by 15% is expected in the coming years. In 2012, the natural gas price in Russia amounted to 120 USD per thousand cubic meters.
- > **In Western Europe**, the average spot price for natural gas in 2012 was 9.42 USD per BTU (337 USD per thousand cubic meters). In 2013-2016, fluctuations in spot prices at the level of 9.50 USD – 10.50 USD per million BTU (340 USD – 376 USD per thousand cubic meters) are expected.

The second problem is the danger of depletion of natural gas reserves, since in large fertilizer producing countries the traditional sources of natural gas are not replenished by newly discovered gas fields. British Petroleum data on ratio of natural gas reserves to the production volumes in the countries-exporters of nitrogen products may cause reconsideration of the assessment of sustainability of global ammonia exports and call for corrective actions.

Thus Trinidad, the largest ammonia exporter with the share 27% of the global market, has a natural gas reserves to its production ratio of 11. Canada, the fifth largest producer with the share 5%, has the same ratio. At the same time, the Persian Gulf countries have the ratio between 100 and 285, Russia – 84, Algeria – 55, Indonesia – 44.

### SHALE GAS

By estimate of the US Energy Information Agency (USEIA), 32 countries have shale gas reserves which collectively can increase the global natural gas reserves by 40% (640 trillion cubic meters). Today, the USA is the dominant shale gas producer – its share amounts to 88% of gas production from non-traditional sources.

Fast growth rate of shale gas production in the USA has already led to significant increase in domestic supply and decrease in domestic prices for natural gas compared to the figures of five years ago. According to the current projections, the share of shale gas in total US production volume will reach 49% by 2035, compared to 23% in 2010.

Thereby, conditions are created for increase in ammonia production capacities in the USA. This may drastically change the global trade, since the USA is currently the largest importer of ammonia and one of the largest importers of urea.

Outside the US, the largest reserves of shale gas are in China, Argentina, Mexico, Brazil, and Poland. By current estimate, the shale gas reserves in India amount to 1.8 trillion cubic meters, but can be potentially increased to 8.2 trillion cubic meters. Increase in shale gas production in the countries above may lead to decline in the demand for import and bring pressure on the fertilizer exporters with high costs.

### ROCK PHOSPHATE

The access to phosphate raw materials becomes an evident advantage for new phosphate fertilizer facilities. With some minor exceptions, new facilities are built to process raw materials of integrated extracting companies. There are very few examples now left of producers purchasing phosphate raw materials to manufacture products for export. The notable exception is the USA and some European producers of complex fertilizers. Construction of the integrated complexes for phosphate raw materials processing may lead to sharp decrease in availability of rock phosphate for export.

### GLOBAL FERTILIZER MARKET DYNAMICS FORECAST

In a five years perspective, the demand for mineral fertilizers is expected to continue growing. The market demand for additional volumes of chemicals will persist in the coming years against the background of growing output of agricultural products, which will be sustained by the growing demand for food, fibers and bio-energy. High rates of growth in China, India and Brazil will also provide ample opportunities for mineral fertilizer producers.

In the short-term, subsidy programs carried out by a number of governments, as well as the forecasted increase in prices for grain and oil-bearing crops stimulating farmers to use fertilizers more actively, will be the factors to maintain the demand, since increase in crop yields provides an additional growth in profit.

For the period of 2013/2014, IFA forecasts an increasing growth rate of demand for all nutrients, primarily for potassium (+4.5%) and phosphorus (+3.5%). Till 2016/2017, the demand for fertilizers will

**FOR THE PERIOD OF 2013/2014, IFA FORECASTS AN INCREASING GROWTH RATE OF DEMAND FOR ALL NUTRIENTS**

TILL 2016, UP TO **250** FERTILIZER PRODUCTION FACILITIES ARE SCHEDULED TO BE COMMISSIONED.

grow annually by 2.1%, including for nitrogen fertilizers – by 1.5%, phosphate – by 2.3%, potassium – by 3.7%. The total demand for fertilizers will amount to 193 million tonnes in nutrient value by 2016 (+8.7% by 2012). It should be mentioned though that a large number of risk factors still remain, associated with unstable and to a large extent unpredictable economic situation which may lead to high demand volatility within the predicted period.

First of all, growth is expected in the countries experiencing active recovery of agricultural sector after the 2011 decline – those are Eastern Europe, Central Asia and Oceania. As well as in the countries with large potential for agro-industry development (in particular, for increase in cultivated areas) – those are Latin America and Africa. Three regions – East and South Asia, and Latin America – will cover three quarters of the supply increase.

In particular, in Asia the annual fertilizer consumption growth is expected to be 3.9%. Besides, as a result of government initiatives to introduce fertilizer purchase subsidies programs and expand the cultivated areas for commercial farming, the demand may also increase by 3,5% in some African countries. The fertilizer purchase subsidies program is also expected to be reviewed in India.

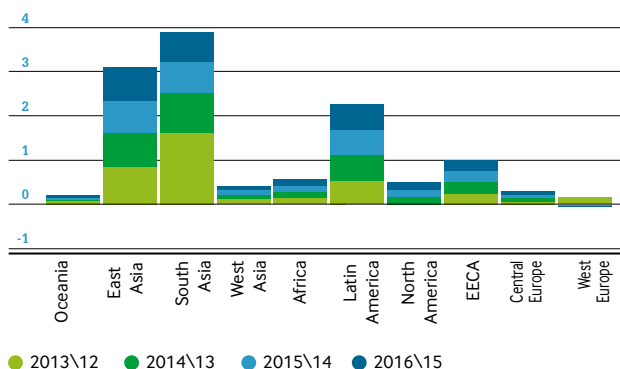
The fertilizer supply in the global market will also demonstrate growth. By IFA estimate, the production of all types of fertilizers will increase by 4% in 2013 to 236 million tonnes in nutrient value. Firstly, a decrease in inventories is expected, a substantial volume of which was accumulated in 2011/2012. Secondly, an increase in production capacities is expected. This increase should amount to about 5% in 2013.

Till 2016, up to 250 fertilizer and 30-35 rock phosphate production facilities are scheduled to be commissioned. Based on current estimates of capital costs, the investments into capacity expansion may be evaluated to be around 90 billion USD. The implementation of these projects will lead to increase in production capacities for fertilizers, pre-products and raw materials by 177 million tonnes. The rate of capacity growth by 2015 will amount to: +17% in ammonia/nitrogen fertilizer production; +19% in phosphoric acid/phosphoric fertilizer production; +42% in potassium fertilizer production.

Growth of capacities will be mostly observed in resource-endowed countries. In nitrogen fertilizer segment, Africa and Middle East will account for the main increase. Investors and importers are also attracted by the still not used natural gas reserves in Sub-Saharan Africa. In phosphoric fertilizer segment growth is expected in export supply from the new facilities in North Africa and in Middle East that use large reserves of rock phosphate. New facilities geared towards domestic consumption are planned in Brazil and Russia. In potassium fertilizer segment Canada, Russia and Belorussia will remain the largest suppliers. The planned projects in Latin America and China will largely cover the domestic markets' demands.

At the same time, the mineral fertilizer supply will be restrained in the midterm by delays in commissioning new facilities. According to statistics, up to 50% of the announced projects are usually commissioned 6 to 18 months behind the schedule. The major impact of the factor above manifests itself in the slower growth of capacity compared to the forecasts. In short-term, this will result in relatively balanced fertilizer market and in the long-term, the surplus of supply will decline restraining the price increase.

**FERTILIZER CONSUMPTION INCREASE BY REGION, 000' tonnes in nutr. value**



Source: IFA data

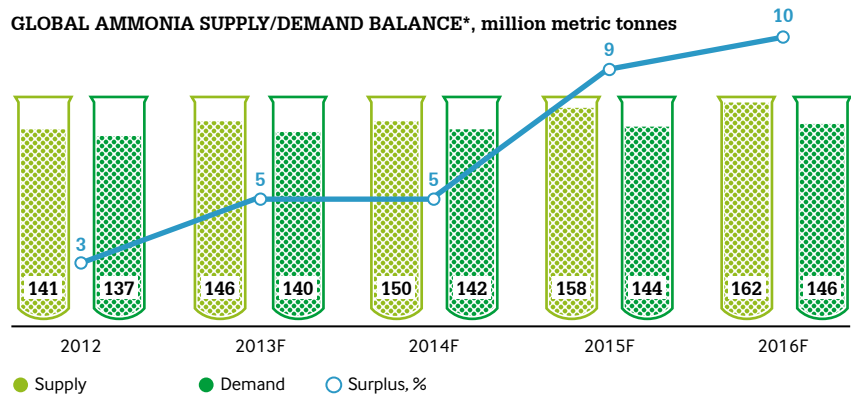
**SUPPLY/DEMAND BALANCE BY MINERAL FERTILIZER SEGMENTS**

**AMMONIA**



**B**y 2016, the growth of supply up to 162 million tonnes is expected in ammonia segment. Meanwhile, the consumption will amount to 146 million tonnes. China, Africa and West Asia will account for the main demand. the potential surplus of supply/demand balance for ammonia in the 2013-2014 will amount to about 5% and will grow up to 10% by 2016.

**GLOBAL AMMONIA SUPPLY/DEMAND BALANCE\*, million metric tonnes**



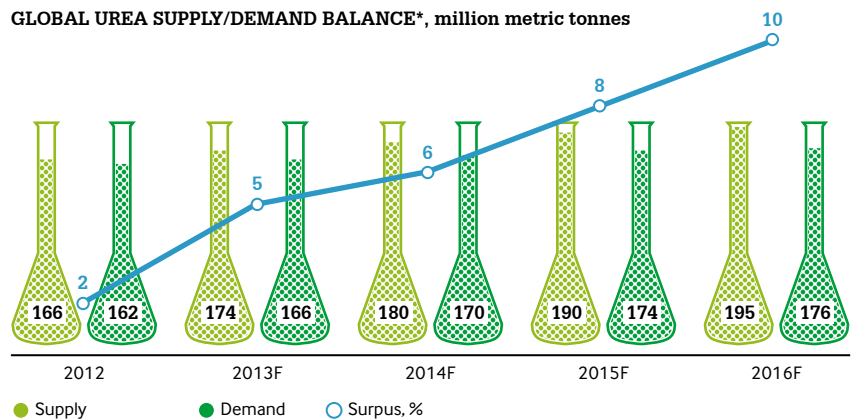
Source: IFA data

**UREA**



**T**he growth in global supply of urea is expected up to 195 million tonnes by 2016, which equals to the annual average growth rate of 4%. With that, the demand for urea in all kinds of activities will amount to 176 million tonnes. Steady growth in demand will be observed both in agricultural and industrial sectors. By 2016, the potential surplus will increase to 10% of the projected supplies compared to 5% in 2013. Major part of the growth will occur due to large increase in production, planned in the countries of Middle East, Africa, CIS and Indonesia by 2016.

**GLOBAL UREA SUPPLY/DEMAND BALANCE\*, million metric tonnes**



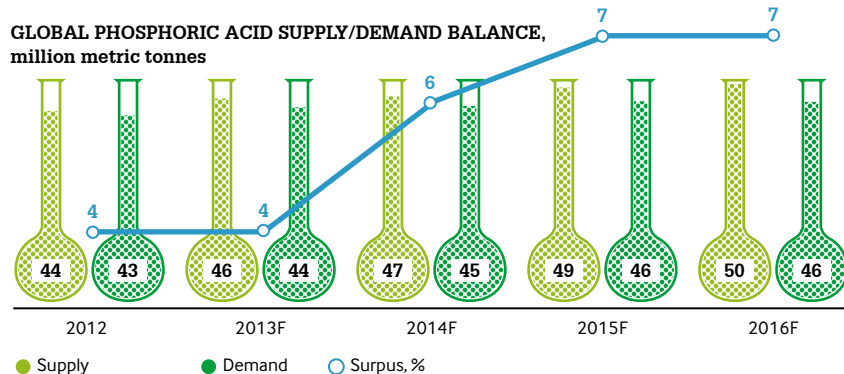
Source: IFA data

\* Supply means functional capabilities or the maximum potential level of production  
 Demand is determined not only in the fertilizer, but also in other sectors.  
 Distribution losses and unexpected demand are taken into account when calculating supply/demand balance.  
 Surplus is calculated in percentage ratio of forecasted supply.



**PHOSPHATE FERTILIZER**

In phosphate fertilizer sector, the growth of global phosphoric acid production may amount to 4% annually, thereby reaching 61 million tonnes of P<sub>2</sub>O<sub>5</sub> by 2016. the global supply of the acid will amount to about 50 million P<sub>2</sub>O<sub>5</sub>, which equals the average growth rate of 3.7% per annum. the growth of supply is expected in such countries as China, Morocco and Brazil. the global demand for phosphoric acid will grow at a slower rate – by 2.4% per annum, and by 2016 it will amount to 46 million tonnes of P<sub>2</sub>O<sub>5</sub>.



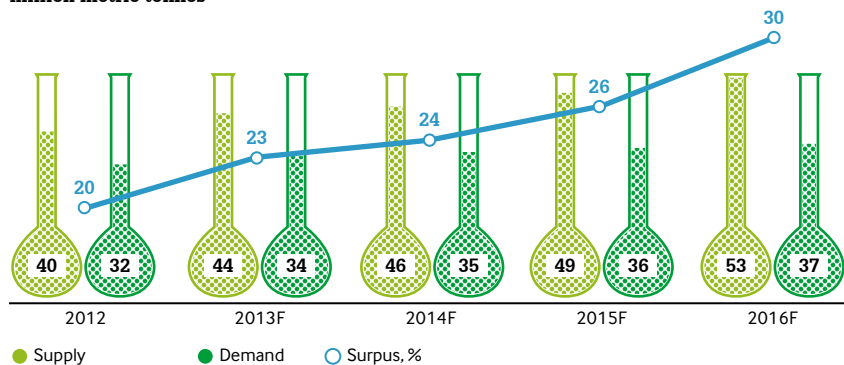
Source: IFA data

**POTASSIUM SECTOR**

In potassium sector, the growth of production is expected due to development of mature fields. Forty new facilities are expected to be commissioned in 2012-2016. As a result, the global volume of potassium supply will grow up to 53 million tonnes of K<sub>2</sub>O by 2016 (by 33% higher than in 2012). North America, Eastern Europe and Central Asia will account for most of the increase. Meanwhile, the global demand will amount to 37 million tonnes by 2016, with the average annual growth of 3%. In case all planned projects are commissioned on schedule, there is a possibility of demand/supply imbalance to emerge by 2016 at the rate of 16 million tonnes or around 30% of all global supply.



**GLOBAL DEMAND/SUPPLY BALANCE IN POTASSIUM FERTILIZER SECTOR, million metric tonnes**



Source: IFA data



NITROGEN FERTILIZER PRODUCTION

GREW BY **17%** OVER  
THE LAST FIVE YEARS

PHOSPHORIC FERTILIZER PRODUCTION

GREW BY **22%** OVER  
THE LAST FIVE YEARS

**MINERAL FERTILIZER MARKET IN RUSSIA**

**RUSSIAN FERTILIZER MARKET TRENDS IN 2008-2012.**

The mineral fertilizer sector in Russia is traditionally characterized as follows:

- > Unique reserves of raw material for mineral fertilizer production, in particular: natural gas, rock phosphate and potassium, sulphur;
- > Focus on export: from 60% (nitrogen fertilizers) to 80% (phosphoric and potassium fertilizers) of all mineral fertilizer products are exported, while the country's share in global import amounts to 16% to 40% depending on the type of fertilizer;
- > High production concentration in a few large holdings.

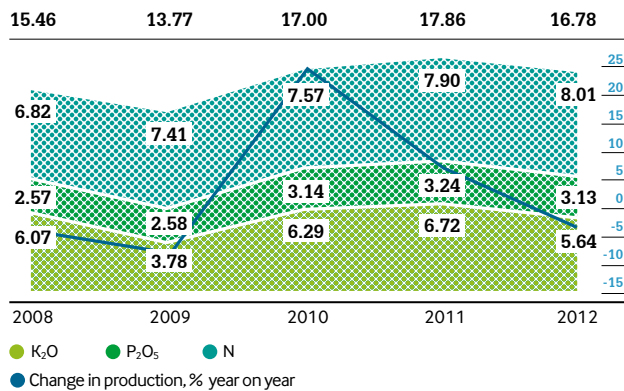
With regard to export orientation of the Russian mineral fertilizer sector, it cannot be analyzed outside the macroeconomic context. During the last five years, the fertilizer production in Russia has been volatile following the fluctuations of the foreign market environment. Starting from 2010, the production reached the phase of active recovery after the crisis decline of 2007/2008, but low economic activity in 2012 did not allow continuing the trend towards output increase.

Due to the global decrease in demand for mineral fertilizers in 2012, determined by the macroeconomic instability and inclement weather conditions, the Russian fertilizer producers were not able to fully realize their potential. The fertilizer production declined by 6% in nutrient value – from 17.9 million tonnes to 16.8 million tonnes in nutrient value. This amounts to about 7% of the global mineral fertilizer market.

Compared to 2008, the production grew by 9%. Meanwhile, nitrogen and phosphoric fertilizer production grew by 17% and 22% respectively over the last five years, while potassium fertilizer output has not been able to recover after the crisis yet, and still remains 7% lower than in 2007-2008.

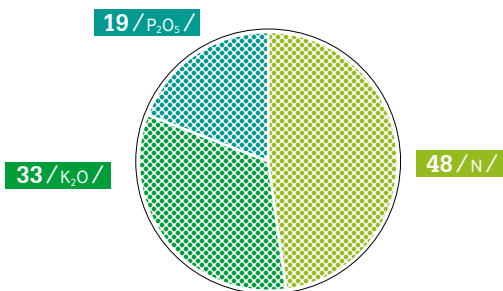
In 2012, decline in production for practically all types of mineral fertilizers occurred. The situation in the production of potassium and phosphate fertilizers was the worst. The production decline in these segments, compared to 2011, amounted to 16% and 3% respectively (to 5.6 million tonnes and 3.1 million tonnes in nutrient value) in response to sharp decline of prices in these segments in the second half of the year against the background of lower demand in the key consumer countries. Currency devaluation in India forced the local Government to cut the subsidies to farmers for purchases of potassium and phosphate fertilizers. The depression was exacerbated

**MINERAL FERTILIZER PRODUCTION IN RUSSIA, million tonnes in nutr. value**



Source: "Azotecon Plus" data

**MINERAL FERTILIZER PRODUCTION STRUCTURE IN RUSSIA, 2012, %**



Source: "Azotecon Plus" data

OVER THE LAST FIVE YEARS, THE CONSUMPTION OF FERTILIZERS BY THE AGRICULTURAL SECTOR IN RUSSIA INCREASED BY MORE THAN

**13%**

URALCHEM'S SHARE IN FERTILIZER SUPPLIES TO THE RUSSIAN AGRICULTURAL SECTOR

AMOUNTED TO **8.3%** IN 2012

by large potassium inventories in China accumulated in 2011, as well as by the economic uncertainty in Europe.

The situation in the nitrogen segment was better. Compared to 2011, the production of nitrogen fertilizers grew by 1.4% to 8 million tonnes in nutrient value, following the spike in prices for corn, as this fertilizer type is used to increase its yield. Although the nitrogen fertilizer production in Russia has broken a record over the last 20 years, the growth rate in this segment slowed down considerably.

Nitrogen fertilizers have the largest share in the Russian mineral fertilizer production structure – 48% at the end of 2012. Phosphate and potassium fertilizers' shares were as follows: 19% and 33% respectively. Over the last five years, the production structure of all types of fertilizers has changed insignificantly.

The capacity utilization in mineral fertilizer production in Russia declined by 7% in 2012 compared to 2011, and made 83.1%. Incidentally, while the capacity utilization in nitrogen fertilizer production remained at the previous level of 86.8%, the figures in the phosphate fertilizer production declined by 6.7% to 85.1%, and in the potassium fertilizers production by 16.3% to 77.4%.

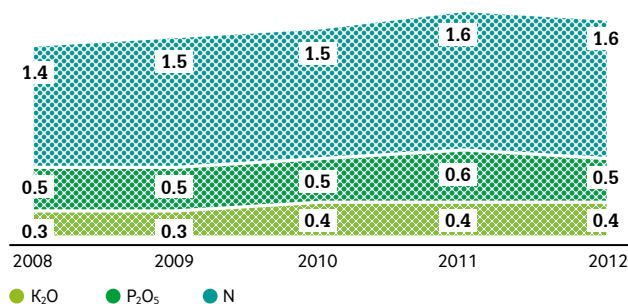
Mineral fertilizer supplies for agricultural sector, according to the data of the Russian Ministry of Agriculture, amounted to 2.49 million tonnes in nutrient value in 2012, remaining practically the same as compared to 2011. As far as the share of mineral fertilizer supply to farmers in the total

fertilizer production in 2012 is concerned, it exceeded the 2011 figure and amounted to 14.8%, compared to 13.9% in 2011.

Over the last five years, the consumption of fertilizers by the agricultural sector in Russia increased by more than 13%. the structure of supplies changed insignificantly over these five years and looks as follows: nitrogen fertilizers account for 64%, phosphates - 20% to, potassium - 16%.

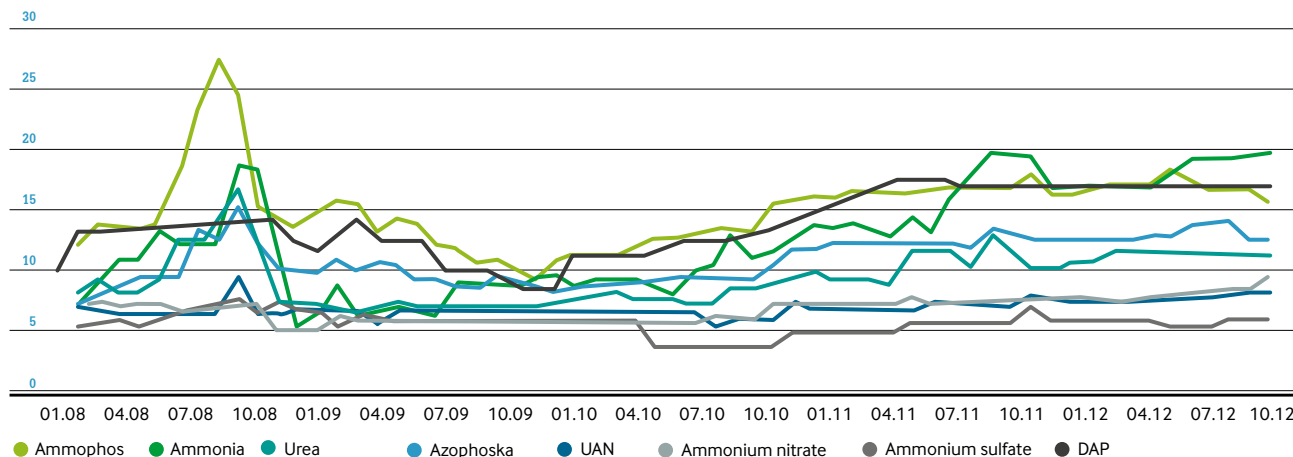
URALCHEM's share in fertilizer supplies to the Russian agricultural sector amounted to 8.3% in 2012 including: in nitrogen segment – 8.7%, in phosphate segment – 8.3% and in complex (NPK) fertilizer

**MINERAL FERTILIZER CONSUMPTION BY AGRICULTURAL SECTOR IN RUSSIA, million tonnes in nutr. value**



Source: "Azotecon Plus" data

**DYNAMICS IN LOCAL PRICES FOR MINERAL FERTILIZERS IN 2008-2012, '000 rubles per tonne EXW excluding VAT**



Source: "Azotecon Plus", "Chem-courier" data

**AIC SUPPORT IS THE MOST IMPORTANT PART OF THE LONG-TERM STRATEGY OF THE RUSSIAN GOVERNMENT**

RUSSIA INTENDS TO INCREASE ITS AGRICULTURAL PRODUCTION

UP TO **21%** BY 2020

segment – 5.7%. Despite the slow growth of purchasing power of Russian agricultural producers, supplies to the domestic market remain the priority in the Company’s trade policy.

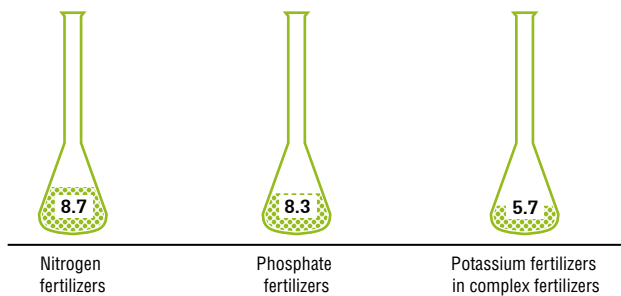
a key founder and active member of RAPU, stands for supporting the Russian agriculture and supplying fertilizers to domestic market at preferential prices.

According to “The Cooperation Agreement with a view to meeting requirements of agricultural producers of agro-industrial complex of the Russian Federation in mineral fertilizers in 2008-2012” between the Russian Agro-Industrial Union and the Russian Association of Fertilizer Producers (RAPU), the leading Russian producers declare maximum threshold for selling prices for the fertilizer grades most popular among Russian agricultural producers. URALCHEM, being

**COMPETITIVE ENVIRONMENT IN THE RUSSIAN FERTILIZER MARKET**

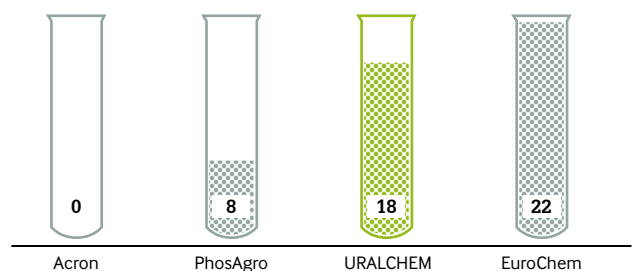
There are more than 20 large fertilizer plants in Russia. The leading Russian companies, specializing in fertilizers, are on the list of 12 largest fertilizer producers in the world and among the leading world fertilizer exporters.

**URALCHEM'S SHARE IN FERTILIZER SUPPLIES TO RUSSIAN AGRICULTURAL SECTOR IN 2012, %**



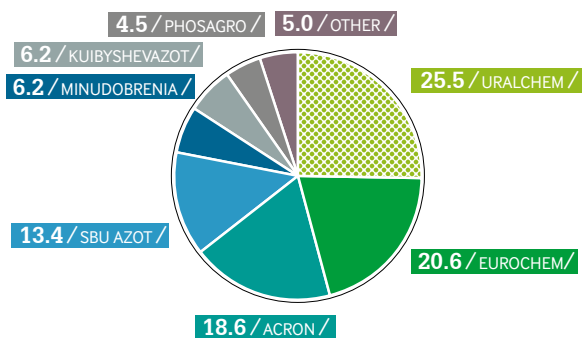
Source: “Azotecon Plus”, “URALCHEM” data

**GROWTH RATE OF PRODUCTION, 2011/2012, %**



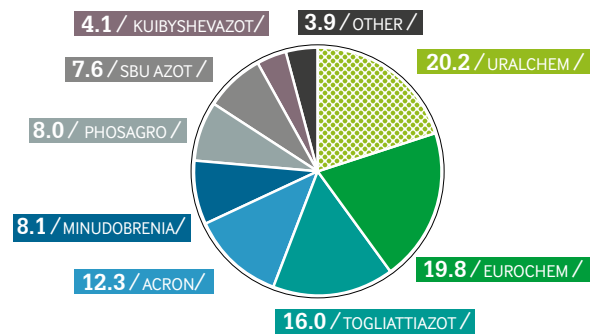
Source: “Azotecon Plus” data

**NITROGEN FERTILIZER PRODUCTION IN RUSSIA, 2012, %**



Source: “Azotecon Plus” data

**AMMONIA PRODUCTION IN RUSSIA, 2012, %**



Source: “Azotecon Plus” data



Nevertheless, the mineral fertilizer industry in Russia is highly concentrated. Four or five largest producers account for about 80% of production.

Despite the slow market activity in 2012, these holdings have successfully completed the year, having avoided the decline in production.

URALCHEM Group completed the year with the significant growth in production of 18%. Every year URALCHEM strengthens its position in the Russian mineral fertilizer market and strives to become the leader in the Russian nitrogen fertilizer sector. In 2012, the Company for the first time in its history was ranked first in both ammonia and ammonium nitrate production. Besides, URALCHEM is the second-largest producer in Russia in the urea segment.

In 2012, URALCHEM's companies produced 25.5% of total ammonium nitrate production in Russia, 20.2% of Russian ammonia, 19.8% of urea, and other fertilizers.

URALCHEM's key competitive advantage is production flexibility that allows to maintain effective production balance oriented towards current demand. Among the traditional fertilizers (ammonium nitrate

and urea), the Holding's product line also has innovative products developed with regard to latest tendencies in the global fertilizer market development.

**RUSSIAN MINERAL FERTILIZER SECTOR PROSPECTS**

Taking into consideration export-orientation of the Russian fertilizer sector, the future trends of its development will primarily depend on the situation in the global fertilizer market (see section "Global Fertilizer Market Dynamics Forecast"). As far as the supplies to the domestic Russian market are concerned, the key factors affecting the mineral fertilizer market are the paying capacity of agricultural producers and government support measures for the Russian agro-industrial complex (AIC).

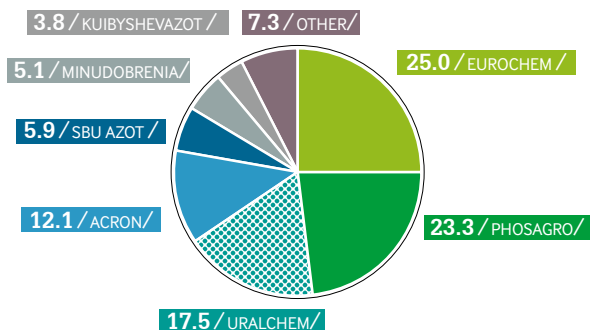
AIC support is the most important part of the long-term strategy of the Russian Government. Every year the State-run program of agricultural development and agricultural market regulation is adopted which is geared at holding ground for Russian producers in the international market.

The Program of agricultural equipment renovation carried out by "Rosagroleasing" (2.3 billion rubles in 2013) and selling of Russian-made agricultural equipment at discount prices are also aimed at modernizing the agricultural production.

Besides, in 2012 a number of landmark documents were adopted which determine further development of agricultural sector in Russia including the Russian mineral fertilizer industry:

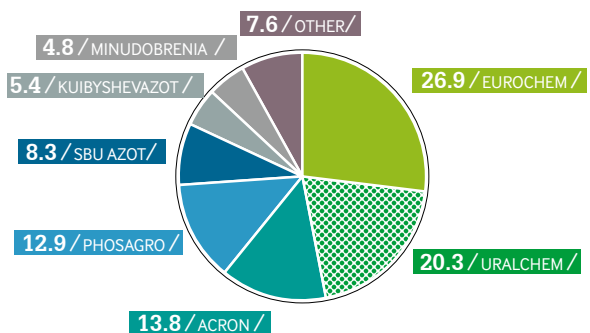
1. In July 2012, the renewed **Program for development of Russian agriculture in 2013-2020** was adopted. This state-run program is aimed at increasing the competitiveness of Russian agricultural products, promoting import substitution and increasing agricultural exports. The new program is worked out with regard to Russia's membership in WTO.

**NITROGEN-PHOSPHATE FERTILIZER PRODUCTION IN RUSSIA, 2012, %**



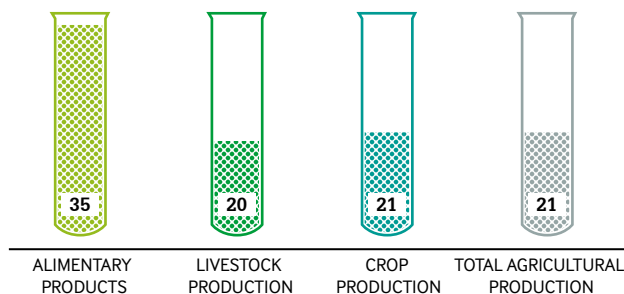
Source: "Azotecon Plus" data

**NITROGEN FERTILIZER PRODUCTION IN RUSSIA, 2012, %**



Source: "Azotecon Plus" data

**FORECAST OF THE AGRICULTURAL PRODUCTION GROWTH, 2012/2020, %**



The annual volume of government support will double in the next eight years and will amount to 200 billion rubles a year on the average. Total allocations until 2020 will amount to 2.3 trillion rubles including: 1.5 trillion rubles through federal allocations and 0.8 trillion rubles through allocations of regional authorities.

According to the document, Russia intends to increase its agricultural production by 21%, compared to 2012 including crop production – by 21%, livestock production – 20%, alimentary products – 35%. the annual growth rate of agricultural production should amount to at least 2.4-2.5%, while that of alimentary products 3.5-5%.

It is planned to increase crop production to 115 million tonnes compared to 86 million tonnes on the average in 2008-2012. And the share of Russian crop production in total resources should amount to 99.7%, that of beet sugar – 93.2%, vegetable oil – 87.7%, potatoes – 98.7%.

An average monthly paycheck in agricultural sector is expected to increase up to 22,500 rubles compared to 13,000 rubles in 2012. To achieve these goals, it is planned to increase annual investments to AIC by 4.5%, to create conditions in order to reach profitability of agricultural organizations of at least 10-15%, taking subsidies into account. the amount of investments into the agricultural fixed capital according to the Program's authors is expected to increase by 42% by 2020.

The important innovation in mineral fertilizer sector is cessation of direct production subsidies and transition to the policy of payments per hectare of cultivated area to the agricultural producers depending on the intensity of area utilization in the region and the productive capacity of soil.

**2.** In November 2012, **the Concept of the federal target program “Sustainable development of rural areas in 2014-2017 and for the period until 2020”** was adopted and published. the concept is based on the principles of the Concept of sustainable development of rural areas in Russia for the period until 2020, the concept of long-term

social and economic development of Russia for the period until 2020, the Doctrine of the food security of Russia. According to the provisions of the new document, one of the main directions of the agrarian complex development is to create conditions for sustainable development of rural areas including:

- > measures to improve the demographical situation in rural areas;
- > development of social infrastructure and technical development of rural areas;
- > improvement of housing conditions for rural population and improvement of rural amenities;
- > enhancement of the status value of agricultural labor.

The estimated amount of program funding in 2014-2020, according to the basic version, is 299.2 billion rubles including 90.4 billion rubles from the federal budget, 134.5 billion rubles from consolidated budgets of the subjects of the Russian Federation, and 74.3 billion rubles from extra-budgetary funds.

**3.** In 2012, amendments to the Tax Code of the Russian Federation were adopted according to which the term of zero profit tax rate for agricultural organizations was extended. Besides, amendments are made into the law “On development of agriculture” with a view to singling out regions ill-suited for agricultural activities and removing restrictions to use additional government support measures for agricultural sector in the above regions of the Russian Federation.

Besides, in 2010 the provisions of the **Doctrine of food security in Russia** were adopted and came in force. the Doctrine declares a policy to increase the productive capacity of soil and crop yields and provides for expanding cultivated areas for crops by means of unused arable lands, introducing innovative technologies into AIC, efficient use of customs tariff regulation measures in order to rationalize the ratio between agricultural export and import, improvement of credit support system to ensure affordable short-term and investment credits for the majority of producers.

# EXTENDING THE SCALE OF BUSINESS WHILE INCREASING OPERATING PERFORMANCE

## KEY EVENTS OVER THE LAST FIVE YEARS OF OPERATION

### 2008

Consolidation of Azot, OJSC equity in URALCHEM Group.

Acquisition of 71.7% of Voskresensk Mineral Fertilizers, OJSC equity.

Establishment of URALCHEM TRADING DO BRASIL LTDA. (Brazil) in order to increase sales in Central and Latin America.

Establishment of URALCHEM Trading House, LLC in order to sell URALCHEM's products in Russia and the CIS countries.

All URALCHEM's chemical products exported to the EU countries successfully underwent preliminary registration in the European Chemical Agency.

The Group's specialized transport company URALCHEM-TRANS, LLC started active operations in January.

Purchase of the Murashi depot.

### 2009

Acquisition of 46.5% of Minudobrenia, OJSC (Perm) equity by the URALCHEM Group.

SIA URALCHEM Trading is established in order to consolidate export sales and international logistics.

In association with SIA Rīgas tirdzniecības osta, SIA "Rīga Fertilizer Terminal" (URALCHEM's share – 51%) is established in order to build a terminal in the port of Riga for transshipment and storage of mineral fertilizers.

URALCHEM, OJSC through SIA URALCHEM Trading was admitted as a member to the Agricultural Industries Confederation (AIC) – an association uniting more than 300 British enterprises catering for agricultural producers.

### 2010

Reorganization of KCCW, OJSC was completed through incorporation into MFP KCCW, OJSC.

Azot, OJSC activities were terminated due to merger with URALCHEM UCC, OJSC. Its property was transferred to Azot Branch of URALCHEM UCC, OJSC in Berezniki.

All the Group's chemical products were registered in the European Chemical Agency in accordance with the REACH regulations, 27 compounds were registered.

NPKS 27:6:6:2 produced by MFP KCCW became an award-winner in an all-Russian Competition "The best 100 Russian products" in the nomination of "Non-consumer goods".

### 2011

URALCHEM UCC, OJSC consolidated in its ownership 100% of equity of Voskresensk Mineral Fertilizers, OJSC and MFP KCCW, OJSC.

SIA URALCHEM Trading was successfully certified within FIAS (Great Britain) -- ensuring compliance with regulations and safety rules in the sphere of mineral fertilizers.

SIA Riga Fertilizer Terminal received a permit to build a terminal for transshipment and storage of fertilizers in the port of Riga.

### 2012

Consolidation of 100% of Minudobrenia, OJSC equity in URALCHEM's ownership was completed.

URALCHEM became the largest producer of ammonia and the second largest producer of urea in Russia.

MFP KCCW, OJSC began producing ammonium sulphate nitrate NS 30:6 using innovative technology.

## OPERATING RESULT: FIVE YEARS OF GROWTH – FIVE SUCCESS FACTORS

HIGH PRODUCTIVITY OF LABOR

GROWTH OF PRODUCTION CAPACITY

PRODUCT DIVERSIFICATION

INCREASE OF PREMIUM PRODUCTS OUTPUT

FLEXIBLE PRODUCTION STRUCTURE

### 1. GROWTH OF LABOR PRODUCTIVITY: HIGH PRODUCTION EFFICIENCY

In recent years, the URALCHEM Group production volumes have demonstrated continuous growth indicating the Company’s stable position in the main markets and steady demand for the Company’s products. Over the last five years, the production increased by 47%, while the annual average growth amounted to 10% in 2008-2012.

In 2012, the URALCHEM Group’s enterprises produced 6,024 thousand tonnes of commercial output, exceeding the record level of 2011, the output has grown for most of the Company’s items, due to both extensive factor (acquisition of new productive assets) and intensive factor (organic growth in the production sites already owned by Group).

Production volume was growing along with productivity of labor. It is important that productivity of labor at all production facilities of the Group demonstrated higher growth rates than the production volume. Over five years, the production volume per employee at Azot Branch increased by 49%, at MFP KCCW, OJSC by 64%, at Voskresensk Mineral Fertilizers, OJSC - 3.5 times, the highest productivity of labor rate was demonstrated by recently acquired Minudobrenia, OJSC – 779 tonnes/employee.

Increase in production is a sign of effective organization of the production process – introduction of state-of-art technologies allows increasing the output without excessive staff increase.

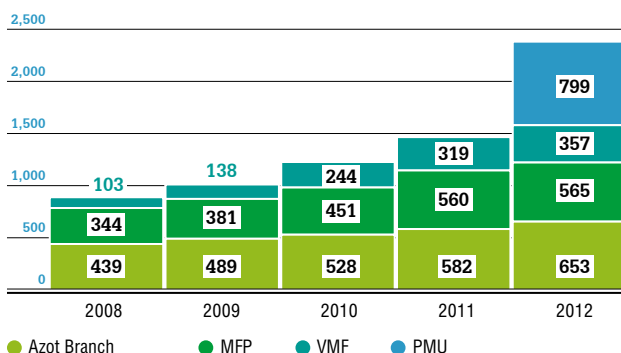
### 2. GROWTH OF PRODUCTION CAPACITY: UNDER THE BANNER OF CONSOLIDATION

Over the last years, URALCHEM has been actively increasing its production assets acquiring new subsidiary companies and consolidating them into the single organizational structure of the Group. In 2012, 100% of Minudobrenia, OJSC (Perm) equity were acquired. This acquisition allowed URALCHEM to become the leading producer of ammonia in Russia, and laid foundation for reaching leading positions in the nitrogen fertilizer market. Besides, it is important that the newly acquired plant is in a very good technical condition.

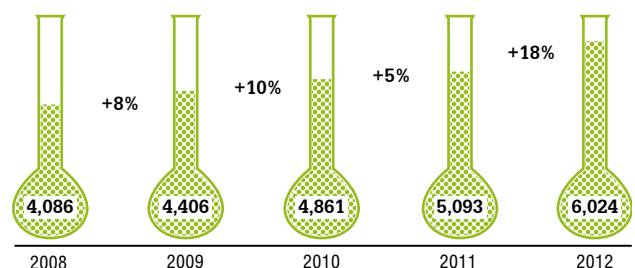
It is due to incorporation of Minudobrenia into the Group that such impressive production growth was achieved in 2012. Without incorporation of the new production asset, the Group’s output would only have grown by 1.3%. Minudobrenia’s share in the overall volume of production amounted to 14% in 2012. Nevertheless, the biggest share in URALCHEM’s output traditionally belongs to MFP KCCW (37%) and Azot Branch (34%). VMF accounts for the remaining 15%.

In order to increase the efficiency of Minudobrenia’s integration into the Group, it was decided to consolidate the management of two assets – PMU and Azot Branch – located close to each other geographically. In August 2012, centralization of a number of managerial and service functions of Berezniki and Perm enterprises began which would allow not only to reduce management costs, but also to achieve synergy, to work

PRODUCTIVITY OF LABOR, tonnes/employee



PRODUCTION VOLUME, 000' tonnes



out a common policy for planning and modernization the production of both plants.

Upon completion of consolidation of all key production assets in a single holding, the production capacity of URALCHEM allows to produce 2.5 million tonnes of ammonium nitrate, 2.8 million tonnes of ammonia, 0.8 million tonnes of mono- and diammonium phosphate, 0.8 million tonnes of complex fertilizers (NPK/NPKS), 1.2 million tonnes of urea. the Company has a reputation of a reliable supplier of mineral fertilizers both to the domestic market and to European countries, Latin America, Asia, and the CIS countries.

**3.PRODUCT LINE DIVERSIFICATION: 79 TYPES OF PRODUCTS AND THIS IS NOT A LIMIT**

The URALCHEM's product line is traditionally one of the most diversified in the sector. the main area of the Company's activities is mineral fertilizers, while the Company also produces raw materials for chemical industry and production of explosives. In 2012, altogether the Company produced 79 products.

The product line is represented by nitrogen, phosphate and complex fertilizers. Every year new types of fertilizers are included in the product line. This allows meeting the demand of most consumers, including niche segments. High level of product line diversification allows to flexibly respond to changing market environment and quickly address new market demands.

An important tendency is the production of premium and niche products manufactured by processing the base Company's products, thus making them more profitable. URALCHEM's base products are: ammonia, ammonium nitrate, urea, monoammonium and diammonium phosphate. Their share in the output structure increased insignificantly in 2012 and amounted to 68% compared to 65% in 2011. the share increase occurred mainly due to urea and ammonia accounting for 50% of the base products structure. Firstly, it happened due to the acquisition of Minudobrenia which specializes in ammonia and urea production. And secondly, due to changes in the market environment, in the second half of 2012 URALCHEM decided to concentrate its production on profitable ammonia by means of reducing the production of nitrate fertilizers thereby generating additional revenue for the Company.

The product line for chemical sector is represented by the following items:

- > Ammonia for industrial purposes
- > Non-organic acids (sulphuric, nitric)
- > Other chemical products (aluminum fluoride, steamine, argon, potassium acid)

In 2012, the production of chemical products increased by 37% compared to 2011 in response to the growing demand in ammonia, potassium nitrate, phosphoric acid in the domestic market. Over five years, the production of chemical raw materials increased by 35%. the highest growth was in the ammonia segment (70%). As a result, its share in production of chemical products significantly increased and amounted to 82% in 2012.

# URALCHEM

**PRODUCTION ASSETS STRUCTURE LOOKS AS FOLLOWS:**



**MFP KCCW, OJSC**

**KIROVO-CHEPETSK**

- Ammonia
- Ammonium Nitrate
- Calcium-Ammonium Nitrate
- Ammonium Sulphate
- Nitrate Calcium
- Ammonium Nitrate With Sulphur
- Nitrophosphate Complex Fertilizers NPK/NPKS



**VOSKRESENSK MINERAL FERTILIZERS, OJSC**

**VOSKRESENSK**

- Monoammonium phosphate and Diammonium phosphate DAP/MAP
- Ammonium Phosphate Sulphate
- Complex Fertilizers NPK
- Phosphoric Acid
- Sulphuric Acid



**MINUDOBRENIA, OJSC**

**PERM**

- Ammonia
- Urea
- Carbone Dioxide
- Gaseous Oxygen



**AZOT BRANCH OF URALCHEM UCC, OJSC**

**BEREZNIKI**

- Ammonia
- Ammonium Nitrate
- Urea
- Potassium Nitrate
- Nitric Acid
- Sodium Nitrite
- Sodium Nitrate

PRODUCT LINE IN 2012

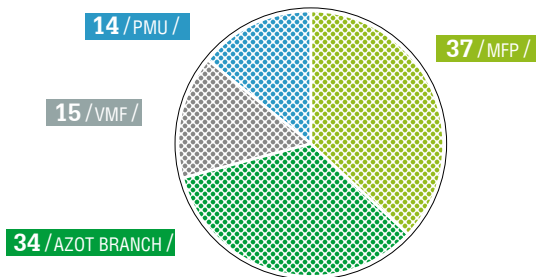
BASE PRODUCTS
Commercial ammonia
UREA
Ammonium nitrate (AN)
Monoammonium phosphate (MAP)
Diammonium phosphate (DAP)

DERIVATIVE PRODUCTS WITH ADDED VALUE
<b>Ammonium nitrate derivatives:</b>
Ammonium sulphate nitrate (NS)
Nitrophosphate (SAN)
Calcium ammonium nitrate with sulphur (CNS)
Calcium-ammonium nitrate (CAN)

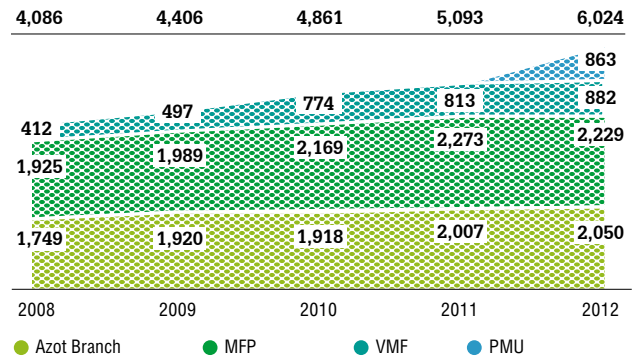
PREMIUM PRODUCTS WITH MAXIMUM ADDED VALUE
<b>Complex fertilizers:</b>
Diammophoska (NPK 10:26:26)
Azophoska (NPKS 27:6:6:2)
Nitroammophoska (NPKS 22:7:12:2)
Nitroammophoska (NPKS 21:10:10:2)
Potassium nitrate (NK 13:46)

THE URALCHEM'S PRODUCT LINE IS TRADITIONALLY ONE OF THE MOST DIVERSIFIED IN THE SECTOR. IN 2012, ALTOGETHER THE COMPANY PRODUCED 79 PRODUCTS.

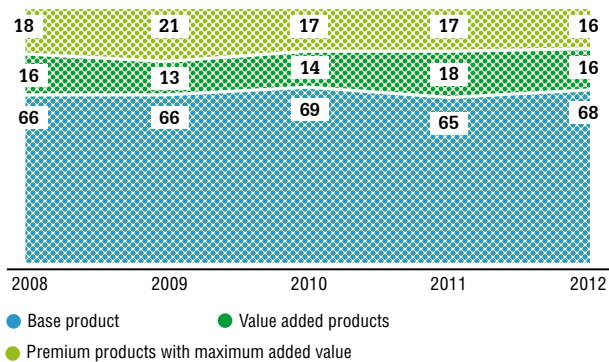
PRODUCTION STRUCTURE BY ASSETS IN 2012, %



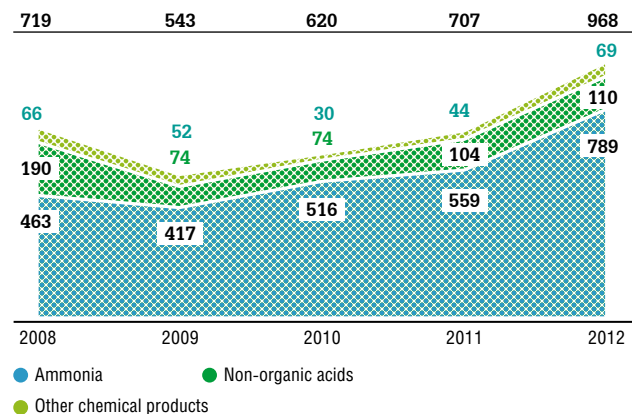
PRODUCTION STRUCTURE BY THE GROUP'S ASSETS, 000' tonnes



PRODUCTION STRUCTURE BY PRODUCT NICHE, %



STRUCTURE OF THE CHEMICAL RAW MATERIALS PRODUCTION, 000' tonnes



**PRODUCT LINE DIVERSIFICATION DUE TO INTRODUCTION OF NEW PREMIUM SEGMENT PRODUCTS IN 2008-2013:**

• 2008 •

**AMMONIUM SULPHATE NITRATE  
32:0:0:5 (ASN)****PREMIUM PRODUCT****KCCW, OJSC**

Fertilizer granules have gradient structure with the highest concentration of ammonium sulphate towards granule's edges and ammonium nitrate inside each granule.

The unique characteristic of ASN 32:0:0:5 is its ability to activate soil phosphorus reserves which are hardly available to plants.

Low caking capacity and high explosion safety.

• 2009 •

**STRONG AMMONIUM  
NITRATE SOLUTION****PREMIUM PRODUCT****Azot, OJSC**

High quality product which is a base for the production of emulsion explosives.

Explosive capabilities of explosives based on ammonium nitrate are comparable to those based on trinitrotoluene, being much safer and environment-friendly, i.e. they are not contaminated by conditioning additives and microelements.

The cost of explosives made using strong ammonium nitrate solution is much lower than of that made using traditional explosive materials.

URALCHEM's technologies allow regulating the solution's strength and oxygen balance by customer's request.

• 2010 •

**POTASSIUM  
NITRATE****PREMIUM PRODUCT****Azot Branch**

Activities were completed aimed at increasing the quality of potassium nitrate (Azot Branch is the only producer of this product in Russia).

The quality of potassium nitrate was improved considerably to conform to the world standards.

The final product is resistant to caking and preserves high purity.

• 2011 •

**DIETARY SUPPLEMENT SODIUM  
NITRITE E250****PREMIUM PRODUCT****Azot Branch**

The product is used to improve coloring and as a preserving agent in meat and fish products.

Equal in quality to similar foreign products.

**4. PREMIUM PRODUCTS OUTPUT INCREASE: EMPHASIS ON HIGH PROFIT MARGIN**

URALCHEM is planning to increase the share of products with high added value in its production structure. This should have a positive impact on the Company's profits, since the bigger level of products processing, the higher their profit margin, the set goals are planned to be accomplished by expanding the line of premium products and by developing special products tailored for specific countries, markets and segments.

The majority of new products introduced by the Company over the last 5 years belong to premium segment. For example, a new product manufactured by MFPKCCW, OJSC was introduced to the market in 2012 – nitrosulphate NS 30:6. This product attracted much interest among consumers both in foreign and domestic markets, the Company has already begun supplying nitrosulphate to

the key markets having produced several large batches. 46.4 thousand tonnes of fertilizer have been produced since May 2012. the technology to produce nitrogen-sulphur fertilizer in a single granule was developed to accomplish this goal. This product will be supplied to the markets in Europe, Asia, North and Latin America.

The plans for 2013 include product launch and start of production of anhydrous calcium nitrate (at MFP KCCW, OJSC production facilities) and water-soluble monoammonium phosphate (at Voskresensk Mineral Fertilizers, OJSC production facilities). Production and sales of water-soluble fertilizers will be one of the most significant events not only for the Company, but for entire Russian chemical industry. A new umbrella brand SOLAR was developed to promote this type of innovative fertilizers. Apart from agricultural sector, these products will find wide application in other industrial segments as well: construction, oil and steel industries.

•2012•

**NITROSULPHATE  
NS 30:6**

**PREMIUM PRODUCT**

**MFP KCCW, OJSC**

Highly effective fertilizer containing both nitrogen and sulphur in one granule.

Possesses unique physical and chemical properties which improve its consumer qualities, simplifies storage and application of the fertilizer.

Higher amount of sulphur increases yield and quality of crops, has positive impact on the economic performance of agricultural enterprise.

Sulphur is water-soluble in this fertilizer resulting in easy digestion by plants.

•2013\*•

**ANHYDROUS  
CALCIUM NITRATE**

**PREMIUM PRODUCT**

**MFP KCCW, OJSC**

The unique product with high concentration of active compound reducing the costs of storage and shipment to consumers.

Has a wide range of applications in the industrial sector, including oil industry, construction and production of explosives.

**WATER-SOLUBLE  
MONOAMMONIUM PHOSPHATE**

**PREMIUM PRODUCT**

**VMF, OJSC**

A high quality product from the water-soluble fertilizer segment which can be compared to similar products made by such global giants as Haifa, Prayon and others.

\*Forecast



Besides, the Company is actively testing the technologies to extract rare-earth metals from phosphoric acid production waste, phosphogypsum. A prototype device that allows to extract 1.7 tonnes of rare-earth metals per year was installed at VMF. To carry out this project and commission the heavy-duty phosphogypsum processing unit, the Company has to be audited in 2013. One of the leading chemical engineering companies – Bayer Technology Services (BTS) – will participate in the audit. the production launch is expected by the end of 2015/early 2016.

in the main markets and flexibly adjust its production structure to the new environment. In 2012, two main products accounted for the production growth compared to 2011 (by 18% per annum or by 931 thousand tonnes): ammonia and urea.

**5.FLEXIBLE PRODUCTION STRUCTURE: FOLLOWING THE MARKET TRENDS**

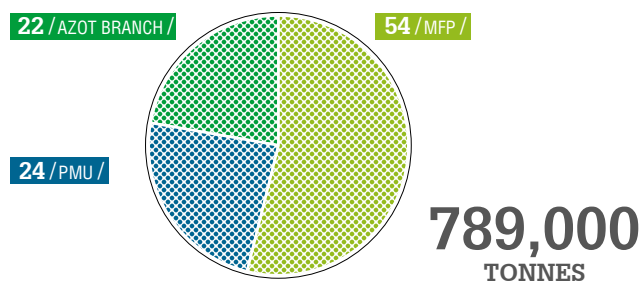
The wide range of products and technological properties of the production process allows the Company to promptly respond to significant changes



### COMMERCIAL AMMONIA

Accounted for 25% of the production growth. Overall by the end of the year, ammonia output grew by 230 thousand tonnes, or 41% compared to 2011. 80% of growth (187 thousand tonnes) took place due to incorporation of Minudobrenia. Azot Branch accounted for the remaining 20% having produced 37% more ammonia compared to 2011. Ammonia is also produced by MFP KCCW, OJSC, but its production volume practically did not change.

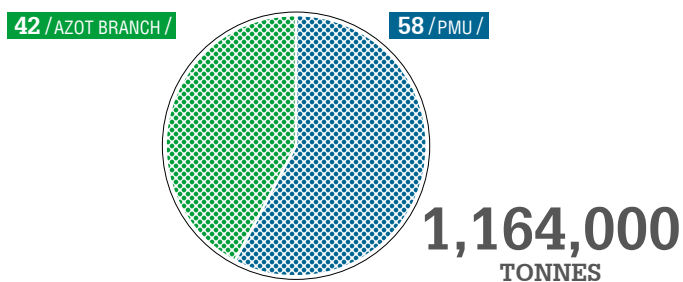
#### AMMONIA PRODUCTION STRUCTURE IN 2012, %



### UREA

Accounted for 71.5% of total production growth of the Group. Overall, urea production by the Group's plants increased by 134% or 666,000 tonnes in 2012. Such a significant change is the result of Minudobrenia incorporation. Apart from the PMU, urea is also produced by the Azot Branch, but in 2012 the production there remained practically unchanged compared to 2011.

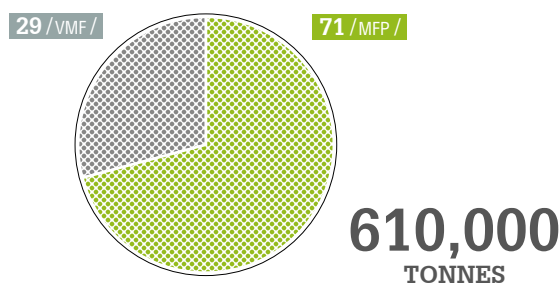
#### UREA PRODUCTION STRUCTURE IN 2012, %



### NPK/NPKS

Besides ammonia and urea, production of complex fertilizers NPK/NPKS grew by 8% in 2012, while that of other products (other mineral fertilizers and chemical raw materials for industry) by 21%. But since the shares of these products in the Holding's production structure were insignificant, the impact of their growth on the total production was not very significant either.

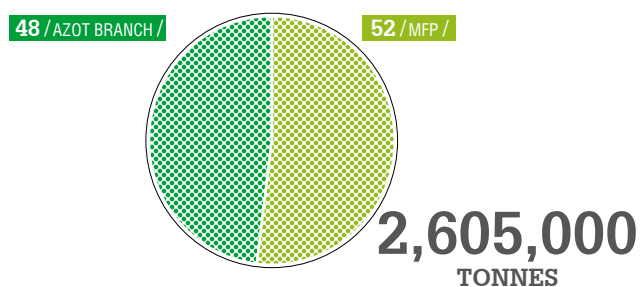
#### NPK/NPKS PRODUCTION STRUCTURE IN 2012, %



### AN/SAN, CAN/CNS

Production of mono- and diammonium phosphate produced only by the VMF plant, as well as of ammonium nitrate and its derivatives (AN/SAN, CAN/CNS) decreased insignificantly, by 4% and 2% respectively. Nitrate production decreased in both plants producing this type of product – MFP KCCW, OJSC (by 3%) and Azot Branch (by 1%).

#### AN/SAN, CAN/CNS PRODUCTION STRUCTURE IN 2012, %



**OVER THE LAST FIVE YEARS,  
ALL TYPES OF PRODUCTS DEMONSTRATED  
INCREASE IN PRODUCTION.**

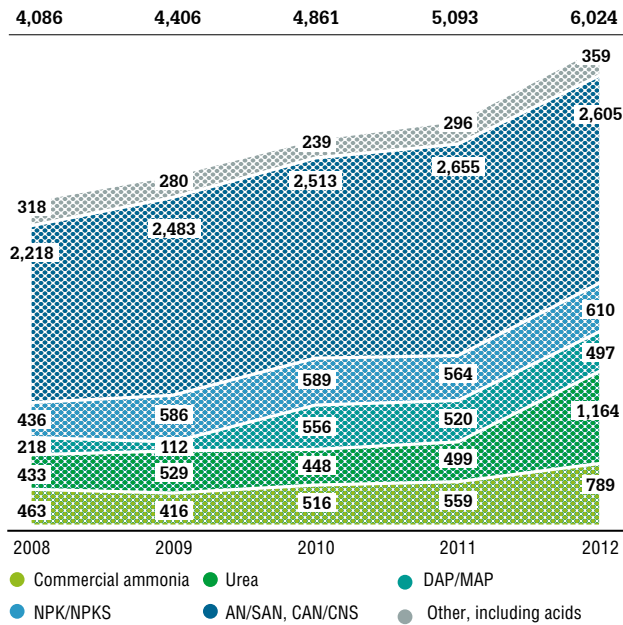
UREA ACCOUNTED FOR  
THE LARGEST GROWTH

**169 %**

PHOSPHORIC FERTILIZERS DAP/MAP  
PRODUCTION GREW BY

**128 %**

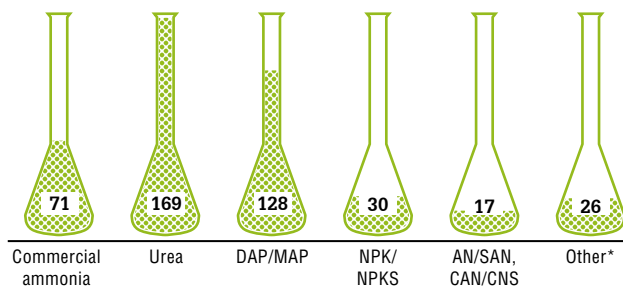
**PRODUCTION STRUCTURE BY TYPE OF PRODUCT,  
000' tonnes**



Thus, in 2012 the URALCHEM Group decreased production of phosphate fertilizers, including mono- and diammonium phosphates (MAP/DAP), as well as production of ammonium nitrates and its derivatives. At the same time, production of ammonia and urea increased. Such a redistribution is due to acquisition of Minudobrenia which specializes in ammonia and urea production. Furthermore, the production structure change was due to the fluctuations of fertilizer market environment. In 2012, URALCHEM made a decision to increase ammonia production, the demand for which was stabler during the year, and the price – more attractive.

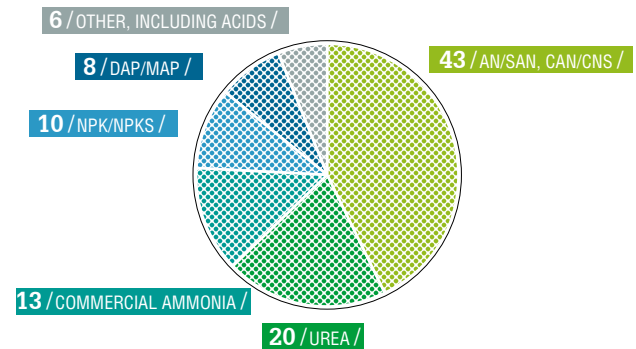
As a result, in 2012 the Group had the following production structure: ammonium nitrate and its derivatives accounted for the largest share, but it decreased from 52% in 2011 to 43% in 2012. Urea's share, on the opposite, grew from 10% to 20%. Thus, urea became the second largest product in the Company's production structure. the Company was ranked second among the Russian enterprises in urea segment. Ammonia's share grew from 11% to 13% (URALCHEM became the largest ammonia producer in Russia), NPK/NPKS complex fertilizers' share declined from 11% to 10%, mono- and diammonium phosphates MAP/DAP share fell from 10% to 8%. Other products' share remained the same and amounted to 6%.

**GROWTH RATE OF URALCHEM GROUP'S PRODUCTION  
OVER FIVE YEARS, 2008-2012, %**



\* including acids

**PRODUCT STRUCTURE BY TYPE OF PRODUCT IN 2012, %**



## DISTRIBUTION SYSTEM: FIVE YEARS OF CUSTOMER ORIENTATION

**IN 2012, SALES OF FINISHED GOODS INCREASED IN VOLUME BY 17.8% AND AMOUNTED TO 5,796,000 TONNES (2011 – 4,920,000 TONNES). EXPORT TO FAR ABROAD COUNTRIES ACCOUNTED FOR 69% OF THE SALES VOLUME, RUSSIAN FEDERATION AND CIS COUNTRIES ACCOUNTED FOR 31% (1,783,000 TONNES).**

### SALES IN THE RUSSIAN FEDERATION AND CIS COUNTRIES

Ammonium nitrate, ammophos, ammonia and urea are generally in higher demand in the Russian Federation and CIS countries. Altogether, these types of products accounted for 78% in the sales structure in the RF and CIS markets. And sales of these products were growing at outstripping rates in 2012. the largest increase was observed in sales of fertilizers as follows: urea (+135% year-on-year), ammonia (+40%), ammophos (+37%). Total sales in the Russian Federation and CIS countries increased by 14% in 2012.

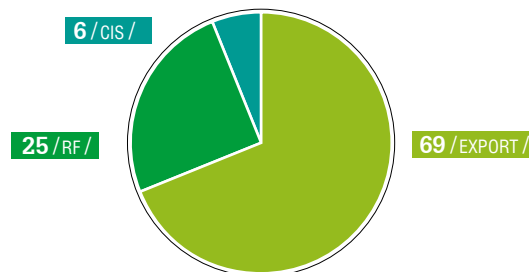
The main product in the domestic market that accounts for nearly half of the RF and CIS sales is ammonium nitrate. Sales of ammonia, urea and phosphate fertilizers have also been growing in recent years. the share of complex fertilizers and derivatives of ammonium nitrate remains unchanged and amounts to about 10%. Other products including those geared for industrial use accounted for the remaining 12%.

URALCHEM Trading House, LLC, is a business unit within the URALCHEM Group that manages production distribution within the Russian Federation and CIS countries. Apart from its head office in Perm, URALCHEM Trading House also has its representative offices in Moscow, Voskresensk, Nizhny Novgorod, Kirovo-Chepetsk in Kirov region, Berezniki in Perm region, as well as a fertilizer storage base in the city of Sergach in Nizhny Novgorod region.

In 2012, URALCHEM Trading House sold 1,350,000 tonnes of URALCHEM products. the sales grew by 9% compared to 2011. the Company's priority is to ensure direct selling to its consumers; this being the objective of its sales strategy. This segment accounts for 80% of the domestic sales. A large-scale transaction for sale of 46,000 tonnes of ammonium nitrate and 4,000 tonnes of diamphoska concluded with one of the largest agricultural holdings represent one of the most impressive examples of successful performance of URALCHEM Trading House, LLC. the Company gained substantial additional profit from this transaction. URALCHEM Trading House is trying to increase the number of such transactions.

In 2012, URALCHEM Trading House for the first time delivered a batch of mineral fertilizers from its agrochemical storage base in Nizhny Novgorod region by rail. Previously, deliveries had been carried out only by trucks. the agrochemical

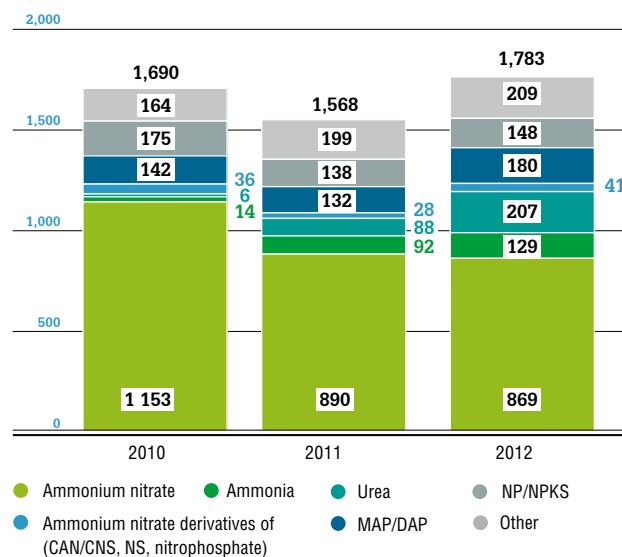
SALES STRUCTURE IN 2012, %



astorage base in Sergach (Nizhny Novgorod region) was established in August 2009, and has become one of the key suppliers of fertilizers to the market of Nizhny Novgorod region and neighbouring republics – Chuvashia, Mordovia and Mari El - since then. the base has a storage capacity of up to 15,000 tonnes at a time. the decision to start rail deliveries was made with a view to expanding sales regions. To be closer to the consumers is one of the Company's priorities.

In 2012, URALCHEM Trading House also organized its first large truck shipment of diamphoska directly to its consumer. This transaction was concluded due to the Company's customer-focused approach to business. Previously, the Company had not delivered products to its clients by trucks, but in that situation such solution proved to be beneficial both for the Company and for the client. URALCHEM Trading House intends to continue expanding sales on similar terms. This mechanism is an alternative to sales from storage bases

STRUCTURE OF SALES IN RF IN CIS MARKETS, 000' tonnes



- Ammonium nitrate
- Ammonia
- Urea
- NP/NPKS
- Ammonium nitrate derivatives of (CAN/CNS, NS, nitrophosphate)
- MAP/DAP
- Other

and is beneficial for both parties: it ensures supply of fertilizers directly to storage locations and receipt of extra profit for the rendered service. Moreover, the supplier does not bear costs for maintenance and rent of a warehouse base as well as risks of product loss in the storage process.

Development of URALCHEM's trade policy with regard to domestic sales of mineral fertilizers became an important event in 2012. The document was developed pursuant to the agreement between the Russian Association of Mineral Fertilizer Producers and the Agro-Industrial Union of Russia, and came into effect on January 1, 2013.

Establishment of transparent pricing mechanisms in the Russian markets and balance between economic interests of the Company and those of its clients are primary goals of the trade policy. The distinctive feature of the Company's trade policy is that it implies trading at fixed, margin-free prices via its subsidiary – URALCHEM Trading House, LLC. The priorities are set for orientation to the domestic market and direct supplies of products to consumers. The trade policy document is available on the Company's website: [http://www.uralchem.ru/rus/production\\_and\\_facility/7558/document7560.shtml](http://www.uralchem.ru/rus/production_and_facility/7558/document7560.shtml)

**EXPORT SALES**

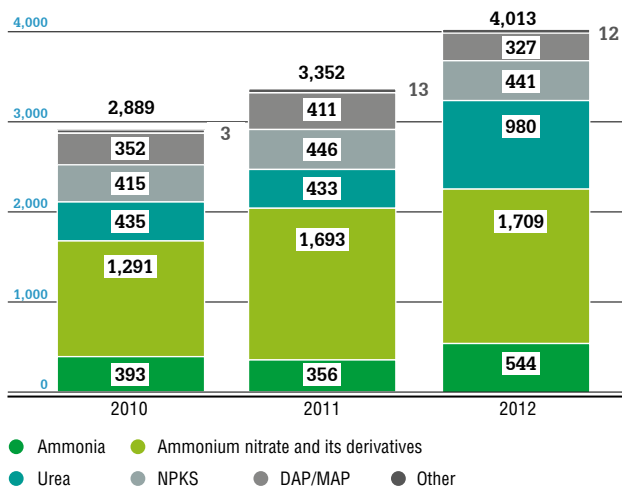
Export sales are carried out via a Latvian company SIA URALCHEM Trading as well as via the subsidiary of URALCHEM, OJSC in Brazil – URALCHEM TRADING DO BRASILLTDA. To strengthen its position in international markets, the Group is taking a set of measures with a view to further developing its own distribution network in Europe and South America targeted at increasing sales income through direct access to end users in each region of its presence. In particular, the Company is a constant participant of international agrochemical trade shows where it puts its production on display to attract potential clients from all over the world. For example, in the beginning of 2013, the Company

demonstrated its innovative production at Expo Agro Sinaloa in Mexico. And in 2012 URALCHEM hosted representatives of the largest fertilizer consumers in Latin America – Heringer, Dreyfus, ADM, Bunge Argentina and Association of Argentine Cooperatives (ACA).

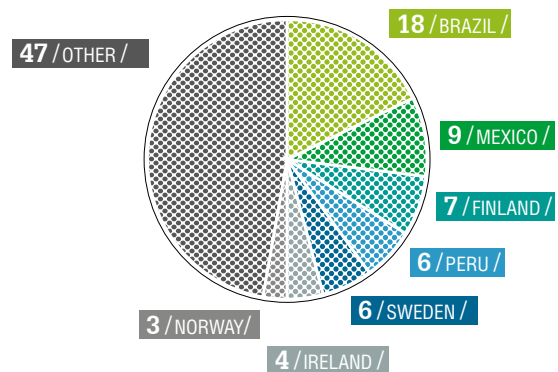
Such products as urea, ammonium nitrate, nitrophosphate, ammonia, complex fertilizer NPKS 27-6-6-2, mono-ammonium phosphate are in great demand in export markets. In 2012, high growth rate was observed in sales of urea (+126% as compared to 2011) and ammonia (+53%), which was mainly due to the acquisition of Minudobrenia, OJSC, which specializes in production of these fertilizers. The Company pursues a policy ensuring sales of its most popular products in the international markets.

In 2012, increase was also registered in export sales of diammonium phosphate (+56%), calcium nitrosulphate (+43%), complex fertilizer NPKS 21-10-10-2 (+49%), porous ammonium nitrate (+94%), potassium nitrate (+19%), nitrosulphate (1,600-fold increase from a low base). Total sales of URALCHEM's products in far abroad countries increased by 20% in 2012 compared to 2011. URALCHEM's products were exported to more than 60 countries worldwide.

**STRUCTURE OF EXPORT SALES, 000' tonnes**



**EXPORT OF PRODUCTS BY COUNTRIES, %**



## LOGISTICS: FIVE YEARS ON THE WAY TO INDEPENDENCE

### ENSURING LOGISTICS SECURITY IS ONE OF THE COMPANY'S PRIORITY TASKS WHICH IS SOLVED IN THREE WAYS:

- > DEVELOPMENT OF RAIL INFRASTRUCTURE,
- > DEVELOPMENT OF PORT INFRASTRUCTURE,
- > DEVELOPMENT OF RIVER AND SEA SHIPMENT.



#### RAILWAY TRANSPORTATION

More than 90% of products are delivered by rail. URALCHEM-TRANS, LLC, which was established in December 2007, manages rail logistics of all the Company's enterprises. In 2012, URALCHEM-TRANS, LLC celebrated the fifth anniversary of its activities within the Holding Company.

The single operation point for railway logistics allows integrated management of the Company's transportation and redistribution of the rolling stock among production facilities with regard to the current situation, and prompt interaction with contracting forwarding agents as well as reduction of transportation costs, thereby significantly improving the overall logistics operations' efficiency within the Group.

Over the past five years, the logistics complex of the Group was significantly enhanced due to URALCHEM-TRANS, LLC. the specialized logistics business unit of the Group has a well established infrastructure that guarantees delivery of raw materials and transportation of finished products, as well as pre-load servicing, maintenance and all kinds of repairs of freight stock. Effective performance of URALCHEM-TRANS, LLC allows the Company to

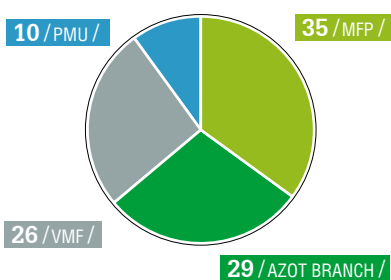
flexibly respond to changing market environment and immediately adjust shipment schedules.

Since 2011, the rail facilities of all the URALCHEM's enterprises have been actively consolidated in the structure of URALCHEM-TRANS, LLC. In 2011, the relevant MFP KCCW and Azot Branch facilities were transferred to URALCHEM-TRANS, LLC and those of VMF in 2012, the rail facility of Minudobrenia, OJSC is expected to be transferred into URALCHEM-TRANS, LLC in 2013, thereby completing the consolidation process.

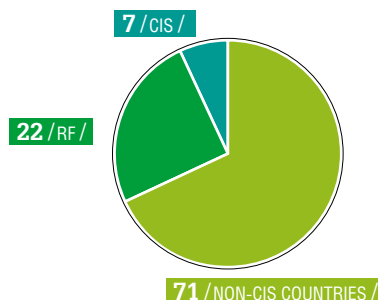
URALCHEM-TRANS, LLC, has five branches – at the production facilities of Kirovo-Chepetsk, Berezniki, Voskresensk, Perm, as well as a rail car repair depot in Murashi.

By its fifth anniversary, URALCHEM-TRANS achieved impressive results: the volume of rail transportation increased over five years from 3 million tonnes to 6.7 million tonnes a year (including raw materials transportation) and amounted to 25.5 million tonnes. Transportation of the Company's finished products along direct exit routes was actively promoted in 2012. Over the year, 59 block trains with ammonia and 197 block trains with

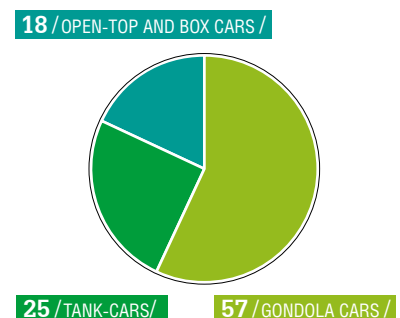
**TRANSPORTATION STRUCTURE OF URALCHEM-TRANS, LLC, IN 2012, %**



**TRANSPORTATION OF BULK FERTILIZERS BY URALCHEM-TRANS, LLC, IN 2012, %**



**STRUCTURE OF THE ROLLING STOCK UNDER URALCHEM-TRANS MANAGEMENT IN 2012\*, %**



\*The estimate is based on the average annual figures

fertilizers were dispatched from the Group's production facilities. Total savings from rail rates amounted to 54 million roubles.

To reduce transportation costs and minimize idle runs after unloading mineral fertilizers, of URALCHEM-TRANS, LLC constantly renders transportation services to outside clients. the economic effect from such services amounted to 232 million roubles.

The rail car fleet of URALCHEM-TRANS, LLC, which includes both its own and leased cars, more than doubled from 3,000 to 8,500 cars over five years as of January 11, 2013. the rail car fleet is balanced in accordance with industrial and commercial demand and consists of gondola cars, open-top cars, box cars and tank-cars. the Company constantly and systematically expands its rail car fleet with a view to increasing production output and extending the sales geography.

Besides, the Company's branches have their own production facilities for technical maintenance of the rolling stock – both for pre-load servicing at the facilities and for preventive repairs in the depot of Murashi. the number of repair works carried out in the depot of Murashi has been increasing annually, and in 2012 reached a new record of 3,139 (2011 – 3,136). the Company's own depot currently covers the Group's needs in repairs. One of the main tasks of the depot is to carry out high-quality repair works of gondola car bodies, which minimizes the risks of ingress of water into the transported products thus helping preserve the high quality of fertilizers during their delivery to the clients, and eventually raises the competitive capacity of URALCHEM's products. Moreover, URALCHEM-TRANS, LLC is constantly improving the technology of repair works in Murashi depot. In 2012, the depot of Murashi obtained a permission of the National Agency of Non-Destructive Testing and Welding to repair aluminum tank shells, which enables the depot to conduct all repair works on chemical and ammonium tanks used by URALCHEM-TRANS, LLC (in 2011 a permission was obtained to repair tank shells of carbon and stainless steel and bimetal). the depot of Murashi is the third Russian enterprise certified to carry out repair works of that complexity level. In fact, URALCHEM-TRANS, LLC can perform any scheduled maintenance works on its own rail car fleet except for capital

repairs for rail car life extension, which is as complicated as production of new rail cars.

### SEA SHIPMENT, FREIGHT

URALCHEM Group delivers its export supplies to the clients mainly by sea transport. the products are transported to a sea port in two ways: either by rail, or by river (in summer). In order to organize transshipment of goods in the ports and water transportation of export products of the Company, a logistics subdivision was established as part of the Latvian company SIA URALCHEM Trading. Apart from export sales of the Company's products, SIA URALCHEM also ensures loading of goods in the ports and freighting of vessels.

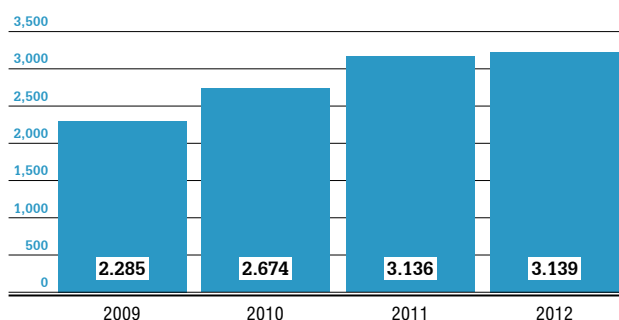
In 2012, 3,214,000 tonnes of commercial products were shipped for export via ports (+10% as compared to 2011), including 2,930,000 tonnes of fertilizers and 284,000 tonnes of ammonia. Over five years from 2008 to 2012, the volume of the goods shipped via ports increased by 33%.

89% of all the sea shipments were transshipped in the Baltic ports (Saint Petersburg, Vyborg, Riga, Kotka, Ventspils) and 11% – via the ports of the Black Sea basin.

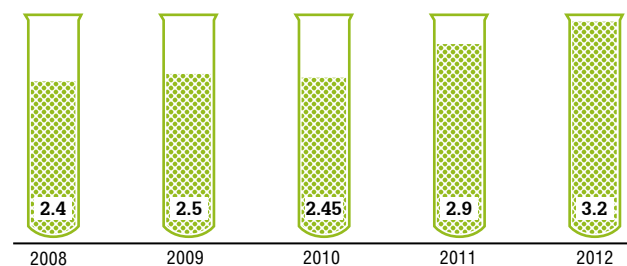
Ammonia has been traditionally transshipped in two Baltic terminals: BCT (Sillamäe, Estonia) and Ventamonjaks (Ventspils, Latvia).

To enhance its logistics security, URALCHEM in cooperation with the Latvian company SIA Rīgas tirdzniecības osta (Riga Commercial Port, LLC), started the construction of a new specialized port terminal for transshipment of bulk fertilizers in Riga. the terminal is expected to be commissioned in the fourth quarter of 2013, which will provide a port infrastructure for organization of export commodity flows of the Group and help attaining extra effectiveness through bigger turnover of the rolling stock. the capacity of the port for dry fertilizer transshipment will amount to two million tonnes a year. the Company's own port capacities will help reduce the logistics costs.

**THE NUMBER OF SCHEDULED MAINTENANCE WORKS IN MURASHI DEPOT, units**



**SHIPMENT OF COMMERCIAL PRODUCTS VIA PORTS, in million tonnes**



# IMPLEMENTATION OF LARGE-SCALE INVESTMENT PROGRAM

## INVESTMENTS INTO FIXED AND INTANGIBLE ASSETS

### KEY INVESTMENT EVENTS OVER LAST FIVE YEARS

AZOT BRANCH	MFP KCCW	VMF	RIGA FERTILIZER TERMINAL
<p><b>2008</b> Reequipment of the urea facility</p>	<p><b>2008-2010</b> Investments into the development of NPK-fertilizer production</p>	<p><b>2008-2012</b> Investments to extract phosphate out of low-grade phosphate rocks and to increase production of phosphoric acid</p>	<p><b>2010-2012</b> Construction of transshipment capacities in the sea port of Riga</p>
<p><b>2010</b> Reconstruction of the river terminal</p>	<p><b>2008-2012</b> Reequipment of ammonia installations</p>	<p><b>2009</b> Technical re-equipment of NPK-fertilizer production facilities. Investments into the production of chloride-free NPK-fertilizers</p>	
<p><b>2010-2012</b> Reequipment of ammonia installations</p>	<p><b>2011</b> Technical re-equipment of production facilities in order to meet the ecological standards</p>	<p><b>2012</b> Construction of the installation for production of high-purity monoammonium phosphate</p>	
<p><b>2012</b> Introduction of the Automatic Process Control System into the ammonia production facility</p>	<p><b>2012</b> Investments into launching a new production (1-calcium nitrate, 2-nitrogen sulphate NS 306)</p>		

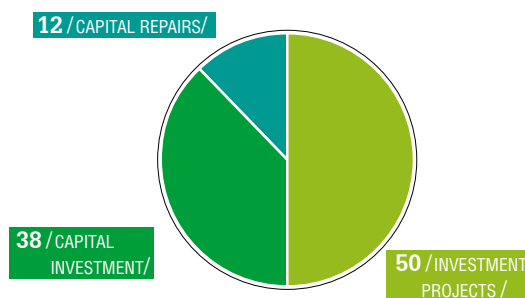
In 2012, URALCHEM Group continued implementing its long-term investment program aimed at acquisition of promising assets, carrying out new production projects and technical reequipment of existing facilities. The long-term goal of the investment program is to increase the production volume (including introduction of new highly profitable types of products) and efficiency of the industrial processes, as well as to cut the resource consumption rates. In 2012, a new automated repairs and maintenance control system was introduced at the plants of the Group, which allowed improving the quality of planning and repair works.

The investment program of 2012 was targeted at project implementation in the following priority fields:

- > replacement of worn-out and outdated equipment,
- > increase in efficiency and ecological safety of the production,
- > introduction of new highly profitable types of products,
- > logistics development through expansion of the railcar fleet and creation of our own port facilities.

In 2012, the total investments volume increased by 50% and amounted to 165 million USD including VAT. The investment plan was fully implemented with regard to the key company projects. Out of the total investments sum, 83 million USD was put into realization of investment projects, 62 million USD – into capital investment to upgrade worn-out and outdated equipment, 20 million USD – into capital repairs.

### THE STRUCTURE OF INVESTMENT, BY DESTINATION, IN 2012, %



## THE KEY PROJECTS IMPLEMENTED IN 2012 AT THE ENTERPRISES OF THE GROUP:

### 1. MFP KCCW, OJSC

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TOTAL INVESTMENT  
**39** MILLION USD.

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In 2012, investments at MFP KCCW were aimed primarily at creating capacities to manufacture new products and reconstruct existing installations in order to increase the production of mineral fertilizers and chemical products.

A project was launched to set up the production of a new product – calcium nitrate (for industrial purposes). In 2012, main technological equipment was purchased, and construction and installation works began. the production startup is planned for the first half of 2013. the second stage of the project including increase in capacity and production of calcium nitrate to be used as a mineral fertilizer is to be carried out in 2013. the production is expected to reach its full capacity in 2014-2015. In 2012, the investments amounted to about 8 million USD.

In 2012, a project was launched to increase the capacity of the ammonia installation. After completion of the project in 2013, the natural gas consumption rates will be reduced, and seasonal influences on the productivity of installation will be eliminated. In 2012, investments into the project amounted to about 3.5 million USD.

In 2012, a project to increase the capacity of one of the two nitric acid installations was launched, it will be completed in 2013. Implementation of this project will help increase the production of ammonium nitrate, where nitric acid is used as a raw material. In 2012, investments into the project amounted to about 3 million USD. Similar works, planned for 2013-2014, will be done at the second nitric acid installation as well.

A noticeable part of the enterprise investments has traditionally been allocated to ecological projects; one of the largest projects of this kind – 4 million USD in 2012 – was technical reequipment of the ammonium nitrate installations aimed at reducing emissions of pollutants into the atmosphere. A set of measures on industrial wastewater treatment and recycling, reequipment of the gas purification system and rehabilitation of the chalk tailing dumps were also carried out.

### 2. AZOT BRANCH

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TOTAL INVESTMENT  
**39** MILLION USD.

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In 2012, the investment program of Azot Branch hit the plant's record of 39 million USD. the investment structure however remained the same: reconstruction and replacement of worn-out and outdated equipment in order to ensure non-stop and trouble-free operation of the plant.

Investments were also made into projects aimed to increase production and reduce raw-material consumption. Major works were carried out at the installations for production of ammonia, urea and nitric acid.

Among the most significant investment projects of 2012, the introduction of an automated technological processes control system to the ammonia installation can be mentioned. the amount of investment into automation was about 4 million USD in 2012. the system introduction helped reducing the risks of unscheduled downtime as well as increasing operational efficiency, quality and effectiveness of control over the engineering procedure of installation operation.

Significant attention was also paid to reconstruction of off-plant facilities – the water supply and water disposal systems were upgraded.



### 3. VOSKRESENSK MINERAL FERTILIZERS, OJSC

TOTAL INVESTMENT

**30** MILLION USD.

The largest and the most important project of VMF in 2012 was construction of an installation for production of a new premium fertilizer – high-purity mono-ammonium phosphate. In 2012, the core process equipment was purchased, construction and installation works began, and the State Registration Certificate for the product to be launched was obtained. The production is expected to begin in the first half of 2013, while the projected capacity is supposed to be reached in 2014. Investments into this project amounted to about 8.5 million USD in 2012.

The rest of investments in VMF was directed to capital repairs and scheduled replacement of worn-out and outdated equipment.

### 4. MINUDOBRENIA OJSC (PERM)

TOTAL INVESTMENT

**8** MILLION USD.

Investments into PMU, a new enterprise of the Holding company, amounted to 8 million USD – the projects launched earlier were continued, scheduled repair works and replacement of the equipment were carried out.

Moreover, a large-scale program to upgrade the ammonia installations was developed in 2012 and began at the end of the year. The program is designed to increase the production and reduce raw materials consumption. The program will decrease the weather factor influence on stable operation of the installations. The investment program of 17 million USD is designed to cover the period until 2014, and upon its realization the enterprise is expected to become one of the leaders of the Russian nitrogen industry in operational performance.

### 5. FERTILIZER TRANSSHIPMENT TERMINAL IN THE SEA PORT OF RIGA, LATVIA

TOTAL INVESTMENT

**40** MILLION USD.

An important part of the Company's investment program is construction of the first stage of the fertilizer transshipment terminal in the port of Riga, with the capacity of 2 million tonnes a year. The terminal is supposed to provide services to vessels of all classes used in the Baltic Sea for mineral fertilizer transshipment. In order to realize this project, a joint venture SIA Riga Fertilizer Terminal was established, where URALCHEM Group has 51% of its stock, the remaining 49% is owned by the partners - SIA "Rīgas tirdzniecības osta".

This large-scale project strategically important for the Company is carried out according to the timeline. The terminal launch is scheduled for the fourth quarter of 2013, the full transshipment capacity is to be reached in 2014. Putting the terminal into operation will not only improve the efficiency of sales, but will also significantly enhance the logistics security.

Total investments into the project will amount to 78 million USD. In 2012, 40 million USD was invested into the terminal, including both bank project financing and participatory inputs.

### 6. OTHER INVESTMENTS OF URALCHEM GROUP

TOTAL INVESTMENT

**9** MILLION USD.

In 2012, URALCHEM Group continued expanding its own railcar fleet. URALCHEM-TRANS, OJSC has 300 gondola cars on lease.

In 2012, URALCHEM-TRANS launched a project aimed to develop its rail infrastructure at its enterprise in Berezniki as well. It is construction of a check and maintenance station for gondola cars to be completed in 2013. The project is targeted both at improving the quality of rolling stock preparation and at reducing ecological risks of adverse environmental impact.

## INVESTMENTS INTO ACQUISITION OF SUBSIDIARIES

In 2012, URALCHEM completed a transaction on increasing its share in the stock of Minudobrenia, OJSC (Perm) to 100%, resulting in consolidation of the acquired asset into the structure of URALCHEM Group. The transaction included two stages: purchase of 41.2% of shares from majority owners, and subsequent purchase of the remaining 12.3% of shares from minority shareholders. The total transaction value was 329.6 million USD, the total sum invested into the asset buyout amounted to 254.9 million USD, which was reflected in the consolidated financial statements of URALCHEM Group for 2011-2012.

It is noteworthy that the acquisition of this asset was more than justified. Minudobrenia, OJSC apply modern technologies of world-known companies: Kellogg (USA) – for ammonia production, Mitsui Toatsu (Japan) – for urea production. These technologies allow manufacturing quality products conforming to international standards, the systems of quality and ecological management applied by the enterprise meet the requirements of international standards ISO 9001 and ISO 14001.

The consolidation of 100% of Minudobrenia shares in the ownership of URALCHEM Group will help solving a number of important tasks:

- > To improve the financial performance of URALCHEM Group through synergetic effect of supply chains integration and sharing business support services.
- > To significantly expand the production capacities of the Group and thus increase the annual output volume.
- > To consolidate the Group's positions in the segment of nitrogen mineral fertilizer market and get closer to the realization of the strategic goal of becoming the leader in this segment among other Russian enterprises. Due to affiliation of PMU, URALCHEM Group managed to take premier place in ammonia production and come finish second in urea production in Russia by the end of the year.
- > To increase general production efficiency within the Group, the PMU capacities are in a good technical condition; the productivity of labor at the plant is one of the best in the industry.

## INNOVATIONS AND R&D

URALCHEM pays substantial attention to research of innovative technologies emerging in the international fertilizer market, as well as invests in research works resulting in unique technologies later implemented at the Group's enterprises. Implementation of these technologies is directed at increasing production quality, rising ecological standards, cutting production costs and manufacturing new types of products.

URALCHEM actively cooperates with leading Russian and international research centers, prominent scientists and key experts around the world within the framework of its integrated program on scientific expert support,

development of breakthrough solutions, monitoring and introduction of innovations.

In 2012, the Company conducted research works primarily in the following fields:

### 1. TECHNOLOGY OF NS-FERTILIZER PRODUCTION – NITROSULPHATE AND AMMONIUM SULFANITRATE

Today, agricultural producers have to prepare a fertilizer blend of ammonium nitrate and ammonium sulphate in order to enrich soil with sulphur. URALCHEM is trying to develop fertilizers which would contain the both components.

Preliminary works have been carried out to start-up commercial production of sulphur-containing fertilizers "Nitrosulphate" and "Sulfanitate" at the available facilities for production of complex mineral fertilizers.

These products are a mixture of ammonium nitrate and ammonium sulphate in the form of complex water-soluble salts with nitrogen content of (30%) and sulphur content of (7%).

In 2012, the existing equipment was upgraded where necessary, the capacities for production of ammonium sulphate solution were expanded, and a scheme for preparation of aluminate agent increasing the strength and impact viscosity of granules was completed. A few tens of thousands tonnes of the product were produced, the research aimed to select the optimum mode is going on with a view to achieving such quality figures that would meet the consumer requirements (granulometric size composition, durability).

R&D activities are currently underway regarding the construction of an installation for NS-fertilizer production aimed at increasing production capacity and cutting production cost.

### 2. PHOSPHOGYPSUM PROCESSING TO EXTRACT HIGH-PURITY GYPSUM AND BULK CONCENTRATE OF RARE-EARTH METALS

Today, in Russia and all over the world there is a lot of interest in rare-earth metals being the basic element for production of many hi-tech products. Alongside with development of high-tech industries in Russia and throughout the world, the production and consumption of rare-earth metals are also bound to increase, the consumption rate of rare-earth metals is expected to reach 10,000 tonnes a year in 2020, while currently only 1,500 tonnes are produced domestically.

URALCHEM is specifically interested in extraction of rare-earth metals in the course of processing phosphogypsum, a waste of sulphuric-acid process of apatite processing. Along with rare-earth metals extraction, during the phosphogypsum processing, high-purity gypsum can be extracted which

can be used in construction industry. At the same time plants producing phosphoric acid through sulphuric-acid exposure can solve their biggest environmental problem connected with the accumulation of phosphogypsum tailings.

URALCHEM has developed a complex technology of processing phosphogypsum at the VMF facilities to extract bulk concentration of rare-earth metals and produce gypsum suitable for construction. The patents are already pending for the key technological solutions. The tests are underway on a pilot installation which was set up at VMF in order to use this technology. By the end of 2013, it is planned to complete the technological tests on the pilot installation, and to work out basic data for the industrial installation design. The start-up of production designed to process 1.5 million tonnes of phosphogypsum a year is scheduled for the end of 2015/ the beginning of 2016.

The production of bulk concentrate of rare-earth metals is just the first stage on the way towards production of rare-earth metals from phosphogypsum. At the next stage, it is expected to work out a technology to split the concentrate into individual compounds. The need to develop a technology for bulk concentrate separation is entailed by the substantially higher cost of some individual compounds (3-4 times higher) in comparison with the cost of bulk concentrate.

Setting up the production of rare-earth metals and high-purity gypsum from phosphogypsum will allow URALCHEM to diversify its production and reduce risks related to volatility of the market of phosphorus-containing raw materials and fertilizers.

### 3. PRODUCTION OF HARDENING BLENDS BASED ON CALCIUM CHLORIDE TO BACK FILL MINE OPENINGS

Within the framework of its strategic plan to increase the production of premium products, URALCHEM is developing a technology to produce complex chloride-free fertilizers with calcium chloride being a by-product. In cooperation with Galurgia, OJSC URALCHEM has developed a method of slurry backfilling based on calcium chloride and received a patent for this invention.

The technology will help the company to create nearly waste-free production of chloride-free fertilizers with minimal environment impact and make additional profit through calcium chloride sales.

The consumer can benefit through backfilling of potassium mines with calcium chloride in the following ways:

- > Increase in efficiency of potassium ore recovery,
- > Increase in utilization rates of existing mine shafts,
- > Reduction of environmental impact on the territories,
- > Elimination of mining damage risks.

An experimental mass was set up within the framework of pilot tests in mine openings of a partner company in 2012, and samples for further research were obtained.

### 4. PRODUCTION OF HIGH-PURITY POTASSIUM NITRATE AND AMMONIUM CHLORIDE

URALCHEM works hard to develop new high-profitable types of fertilizers. Notably, a technology for producing high-purity potassium nitrate and ammonium chloride from potassium chloride (KCl) and ammonium nitrate ( $\text{NH}_4\text{NO}_3$ ) was developed. Compared to initial substances, the final products of the new technology are of higher quality, in higher demand in the market and have higher added value.

The basic technology processes have been developed by now on a lab scale. Initial data for construction of pilot installation has been worked out.

### 5. PRODUCTION OF COMPLEX CHLORIDE-FREE FERTILIZERS (PK, PKS, SOP)

In recent years, URALCHEM has been actively working on its own technology to produce chloride-free potassium-containing fertilizers. First of all, such fertilizers have better agrochemical indicators especially for chloride-sensitive plants. Besides, the prices for chloride-free fertilizers are substantially higher than the prices for those containing potassium chloride.

In 2012, R & D activities in the field of complex PK, PKS and SOP fertilizers production were carried out primarily at Voskresensk Mineral Fertilizers, OJSC:

#### PHOSPHATE-POTASSIUM FERTILIZERS (PK)

Within the framework of development of a technology for chloride-free PK-fertilizers, a set of research works was conducted to analyze high-temperature dechlorinating to produce phosphate-potassium fertilizers with different P:K ratios.

A pilot installation was built at VMF, and first tests were carried out. At first actualizations of the installation, the level of total residual chloride reached 2-3%. Currently a research is underway aimed to reduce the level of total residual chloride, to improve the technological processes and the design of the main unit.

#### PHOSPHATE-POTASSIUM FERTILIZER WITH SULPHUR (PKS)

Throughout the year, research works have been conducted to produce PKS-fertilizer NPKS: 0:43, 7:43, 7:5 for ecologically clean raw products. With respect to the salt composition, the fertilizer is a mixture of potassium metaphosphate (72.6%) and potassium sulphate (27.4%). This blend was chosen due to the maximum speed of dechlorinating of the mixture of potassium chloride, sulphuric acid and orthophosphoric acid.

A high degree of dechlorinating was reached during research works. Conditions for formation of water-soluble phosphates in this fertilizer were analyzed. The activities to improve the production technology are still underway.

### **POTASSIUM SULPHATE (SOP)**

By the moment, laboratory experiments for production of potassium sulphate from potassium chloride and sulphuric acid were conducted according to a new scheme fundamentally different from all known methods. The distinctive feature of the new technology is lower temperature conditions allowing to reduce power consumption and, consequently, to cut costs for production of potassium sulphate compared to already-known methods.

Potassium sulphate is a commercially successful potassium fertilizer with the cost nearly 1.5-times higher than that of potassium chloride. A pilot installation design is currently being worked out to provide for maximum efficiency of this fertilizer production.

### **6. PRODUCTION OF SULPHUR-ENRICHED UREA-AND-AMMONIA BLEND (UAN)**

A research of technologies for production of sulphur-enriched urea-and-ammonia blend is underway at URALCHEM. Sulphur content of 3% explains the unique character of this product as it significantly increases its agronomic effectiveness while using this fertilizer for such crops as rape, grain, sunflower, corn, etc. the expansion of cultivation area for sulphur-sensitive crops as well as the growing global sulphur deficit predetermine high demand for the product.

URALCHEM produces two basic elements of this fertilizer: ammonium nitrate and urea, which give the Company a substantial advantage over its competitors. However the unique qualitative characteristics of UAN, which URALCHEM plans to produce, are its main advantage. The nutrient content of URALCHEM's UAN is expected to amount to 34% against 30% in sulphur-containing blends made by other producers.

The problem of the majority of sulphur-containing blends producers is impossibility of their longtime transportation as they must be applied to soil within 12 hours after preparation; once this period expires, sulphur transforms the fertilizer into an insoluble suspended mixture damaging fertilizer-disseminating equipment. URALCHEM's know-how technologies make it possible to solve the blend stability problem and its transportation.

R & D activities are currently underway at URALCHEM enterprises, where leading research organizations are involved: Lomonosov Moscow State University, Academician Pryanishnikov State Agricultural Academy of Perm. Research is underway to study the agronomic effectiveness of the product and to reduce the crystallization temperature because the possibility to use a liquid product in various climatic conditions is important.

Joint comprehensive experiments with current producers of standard UAN, with regard to sulphur application and market promotion of this product, are planned. Subsequently, an installation for the product manufacturing is expected to be constructed. Commercial production of UAN will allow the company to enter the new market segment of liquid fertilizers. Sales of this product will be highly profitable, as the cost of a nitrogen unit in this fertilizer is higher than in ammonium nitrate and urea.

### **7. AGRONOMICAL AND INTER-LABORATORY TESTS**

Within the framework of its research policy, URALCHEM conducts studies on the agronomical effectiveness of manufactured and to-be-manufactured products. The experiments under this research are carried out on various crops, in various soil-and-climate conditions. Independent tests are underway in cooperation with and under the aegis of reputable Russian and European research centers.

Inter-lab tests that prove compliance of in-plant expert evaluation with international requirements constitute the most important element of the control and quality enhancement program of the production. A complex of these tests allows controlling the declared consumer properties of a product as well as carrying out planned activities on their improvement.

In 2012, URALCHEM's experts organized inter-lab tests in one of the leading Scandinavian laboratories – Eurofins (Sweden). The Company representatives brought some retained samples for further expert evaluation in the Swedish laboratory and got acquainted with the methods used in that laboratory as well as with standard deviations of these methods. These tests will allow to harmonize the methods used both at URALCHEM enterprises and in Sweden, as well as to confirm high quality of products exported to the Scandinavian countries.

In 2013 and in the medium term, R & D activities in all the above directions will continue.

It is also important to note that all directions of URALCHEM research are considered to be cutting edge not only in Russia, but internationally as well. Implementation of research results will become another competitive advantage of the Company, and will enable it to reach a totally new level of development.

# IMPROVEMENT OF FINANCIAL PERFORMANCE

## OPERATING RESULTS OF URALCHEM GROUP OVER FIVE YEARS: SUCCESS DYNAMICS

	2012	2011	2010	2009	2008	FIVE YEARS
<b>Selling output, '000 tonnes</b>	<b>6,024</b>	<b>5,093</b>	<b>4,861</b>	<b>4,406</b>	<b>4,086</b>	<b>47%</b>
Growth rate, %	18%	5%	10%	8%	-	
<b>Revenue, in million USD</b>	<b>2,423</b>	<b>2,080</b>	<b>1,389</b>	<b>949</b>	<b>1,697</b>	<b>43%</b>
Growth rate, %	16%	50%	46%	-44%	-	
<b>EBITDA, in million USD</b>	<b>839</b>	<b>750</b>	<b>309</b>	<b>110</b>	<b>622</b>	<b>35%</b>
EBITDA margin	35%	36%	22%	12%	37%	
<b>Net profit/(loss), in million USD</b>	<b>665</b>	<b>445</b>	<b>35</b>	<b>-97</b>	<b>76</b>	<b>775%</b>
Net profit margin	27%	21%	3%	-10%	4%	
<b>Net debt, in million USD</b>	<b>830</b>	<b>931</b>	<b>1,356</b>	<b>1,422</b>	<b>1,315</b>	<b>-37%</b>
Net debt/EBITDA	1.0	1.2	4.4	12.9	2.1	
<b>Revenue/per employee, in USD</b>	<b>196,898</b>	<b>183,924</b>	<b>108,583</b>	<b>67,487</b>	<b>115,639</b>	<b>70%</b>
Growth rate, %	7%	69%	61%	-42%	-	
<b>Profit/(loss)/per employee, in USD</b>	<b>54,047</b>	<b>39,349</b>	<b>2,736</b>	<b>-6,898</b>	<b>5,179</b>	<b>944%</b>
Growth rate, %	37%	1338%	140%	-233%	-	

## KEY FINANCIAL RATIOS

### CURRENT LIQUIDITY RATIO

IN MILLION USD	2012	2011	GROWTH RATE
Current assets	575	593	-3%
Current liabilities	265	540	-51%
<b>Current liquidity ratio*</b>	<b>2,2X</b>	<b>1,1X</b>	

\*Current assets to current liabilities

### QUICK RATIO

IN MILLION USD	2012	2011	GROWTH RATE
Quick assets (current assets less inventories)	431	485	-11%
Current liabilities	265	540	-51%
<b>Quick ratio*</b>	<b>1,6X</b>	<b>0,9X</b>	

\* Quick assets to current liabilities

### TOTAL ASSETS TURNOVER

IN MILLION USD	2012	2011	GROWTH RATE
Revenue	2,423	2,080	16%
Total opening stocks	1,755	1,590	10%
Total closing stocks	2,175	1,755	24%
<b>Total assets turnover*</b>	<b>1,2X</b>	<b>1,2X</b>	

\* Revenue / ((total opening stocks + total closing stocks)/2)

### INVENTORY TURNOVER

IN MILLION USD	2012	2011	GROWTH RATE
Production cost	1,023	868	18%
Opening inventory	107	113	-5%
Closing inventory	143	107	34%
Inventory turnover*	8,2x	7,9x	
<b>Days sales in inventory, in days**</b>	<b>45</b>	<b>46</b>	

\* COGS / ((opening inventory + closing inventory)/2)

\*\* 365 days / Inventory turnover

**RETURN ON INVESTED CAPITAL, ROIC**

IN MILLION USD	2012	2011	GROWTH RATE
Net profit	665	445	50%
Opening equity	323	-64	-606%
Closing equity	924	324	185%
Total opening debt	1,130	1,354	-17%
Total closing debt	942	1,130	-17%
<b>Return on invested capital*, %</b>	<b>40%</b>	<b>32%</b>	<b>8%</b>

\* Net profit / ((opening equity + closing equity + total opening debt + total closing debt) / 2)

**TOTAL DEBT TO TOTAL EQUITY**

IN MILLION USD	2012	2011	GROWTH RATE
Total debt*	1,007	1,183	-15%
Total equity	924	324	185%
<b>Total debt to total equity</b>	<b>1,1X</b>	<b>3,7X</b>	

\* Total obligations on credits and loans payable and obligations on financial lease

**INTEREST COVERAGE RATIO**

IN MILLION USD	2012	2011	GROWTH RATE
Earnings before interests and taxes, EBIT	880	673	31%
Interest expenses	78	115	-32%
<b>Interest coverage ratio*</b>	<b>11,3X</b>	<b>5,9X</b>	

\* EBIT / interest expenses

Over the last five years, URALCHEM Group has been unflinching demonstrating dynamic rates of business development, which implies sustainable growth rate of the key figures in the medium term, smart debt policy and high degree of financial reliability, constant expansion of productive and financial capacities through realization of extensive investment programs and consolidation of new assets into the Group's structure.

In 2012, the Group's enterprises increased the commercial output by 18% compared to that of 2011, which brought them closer to their long-term objectives. Over the past five years, the commercial output increased by nearly 50%.

In 2012, average prices for the products manufactured by the Group's enterprises demonstrated volatile dynamics against the background of an unstable macroeconomic situation in Asia-Pacific, Middle East and CIS countries. Despite the complicated external market environment, by

the end of 2012 URALCHEM increased its total income from sales of all product types.

The URALCHEM's sales volume in monetary terms in all markets increased in 2012 by 16% in relation to that of 2011, and in comparison with 2008 the increase amounted to 43%. The average annual rate of the Company's revenue growth over the last five years reached the impressive 57%, which testifies to steady demand for the Company's products of its regular consumers. The sales volume increased mostly due to expanding production capacities (including acquisition of new assets), expanding distribution channels and due to the ability to promptly adjust the sales pattern to changing environment of the fertilizer market.

Over the last five years, most of the Company's revenue was traditionally received in the export markets. At the end of 2012, the share of export amounted to 78%, while in 2008 this share accounted for 82%. Nevertheless, domestic sales are still among the priorities of URALCHEM's sales policy.

The increase in the sales volume and effective control over the main expenditures (over the five years, the production cost increased by 41%, with the revenue growth of 43%) resulted in improvement of URALCHEM's profit figures. For example, by the end of 2012 adjusted EBITDA increased by 12% and by 35% over the five years. Net profit increased by 49% in 2012 while effective income tax rate came down. Within the past five years, net profit grew nearly ninefold. By the end of 2012, EBITDA margin and net profit margin amounted to 35% and 27% respectively, thereby characterizing effective performance of the Company's management.

It is important to take note of the qualitative growth of the Company's key figures. Alongside with increase in absolute figures, the ratios, such as productivity of labor, also keep growing. For example, by the end of 2012, revenue per employee within the Group amounted to 196.9 thousand USD, while over the five years this indicator increased by 70%. The profit per employee ratio increased even more significantly – more than tenfold up to 54 thousand USD per employee over the last five years. And by the turnover/employee ratio, URALCHEM joined the top-three most effective Russian companies in 2010-2011 (as reported by STEP Consulting). Such result was achieved due to introduction of new technologies, optimization of business processes and improvement of HR policy.

Within the past years, the Company has been systematically reducing its debt burden that reached its peak during the global financial crisis of 2008-2009. Since 2009, the Company's net debt has almost fallen by half to 830 million USD. The total debt decreased by 15% in 2012, and its short-term part – by 69%. The ratio of net debt to EBITDA decreased to 1. Credit interest payments are currently covered more than 11 times by earnings before interest and taxes, and the average effective credit interest rate fell from 5.9% to 5.2% which would allow the Company to save on loan service in the future.

In 2012, the Company kept on implementing its long-term investment program. The total cash flow of investments into fixed and intangible assets increased nearly by 51% up to 164 million USD, and the total investment outflow increased sevenfold compared to 2011, and amounted to 390 million USD. The construction of the terminal in Riga continued, extensive re-equipment program was carried out at the Group's plants, production of new previously not manufactured products with high added value was organized. Outflow from investing activities and loan repayments in 2012 was offset by cash inflow from operating activities and by available cash assets on bank accounts. As a result, at the end of 2012 the free cash flow amounted to 178 million USD.

The total volume of the investments into fixed and intangible assets over the last five years amounted to impressive 632 million USD. And the total cash outflow from investing activities over the five years reached 1,430 million USD. In the future, the Company plans to continue allocating substantial funds for investment.

## REVENUE

In 2012, the total URALCHEM revenue increased by 16% compared to the previous year and amounted to 2,423 million USD (2,080 million USD in 2011). The consolidation of financial figures of Minudobrenia, OJSC into the annual financial statements for 2012 had a positive impact on the total revenue growth. The contribution of Minudobrenia, OJSC to the total revenue of the Group amounted to 15.6% or 364 million USD.

Alongside with the consolidation of Minudobrenia, OJSC, the growing share of highly profitable products in the sales structure of the Company also improves URALCHEM's financial performance. Such products include ammonia (15%), urea (20%), ammonium nitrate and its derivatives (22%),

IN MILLION USD	2012	2011	GROWTH RATE
REVENUE: mineral fertilizers	1,889	1,692	12%
Nitrogen fertilizer	1,346	1,058	27%
Share of nitrogen fertilizers, %	71%	63%	
Phosphate fertilizers	286	344	-17%
Share of phosphate fertilizers	15%	20%	
Complex fertilizer	257	290	-11%
Share of complex fertilizer, %	14%	17%	

nitrophosphate (9%), complex NPKS fertilizers (11%), premium nitrogen CAN/CNS fertilizers (4%) in the revenue structure of 2012. Thus, the total share of the products with fairly high added value in the URALCHEM's revenue structure of 2012 was about 80%. In the future, the Company plans at least to keep this share at the level of 2012, aspiring to increase it in the long term.

Constant extension of the product line and improvement of qualitative characteristics of its products represent other factors of URALCHEM revenue growth. For example, in 2012, the Company began production of nitrosulphate NS 30:6 at the production facilities of MFP KCCW, OJSC. This product joined the line of highly profitable sulphur-containing fertilizers. Production of ground rock phosphate was resumed at Voskresensk Mineral Fertilizers, OJSC; in 2012, a project on production of a new fertilizer type – a special water-soluble monoammonium phosphate – was launched. The State Registration Certificate for the product was obtained which would allow starting its production already in 2013. URALCHEM plans to continue extending its product line in 2013.

In terms of its product line, the Group's revenue grew in 2012 mostly due to the increased sales of mineral fertilizers and ammonia which together account for 90% of URALCHEM's total sales.

In 2012, the sales of mineral fertilizers increased by 12%. Significant sales growth was observed in the segment of nitrogen fertilizers – by 27% compared to 2011, while the sales of phosphate and complex mineral fertilizers, on the contrary, decreased by 17% and 11% respectively. Such sales dynamics was entailed by the acquisition of Minudobrenia, OJSC and changes in the fertilizer market conditions. In 2012, global demand for phosphate and complex fertilizers decreased resulting in reduction of prices for these types of products. The market of nitrogen fertilizers proved to be relatively stable in terms of demand and product prices.

As a result, the share of nitrogen fertilizers in the structure of mineral fertilizer sales increased from 63% in 2011 to 71% in 2012.

URALCHEM Group's revenue from ammonia sales increased by 55% to 359 million USD in 2012 (231 million USD in 2011). In the first place, ammonia production grew in volume compared to the previous year mainly due to the acquisition and consolidation of Minudobrenia, OJSC, which increased the production of ammonia by 8%. This made URALCHEM Russia's top producer of ammonia in 2012. In the second place, in 2012 prices for ammonia increased by 5.2% contributing to the impressive growth of revenue from this product group.

IN MILLION USD	2012	2011	GROWTH RATE	STRUCTURE IN 2012
<b>REVENUE BY PRODUCT:</b>	<b>2,423</b>	<b>2,080</b>	<b>16%</b>	<b>100%</b>
<b>FERTILIZERS</b>	<b>2,333</b>	<b>1,998</b>	<b>17%</b>	<b>96%</b>
Mineral fertilizers	1,889	1,692	12%	78%
Ammonia	359	231	55%	15%
Non-organic acids	33	29	14%	1%
Other fertilizers	52	46	13%	2%
<b>OTHER REVENUE</b>	<b>90</b>	<b>82</b>	<b>10%</b>	<b>4%</b>

IN 2012, THE TOTAL URALCHEM REVENUE INCREASED BY 16% COMPARED TO THE PREVIOUS YEAR AND AMOUNTED TO **2,423** MILLION USD

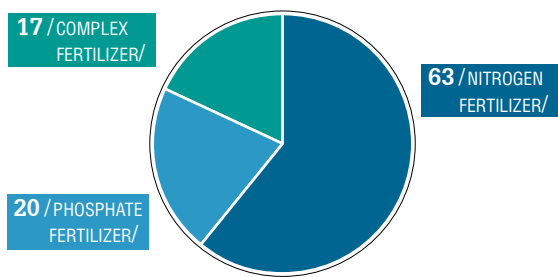
IN 2012, DOMESTIC SALES IN THE RUSSIAN FEDERATION INCREASED BY **22%**

URALCHEM's revenues from other activities increased by 10% in 2012 and amounted to 90 million USD (82 million USD in 2011). Sales of electric power account for 61% of other revenue. Revenue from this type of service increased by 15% year-on-year up to 55 million USD because of higher prices of energy resources. Transportation services also contributed to increase in revenue (by 31% up to 4.6 million USD). the revenue from rendering construction and repair services hardly changed. the revenue from waste water treatment decreased (by 24% to 3.7 million USD).

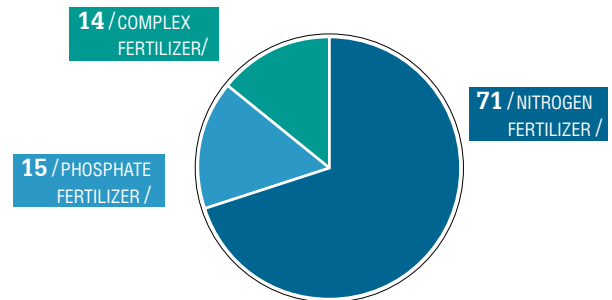
In 2012, domestic sales in the Russian Federation increased by 22%. the sales growth was reached due to both the addition of Minudobrenia, OJSC customers to the portfolio of clients and higher effectiveness of customer relations in the domestic market on the basis of the Trading House URALCHEM, LLC. the share of domestic sales amounted to 22% by the end of the year. Sales increase in the industrial consumption market of the Russian Federation is one of the priority objectives of URALCHEM's selling policy.

In terms of sales geography, in 2012 there were no significant changes. Export to non-CIS countries still accounts for the largest share of sales – 71%. This segment generated 1,651 million USD of revenue in 2012 (+15% to the level of 2011). Export to the CIS countries increased by 16% compared to 2011, and its share in the revenue amounted to 7%. the Company exports its products to dozens of countries all over the world including Brazil, Mexico, Peru, Great Britain, Ireland, Lithuania, Latvia, the Ukraine, etc.

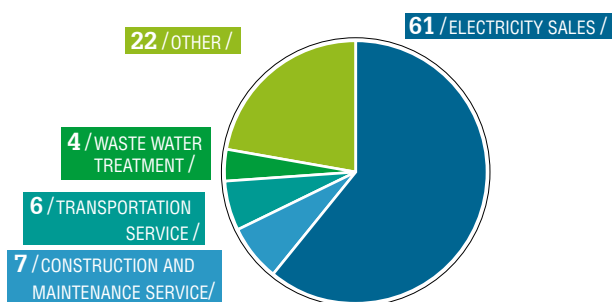
STRUCTURE OF MINERAL FERTILIZER SALES IN 2011, %



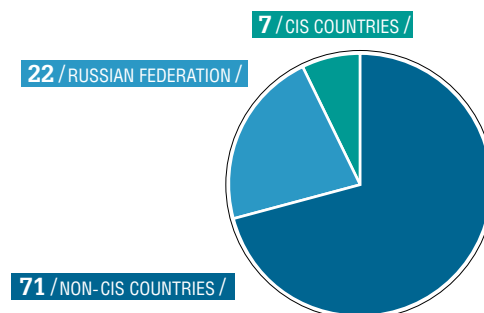
STRUCTURE OF MINERAL FERTILIZER SALES IN 2012, %



STRUCTURE OF OTHER REVENUES OF URALCHEM IN 2012, %



STRUCTURE OF URALCHEM'S REVENUE BY GEOGRAFICAL SALES IN 2012, %





## COST OF PRODUCTION

IN MILLION USD	2012	2011	GROWTH RATE	STRUCTURE IN 2012
<b>COST:</b>	<b>1,023</b>	<b>868</b>	<b>18%</b>	<b>100%</b>
Raw materials	650	542	20%	64%
Energy	141	134	5%	14%
Labor	117	102	15%	11%
Depreciation	78	69	13%	8%
Repairs	8	7	14%	1%
Other	29	14	107%	2%

In 2012, cost of production increased by 18% compared to the same period in 2011 and amounted to 1,023 million USD (868 million USD in 2011). This growth was due mainly to the increased expenditures for raw materials (by 20%) which account for 64% of the total production cost. The main raw materials for fertilizer production are natural gas, phosphate rock, potassium chloride and sulphur. More than 70% of raw materials are purchased at the prices set by Russian enterprises-monopolists, and therefore the URALCHEM's ability to control these costs is limited. In 2012, the prices for almost all of the above raw materials went up. Nevertheless, the Company does its best to hedge the risks of price increase for raw materials. For example, long-term contracts with the suppliers of all main raw materials have been concluded.

IN MILLION USD	2012	2011	GROWTH RATE
<b>Raw materials costs in the cost structure</b>	<b>650</b>	<b>542</b>	<b>20%</b>
Natural gas	359	286	26%
Phosphate rock	152	134	14%
Potassium chloride	46	28	64%
Sulphur	24	33	-27%
Other	69	61	13%

- > The main raw material used for fertilizer production is natural gas which accounts for the largest share in the cost structure (35%). The total expenditures to purchase natural gas increased by 26% in 2012. The natural gas prices go up annually affecting the amount of URALCHEM's expenditures. In 2012, the purchase price of natural gas increased by 6% compared to 2011. Besides, the natural gas consumption increased within the Group in general. This is due to the acquisition and consolidation of Minudobrenia, OJSC. URALCHEM is actively working to decrease the specific rate of natural gas consumption by the Group's enterprises. For instance, in 2013 at Minudobrenia the ammonia installation is planned to be re-equipped, namely, a synthetic gas drier is to be built and a synthetic gas compressor turbine is to be upgraded, resulting in significant decrease in gas consumption.
- > The expenditures to purchase phosphate rock, another essential component for fertilizer production, increased by 14% in 2012. That was due to both the contract prices for apatite increased by 12% by the end of

the year and a slightly bigger consumption of this raw material (by 0.3% by the end of the year).

- > The expenditures for potassium chloride accounted for the biggest increase in 2012 - by 64%. In the first place, the contract prices for potassium demonstrated very high growth rate – by the end of the year the annual increase amounted to 39% (2011 – 6,212 rubles / metric tonne, 2012 – 8,625 rubles/metric tonne). In the second place, potassium consumption increased by 18% compared to 2011, due to changed structure of the product portfolio referred to in the Revenue Section (production growth of highly profitable products with high potassium content).
- > By contrast, the expenditures for industrial sulphur fell by 27% due to the drop in prices in the world sulphur market – by the end of the year, the contract price of this raw material purchased by the Group's enterprises fell by 27%. The sulphur consumption volume remained practically unchanged.

The next most important production cost item is electric power expenditures. The growth of this expenditure item in 2012 amounted to moderate 5%, mainly due to the increase in prices of energy resources by 3% compared to 2011. URALCHEM takes a number of measures to introduce energy efficiency technologies in order to control the growth of energy consumption rates. In 2012, for example, a number of thermal power metering devices and regulators were installed; induction electric power meters were replaced with multifunctional electronic meters; 1,000W incandescent lamps were replaced with industrial induction lighting fixtures; and LED lighting replaced mercury arc lamps.

Direct expenditures for labor affecting the URALCHEM's production cost increased by 15% in 2012 compared to 2011. Two factors can be singled out to have caused the increase in expenditures for labor:

- > Acquisition of Minudobrenia, OJSC which increased the overall URALCHEM headcount by 1,086 employees.
- > Increased labor compensation due to paycheck indexation as of July 1, 2012, as well as due to differentiated increase in wages of the Group's employees based on the analysis of the regional and industrial labor markets in 2012.

After the consolidation of Minudobrenia, OJSC's assets in 2012, which led to increase in URALCHEM's depreciable assets, the expenditure for depreciation

TOTAL FIXED ASSETS OF THE COMPANY AT THE END OF THE YEAR AMOUNTED TO MORE THAN

**992**  
MILLION USD.

URALCHEM'S GROSS PROFIT INCREASED BY

**16%**  
IN 2012

increased by 13%. In general, total fixed assets of the Company increased by 60% to more than 992 million USD.

Expenditures for repair works ascribable to the cost of production increased by 14% in 2012. It was a scheduled and fully controlled increase. the acquisition of Minudobrenia, OJSC required additional financing for repair works to maintain the production facilities and to stabilize the production process. Besides, a large-scale repair campaign at the other enterprises of the Group was launched in order to upgrade equipment, thus substantially increasing the production efficiency.

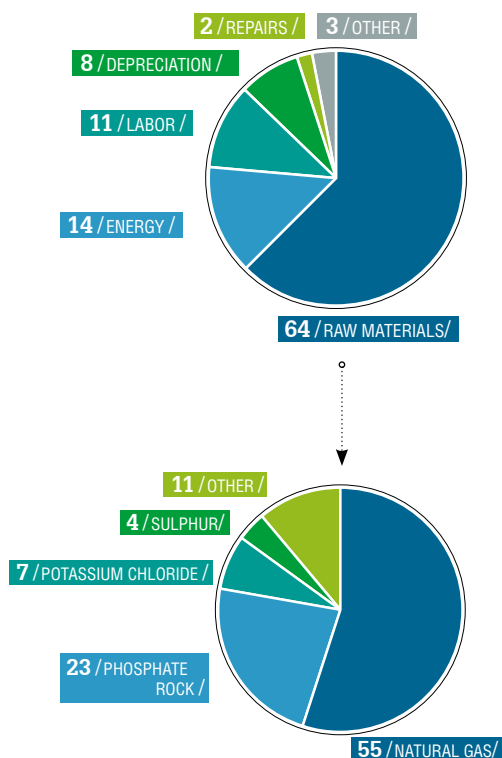
In general, the Company's cost of production has been growing at about the same rate as the revenue which eventually resulted in growth of URALCHEM's gross profit by 16% compared to 2011, to 1,400 million USD (1,212 million USD in 2010). the gross profit margin remained at the level of 2011 and amounted to 58%.

## SELLING, ADMINISTRATIVE AND OTHER OPERATING EXPENSES

In 2012, selling, administrative and other operating expenses of URALCHEM increased by 21% from 552 million USD to 667 million USD. Selling expenses account for three quarter of this amount and increased by 12% to 498 million USD in 2012 (443 million USD in 2011).

Selling expenses grew mainly due to increased transportation costs (84% in the structure of selling expenses). Transportation costs increased by 10% compared to 2011 because of the annual indexation of rail rates (+7% year-on-year as of January 1, 2012) and due to increased cost of rolling stock leasing (+24% year-on-year for gondola cars, +10% for open-top cars, +42% for box cars). Besides, higher total volume of transportation due to the acquisition of Minudobrenia, OJSC also contributed to the growth of expenses. the Company has been systematically strengthening

### COST STRUCTURE OF URALCHEM IN 2012, %



IN MILLION USD	2012	2011	GROWTH RATE
<b>SELLING, ADMINISTRATIVE AND OTHER OPERATING EXPENSES</b>	<b>667</b>	<b>552</b>	<b>21%</b>
including			
Selling expenses	498	443	12%
Administrative expenses	136	119	14%
Other operating expenses/(income)	33	-10	430%
Selling, administrative and operating expenses to revenue	20%	27%	-

IN MILLION USD	2012	2011	GROWTH RATE
<b>ADMINISTRATIVE EXPENSES</b>	<b>136</b>	<b>119</b>	<b>14%</b>
Labor	77	67	15%
Depreciation	10	7	43%
Audit and consulting services	9	8	13%
Leasing	4	3	33%
Security	4	3	33%
Others	32	31	3%

the logistics security through expansion of its own rail car fleet and construction of a transshipment terminal in Riga. Development of transport infrastructure will help optimizing logistics expenditures and, above all, increasing reliability of the Company's existing product flows and minimizing the influence of brokers on the final price of URALCHEM's products.

Apart from the transportation expenses, expenditures for personnel involved in selling (+29%), depreciation (+25%), advertising and marketing (+25%) also increased. Growth of all these expenditures was mainly due to acquisition of Minudobrenia, OJSC. Customs duty expenses decreased by 33%, due to changes in custom rates pursuant to the Decree of the Government of the Russian Federation N°88 of 06.02.2012.

Administrative and management expenses of URALCHEM grew mainly due to increase in personnel expenses which amount to 57% in the structure of this type of expenses. Acquisition of Minudobrenia, OJSC and paycheck indexation affected the allocations for labor compensation for managerial personnel. In 2012, top-management of Minudobrenia, OJSC, and Azot Branch was consolidated predetermining significant synergetic effect in the medium term, particularly in the form of reduced administrative expenses in the Group on the whole.

IN MILLION USD	2012	2011	GROWTH RATE
<b>SELLING EXPENSES</b>	<b>498</b>	<b>443</b>	<b>12%</b>
Transportation	416	378	10%
rail rate	210	181	16%
freight and transshipment	138	139	-1%
rail car lease	44	40	10%
others	24	18	33%
Labor	27	21	29%
Depreciation	15	12	25%
Advertising and marketing	10	8	25%
Customs duties	2	3	-33%
Other	28	21	33%

IN MILLION USD	2012	2011	GROWTH RATE
<b>OPERATING PROFIT</b>	<b>734</b>	<b>659</b>	<b>11%</b>
Operating profit margin	30%	32%	-2%
<b>ADJUSTED EBITDA</b>	<b>839</b>	<b>750</b>	<b>12%</b>
Adjusted EBITDA margin	35%	36%	-1%
<b>NET PROFIT</b>	<b>665</b>	<b>445</b>	<b>49%</b>
Net profit margin	27%	21%	+6%

It is noteworthy that the increase in selling and administrative expenses is partially connected with growth in sales volume. At that, while there is a direct correlation in case of selling expenses, such a correlation in administrative expenditures manifests itself to a lesser extent.

Despite the increase, compared to 2011 the ratio of overhead costs to URALCHEM's revenue hardly changed and amounted to 28%.

## PROFIT FIGURES

In 2012, the Company's operating profit increased by 11% to 734 million USD (659 million USD in 2011). EBITDA margin for 2012 amounted to 839 million USD, which was 12% higher than in 2011 (750 million USD). The level of profit margin of both of these indicators remained almost unchanged and amounted to 30% and 35% respectively.

In 2012, the Company managed to significantly increase its net profit – by 49% up to 665 million USD (445 million USD in 2011). This result was entailed by the following factors:

- > Acquisition of Minudobrenia, OJSC – its share in the consolidated profit amounted to 18% (121 million USD).
- > Decrease in debt interest payments by 38 million USD after a significant debt portion was repaid at the end of 2012.
- > Increase in financial income of 9.6 million USD mainly due to dividends received from Togliattiazot, OJSC.
- > 153.5 million USD of additional income from re-evaluation of the previously acquired share in Minudobrenia, OJSC due to increase of ownership stake from 46.5% to 100%.
- > 56.5 million USD from foreign exchange gains, while in 2011 the effect of the exchange difference was negative (39 million USD).
- > Decrease in the effective tax rate.

In 2012, net profit margin increased by 6% and amounted to 27%. Earnings per share grew by 48% and amounted to 3.7 USD compared to 2.5 USD in 2011.

## DEBT BURDEN

IN MILLION USD	2012	2011	GROWTH RATE
Long-term borrowings	850	792	7%
Short-term borrowings	92	338	-73%
Long-term finance lease liabilities	48	40	20%
Short-term finance lease liabilities	18	13	39%
<b>TOTAL DEBT, INCLUDING:</b>	<b>1,008</b>	<b>1,183</b>	<b>-15%</b>
In Foreign currency	972	960	-1%
In Russian Rubles	36	223	-84%
<b>NET DEBT</b>	<b>830</b>	<b>931</b>	<b>-11%</b>
Interest paid	76	115	

**THE COMPANY HAS A REPUTATION OF A RELIABLE BORROWER WHICH HELPS KEEP  
EFFECTIVE PARTNERSHIP RELATIONS WITH CREDIT ORGANIZATIONS AND MAINTAIN  
BENEFICIAL CREDIT TERMS FOR PROJECTS LENDING.**

During 2012, URALCHEM has continued restructuring its credit portfolio. At the end of the year, the Company managed, inter alia, to refinance a significant part of its liabilities incurred during the crisis due to obtaining a new five-year syndicated credit from the banks' pool on more beneficial terms: total credit value in USD equivalent - 220 million, Eurolibor 1-month rate +4.25%. That resulted in repayment of a considerable part of its short-term financial liabilities, while their total amount decreased by 69% to 110 million USD. the long-term financial liabilities increased by 8% to 898 million USD. the Company's total debt as of December 31, 2012 amounted to 1,008 million USD which is by 15% less than at the end of 2011.

The debt refinancing resulted in significant decrease of interest payments and in the improved cash flow of the Company, the released cash flow may consequently be used to realize URALCHEM's strategic objectives: increase in investments, overhaul repairs, etc. Besides, in the course of debt refinancing, the Company managed to release its assets and shares previously pledged as collateral.

As a result, long-term financial liabilities with fixed long-term conditions accounted for 89% of the Company's debt, while short-term liabilities accounted only for 11% in 2012. This will allow the Company to accurately forecast future cash flows, the foreign currency component of the debt also considerably increased. By the beginning of May 2013, nearly 100% of credits were denominated in foreign currency, including 27% in euro. In 2011, the ratio was 84% (in foreign currency) to 16% (in rubles). It is due to the fact, that the ruble credits were repaid within the year, and the new credit was received in euro. Such a step allowed to optimize the credit portfolio harmonizing it with the Company's revenue structure, since nearly 15% of URALCHEM's sales take place in the European market.

URALCHEM's net debt to EBITDA margin ratio was 1.0 by the end of 2012. In 2011, it was 1.2 and more than 4 a year earlier.

The average effective interest rate for credits decreased from 5.9% to 5.2% per annum in 2012. As the debt service cost decreased, interest expenses fell by 34% from 115 million USD to 76 million USD in 2012.

Despite the comfort debt level in the medium term, the Company intends to continue reducing its debt burden and optimizing its credit portfolio. the Company has a reputation of a reliable borrower which helps keep

effective partnership relations with credit organizations and maintain beneficial credit terms for projects lending.

## CASH FLOW

IN MILLION USD	2012	2011	GROWTH RATE
Cash flow from operating activities (before income tax and interest paid)	848	713	19%
Cash flow from operating activities	669	523	28%
Cash outflow from investing activities	-390	-57	584%
Cash outflow from financing activities	-365	-256	43%
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVA- LENTS</b>	<b>-86</b>	<b>210</b>	<b>-141%</b>
Cash and cash equivalents at the begin- ning of the year	253	46	526%
Effect of exchange rate change	11	-3	467%
<b>CASH AND CASH EQUIVA- LENTS AT THE END OF THE YEAR</b>	<b>178</b>	<b>253</b>	<b>-30%</b>

In 2012, the operating cash flow before income tax and interest paid increased by 19% up to 848 million USD mainly due to increased net profit (for reasons for the increase see Profit Figures Section). Total cash flow from operating activities increased by 28% from 523 million USD to 669 million USD due to decreased cash outflow from working capital financing compared to 2011, and due to reduced interest payments for credits and decreased effective tax rate.

In 2012, cash outflow from investing activities increased almost sevenfold to 390 million USD (57 million USD in 2011). the considerable outflow increase was due to the implementation of the large-scale long-term investment program which includes the construction of the terminal in Riga, replacement of worn-out and outdated equipment at the Group's enterprises, investment into production of new, highly profitable products at the Voskresensk Mineral Fertilizers, OJSC and MFP KCCW, OJSC production facilities, re-equipment of ammonia installations at Minudobrenia, OJSC, etc. In 2012, total cash flow from the investments into fixed and intangible assets increased by 50% compared to the figures in 2011 and amounted to 164 million USD (109 million USD in 2011). Besides, in 2012, 229 million USD was invested into acquisition of the subsidiaries' equity shares (repayment of the second tranche

for the acquisition of 100% of shares and debt repayment for the previously acquired stake in Minudobrenia, OJSC) compared to 28 million USD as an advance payment for the acquired stake in Minudobrenia, OJSC in 2011.

In 2012, cash outflow from financing activities was registered in the amount of 365 million USD (256 million USD in 2011). This outflow was due to repayment of credit debts, increase of ownership interest in the subsidiaries as well as dividend payout in the amount of 63 million USD compared to 16 million USD of dividends paid in 2011.

The cash flows described above resulted in net decrease in cash and cash equivalents to 86 million USD in 2012 compared to net increase of 210 million USD in 2011. Cash and cash equivalents balance on bank accounts amounted to 178 million USD at the end of the year.

## BALANCE SHEET

By the end of 2012, the Company's total assets amounted to 2,175 million USD which is 24% more than in 2011 (1,755 million USD).

Non-current assets of the Company increased by 38% to 1,600 million USD (1,162 million USD in 2011). Mainly, it was entailed by increase in the value of fixed assets by 60% from 619 to 992 million USD, primarily due to consolidation of 100% of shares of Minudobrenia, OJSC in URALCHEM's ownership. the share of non-current assets of the Company in total assets increased from 66% in 2011 to 74% by the end of 2012.

Current assets decreased by 3% to 575 million USD in 2012. the decrease took place due to reduced volume of cash and cash equivalents on the Company's accounts – by 30% up to 178 million USD. the decrease occurred because the outflow from financing and investing activities was defrayed. Inventories increased by 34% to 143 million USD, the accounts receivable grew by 7% to 95 million USD, and advances paid and prepaid expenses rose by 10% to 45 million USD.

The Company's equity increased threefold from 324 to 924 million USD in 2012. the increase in equity was affected by the growth in retained profit of the Company by 224% to 813 million USD (251 million USD in 2011). the equity surplus remained unchanged at 166 million USD. the share of equity in the Company's total balance amounted to 42% by the end of 2012 demonstrating high equity ratio.

The Company's comprehensive liabilities decreased by 13% to 1,251 million USD in 2012 (1,431 million USD in 2011). Long-term and short-term liabilities declined by 11%, while short-term liabilities decreased by 51%. Such dynamics was mostly due to restructuring of the Company's credit portfolio at the end of the year which was described in detail in the Debt burden Section. At the same time, the decrease of the comprehensive liabilities was also affected by reduction of accounts payable by 36% to 75 million USD compared to 2011. As a result, the Company's accounts payable to accounts receivable ratio decreased from 1.3 to 0.8 in 2012, i.e. this ratio is currently in favor of the Company.

The consolidated IFRS financial statements of the Group for the year of 2012 are available in the To Shareholders and Investors Section on the website at the following url: [http://www.uralchem.com/eng/investors\\_and\\_shareholders/](http://www.uralchem.com/eng/investors_and_shareholders/)

IN MILLION USD	2012	2011	GROWTH RATE	STRUCTURE IN 2012
<b>Comprehensive assets, including:</b>	<b>2,175</b>	<b>1,755</b>	<b>24%</b>	<b>100%</b>
Non-current assets	1,600	1,162	38%	74%
Current assets	575	593	-3%	26%
<b>Equity, including:</b>	<b>924</b>	<b>324</b>	<b>186%</b>	<b>42%</b>
Retained profit	813	251	224%	37%
Equity surplus	166	166	-	8%
<b>COMPREHENSIVE LIABILITIES</b>	<b>1,251</b>	<b>1,431</b>	<b>-13%</b>	<b>58%</b>
Long-term liabilities	986	891	11%	45%
Short-term liabilities	265	540	-51%	12%
<b>EQUITY AND LIABILITIES</b>	<b>2,175</b>	<b>1,755</b>	<b>24%</b>	<b>100%</b>

# DEVELOPMENT STRATEGY

## KEY PROVISIONS OF THE STRATEGY

**URALCHEM** – is one of the largest chemical companies in the Russian Federation with the second rank in production volume of nitrogen fertilizers in the country. In 2012, the Company adopted the medium-term strategy for three years, aiming to strengthen the leading positions of URALCHEM in the industry and ensure dynamic mid-term development of the Company.

The strategy outlines the key production and managerial objectives of the Company as well as its social policy, corporate governance and planned investment volume.

The main strategic goal of URALCHEM is to achieve the leading position in the nitrogen fertilizer segment in the Russian Federation, and increase total commercial output to 6.5 million tonnes by 2015. To achieve the intended goals, the Company intends to use all advantages of its integrated business model and sets the strategic goals as follows:

### 1. INCREASE IN THE PRODUCTION VOLUMES THROUGH ORGANIC GROWTH OF OUTPUT AT THE GROUP'S ENTERPRISES, I.E. BY:

- > Increase in productivity of existing equipment
- > Minimizing failures and production downtime
- > Decrease in raw materials consumption rates, and first of all those of natural gas.

The stated objectives are planned to be achieved through the reconstruction of the existing equipment: ammonia, nitric acid, ammonium nitrate, urea and sodium nitrate installations. All the above projects are highly efficient, with payback period from two to five years. The total investment will amount to about 8.7 billion rubles over the next five years. It will make it possible to achieve the annual growth of commercial output of 2-3% along with decrease in the raw material consumption.

The introduction at the production facilities of "1S Klever" integrated system with "1S:TOiR" (maintenance and repair) and "1S:ZUP" (salary and personnel

management) is also expected, in order to ensure higher quality of planning, control and analysis of repair works.

### 2. EFFECTIVE COST MANAGEMENT:

- > Introduction of 1S:TOiR and 1S:ZUP system (maintenance and repair)
- > Increase in personnel performance
- > Introduction of operational effectiveness management technologies

First of all, the growth of productivity and reduction of specific operating costs will be possible after investments in equipment reconstruction and introduction of 1S:TOiR and 1S:ZUP system, as it was mentioned above. Apart from that, the Company intends to continue working on reducing costs of power consumption by introducing energy saving technologies in order to control the power consumption rates. New power metering devices will be installed, the replacement of meters and lamps with more advanced and efficient ones will go on.

The experts of the Group's commercial services keep working on reducing the cost of raw materials for fertilizer production, which includes:

- > Monitoring of the pricing environment in main raw material markets with a view to immediately responding to changing circumstances;
- > Interaction with suppliers looking for the optimal terms of supply;
- > Practice of entering into long-term contracts for supply of key raw materials required for production;
- > Introduction of a uniform system for procurement planning.

An URALCHEM project to set up a system of annual procurement planning was launched in 2012. Procurement planning for strategic raw materials is already going on, and purchases of auxiliary raw materials (special steel, catalysts, sulphuric acid) are consolidated within the framework of this project. Besides, MS Project file "Significant events with long period of realization and inventory supply" which allows to line-up for heavy-duty equipment, was introduced.

Optimization of expenditures for labor compensation is an important part of the cost management policy. The Company is constantly searching for new schemes of personnel work optimization. Incidentally, the Minudobrenia and Azot Branch management consolidation which began in 2012 will allow in the medium term to reduce managerial costs for the Group in general.

### 3. INCREASE IN SALES EFFECTIVENESS:

- > Increase in sales through direct selling and distributors
- > Focus on sales to final customers in the domestic market
- > Increase in sales of premium products including sales outside the Russian Federation
- > Additional services to customers

The Company aspires to stay closer to its clients increasing the share of direct sales to final consumers in the structure of revenue. Such approach will allow establishing stronger ties with major industrial clients, increase the efficiency of cooperation with them and be better informed about their needs. All this will make it possible to form more loyal attitude of clients towards the Company's products and receive additional competitive advantages.

It is also planned to enhance sales in the niche of premium products – highly profitable fertilizers, designed for specific crops, soil types and climatic zones. They are NPK/NPKS, CAN/CNS, NS, SAN fertilizers, special types of nitrates and urea, line of water-soluble fertilizers including potassium nitrate, water-soluble MAP, complex grades. The Company intends to intensify cooperation with local distributors with regard to the niche products.

Next year it is planned to introduce anhydrous sodium nitrate (at MFP KCCW production facilities) and water-soluble monoammonium phosphate (at VMF production facilities) to the market. Besides agriculture, these products will find wide application in other sectors of economy: construction, oil, and steel industries. The water-soluble fertilizers will be promoted to the market under the new specially designed SOLAR umbrella brand.

Besides, the Company is actively involved in testing technologies to extract rare-earth metals from phosphogypsum – a phosphoric acid waste product. There is a pilot installation at Voskresensk Mineral Fertilizers, OJSC that allows to extract annually 1.7 tonnes of rare-earth metals. A high-capacity installation for phosphogypsum processing is planned to be commissioned late in 2015/early 2016.

### 4. ENSURING LOGISTICS SECURITY IS ONE OF THE COMPANY'S PRIORITY OBJECTIVES WHICH WILL BE REACHED IN THE TWO KEY WAYS:

- > Provision of railway logistics through URALCHEM-TRANS
- > Commissioning and further development of the port terminal in Latvia

URALCHEM together with SIA Rīgas tirdzniecības osta participate in the construction of its own port terminal (capacity: two million tonnes) in Riga for transshipment of bulk fertilizers.

Commissioning of the terminal should be one of the most important events for the Company in 2013. It will both enhance the efficiency of shifting

the Company's export commodity flows and increase the Company's rolling stock turnover by 15%.

With a view to developing railway logistics, taking into account the planned increase in production and expansion of sales geography, the Company intends to continue increasing its own rolling stock fleet through its subsidiary transport Company URALCHEM-TRANS LLC (by 300-400 rail cars a year). The main focus will be on modern rolling stock consisting of gondola cars, open-top wagons, box cars and tank-cars. The priority target is to increase the share of own rolling stock in the total rail car fleet.

The consolidation of railway facilities of all the Company's assets into a single structure of URALCHEM-TRANS will be completed in 2013 by inclusion of the PMU's railway facility.

Thus, having its own rail car fleet and port facility URALCHEM will not only better foresee the expenditures for the whole transport chain but will also be able to reduce the transportation expenditures.

### 5. IMPROVEMENT OF HUMAN RESOURCES MANAGEMENT THROUGH:

- > Retentions of skilled personnel
  - improved system of bonuses, compensation and benefits;
  - personnel development;
  - creation of personnel reserve;
- > Recruitment of experienced personnel
  - working out a program to increase a share of young employees in the Company;
  - working out and realization of programs to provide housing for non-resident and key employees;
  - cooperation with the Universities of the same specialization, realization of the "School-University-Plant" project.

In 2013-2015, the programs of personnel training and professional development contributing to the creation of the Company's human resources reserve will continue. Special attention will be paid to the development of employees' motivation programs.

Personnel development will be realized in the following directions: retraining, related profession training and advanced training. Special focus should be on young specialists' training. It is planned to increase the number of URALCHEM partnership programs with secondary and higher educational establishments which offer employer-sponsored training of highly professional specialists.

Employee's motivation is an integral part of human resources management policy of the Company. It is planned to develop and improve incentive schemes for employees as well as additional measures for motivation – sports and leisure events, medical service, home buyers' assistance, financial aid etc.

## 6. DEVELOPMENT OF THE GROUP'S OPERATING MODEL IN TWO DIRECTIONS:

- > Centralization of certain functions – establishment of the United Service Center.
- > Evaluation of outsourcing possibilities based on the experience of comparable companies.

Development of the Company's management efficiency in the context of growing business scale will continue in the near future. One of the project in this field deals with establishment of the United Service Center which will allow centralizing a number of functions that are common to all enterprises. At the first stage, the United Service Center will provide all enterprises of the Group with centralized services in the field of finance and IT. Later, its functions are to be expanded.

Another important project that focuses on the Company's business processes optimization is organization of a supply system which will embrace all the Company's plants and its head office. Such system will allow to streamline and generalize the processes of product purchase/services planning in the Company. In the following years, it may result in higher sales efficiency including through cost reduction.

The search for new possibilities for outsourcing and evaluation of their effectiveness for the Company will continue during each year of the projected period. The goal of URALCHEM experts is to use advanced international practices, simplify and unify the business processes of all the Group's sites, improve inter-functional cooperation.

It is noteworthy that URALCHEM plans to realize the above goals using its own resources through profit growth, without resorting to large loans and IPO proceeds. Moreover, the strategic goal for 2013-2015 is the reduction of the debt burden.

## RISK MANAGEMENT SYSTEM

URALCHEM's activities are subject to a number of risks, both macro- and microeconomic. The Company takes step-by-step decisions to develop an effective system of risk management aimed at providing sufficient level of confidence in accomplishing strategic and operational objectives, as well as protection against possible losses.

### INDUSTRY RISKS

Main Company's industry risks are associated with possible deterioration of the situation in the field of mineral fertilizers. Prices for fertilizers as well as demand in domestic and external markets depend on many factors and directly affect the financial performance of the Company. In 2012, the market environment was complicated, but thanks to the competent and flexible risk management, the Company managed to improve the key financial, economic and production figures by the end of the year.

Below, the industry risk factors which may have significant impact on the Company's performance, as well as the mechanisms to affect these factors available to URALCHEM are presented:

RISK FACTOR	RISK PROBABILITY	URALCHEM RISK MANAGEMENT POLICY
Reduction of world market prices for mineral fertilizers	Medium	<ul style="list-style-type: none"> <li>&gt; The Company cannot affect the world market prices for fertilizers. However, a diversified structure of sales by product type and geographical distribution is intended to mitigate the dependence on price volatility in the world fertilizer market.</li> <li>&gt; The Company is capable of altering sales structure in favor of this or that product, and can sell its products in the markets of different countries.</li> <li>&gt; In case of steep fall in prices everywhere the Company will pursue a policy of costs optimization.</li> </ul>
Domestic price control for fertilizers by the Government (Russian Association of Fertilizer Producers)	Medium	<ul style="list-style-type: none"> <li>&gt; Diversification of domestic sales structure. In case forced price formation hostile for Russian agricultural producers, the Company will be forced to reorient the sales in favor of both industrial enterprises and export markets.</li> <li>&gt; The production growth of premium products whose prices are not subject to price control and profit margin of sales is high, will allow to compensate for shortfall in income due to Government control.</li> </ul>
Sharp rise in expenses for railway transportation and fertilizer transshipment	Medium	<ul style="list-style-type: none"> <li>&gt; Risks of growth of transportation expenses have been diversified through the expansion of the rail car fleet of URALCHEM-TRANS, LLC, thereby reducing the dependence on third-party rail car owners. There were about 8.5 thousand rail cars under the Company's management in January, 2013. In the medium term it is planned to purchase 300-400 rail cars annually, reducing the number of leased ones.</li> <li>&gt; As regards the supplies by rail not provided by own rail car fleet, the Company has been pursuing a purposeful policy of leasing rail cars from independent carriers.</li> <li>&gt; Risks of tariff growth on transshipment in ports will be significantly reduced through the development of its own port infrastructure (URALCHEM participates in the construction of a fertilizer terminal in Riga for transshipment of bulk fertilizers with capacity of two million tonnes. It is expected to be commissioned in the fall of 2013).</li> </ul>



RISK FACTOR	RISK PROBABILITY	URALCHEM RISK MANAGEMENT POLICY
Sharp rise in prices for raw materials for fertilizer production	Medium	<ul style="list-style-type: none"> <li>&gt; Prices for critical raw materials for fertilizers are set by Russian monopolist companies. Those are natural gas, electric power, phosphate rock, potassium chloride.</li> <li>&gt; URALCHEM has no opportunity to directly affect the prices for raw materials. This risk can be mitigated in the following ways: <ul style="list-style-type: none"> <li>– signing long-term contracts with raw material suppliers stipulating the transparent pricing mechanism;</li> <li>– reduction of resource consumption rates through re-equipment of production facilities, introduction of power efficient technologies, acquisition of advanced equipment.</li> </ul> </li> </ul>
Decrease in the Russian sea ports carrying capacity which may result in interruptions of export supplies	Medium	<ul style="list-style-type: none"> <li>&gt; Construction of its own fertilizer terminal in Latvia will allow ensuring the effectiveness of URALCHEM Group's products export flows.</li> </ul>
Slowdown in economic activities in the agricultural sector being the main fertilizer consumer	Low	<ul style="list-style-type: none"> <li>&gt; The Company's actions in case of realization of this risk coincide with the actions, referred to in para. "Domestic price control for fertilizers by the Government (Russian Association of Fertilizer Producers)", i.e., reorientation of sales to export and to industrial enterprises of the Russian Federation.</li> </ul>
Slowdown in economic growth of the largest countries-consumers of fertilizers	Medium	<ul style="list-style-type: none"> <li>&gt; The Company has long-standing and strong partner relations with foreign contractors. Such partnership allows mitigating this risk.</li> <li>&gt; The realization of this risk may result in lower fertilizers prices in the world market, thereby affecting the Company's performance. URALCHEM's activities are described above in para. "Reduction of world market prices for mineral fertilizers" in this Table.</li> </ul>
Trade barriers to the Company's products introduced by other countries	Medium	<ul style="list-style-type: none"> <li>&gt; Trade barriers include anti-dumping duties, tariffs, quotas etc. Realization of this risk will place URALCHEM in an unequal position with regard to suppliers of other countries which are not subject to these barriers.</li> <li>&gt; Diversification of production, reorientation of supply to new markets not closed by barriers, as well as to the domestic market, where the Company has stable sales channels, can mitigate this risk.</li> </ul>
Harp rise in competition in the industry	Medium	<ul style="list-style-type: none"> <li>&gt; Realization of this risk is possible in case if the world fertilizer production capacities grow, especially in countries situated in the regions with low natural gas and other raw materials prices. Those are the countries of Middle East and Northern Africa.</li> <li>&gt; The fertilizer market in Russia is basically divided among several large companies. This is a capital-intensive industry and therefore a sharp increase in the number of new market players is hardly probable.</li> <li>&gt; URALCHEM's competitive advantages enabling it to control a substantial share of the market are as follows: <ul style="list-style-type: none"> <li>– Established over years solid reputation of a reliable fertilizer supplier.</li> <li>– Wide and well-balanced product line.</li> <li>– High production efficiency thanks to state-of-art equipment and introduction of new technologies.</li> <li>– Availability of its own rolling stock and the upcoming port infrastructure.</li> </ul> </li> </ul>

## COUNTRY AND REGIONAL RISKS

The production activities of the Company are concentrated in the territory of the Russian Federation, i.e., are subject to the risks related to the economic environment in Russia and in the world. Russia is part of the global economy and therefore negative changes in economies of other countries, and in the world commodity markets may result in slackening of Russian economic activity and worsening of its investment attractiveness. This, in its turn, may affect the financial performance of the Company because of the reduced demand for its products from potential clients, and limited access of the Company to borrowings at beneficial rates and in required amounts.

In 2012, the post-crisis recovery of the Russian and world economy has somewhat slowed down. Weak demand from the euro zone has adversely affected the world economy in general, and the developing markets in particular. In its turn, it limited the prices for raw materials which are the foundation of the majority of developing economies. the Russian economy was not an exception and has experienced a slowdown in the growth of key socio-economic figures. According to Rosstat

preliminary data, in 2012, the GDP growth in RF slowed down to 3.4% compared to more than 4% in 2011. the industrial production increased at an annual rate by 2.6% compared to 4.7% in 2011. the European Bank of Reconstruction and Development expects the Russian economy to grow by 3.3% in 2013 with the current trends remaining unchanged. Despite the slowdown, the growth rate of the Russian economy of 3-3.5% is a good result for the country in the context of budgetary control and accumulation of additional income in the Reserve Fund, alongside under slower growth rates of the world economy.

In mid-term, the world economy will still be subject to the following risks: budget deficit growth, debt burden in troubled European countries, cancellation of long-term stimulus programs in the US and other countries, lower industrial growth in China, higher volatility in commodity markets. 2013 is expected to be rather difficult for the world economy.

A new financial turmoil is possible, but its negative impact can be mitigated by measures taken by the governments and financial structures with a view to providing liquidity sufficient for overcoming the emerging problems.

The industrial enterprises making up the URALCHEM Group are pursuing their business in the territory of three regions: Perm, Kirov and Moscow regions. In Kirov region, the industrial production increased by 0.7% in 2012, the retail trade turnover increased by 7%, while the profit of medium-size and large companies in agricultural sector grew by 7.1%. In January-November of 2012, the average paycheck in the region grew by 14%, and the investment in fixed assets - by 23%<sup>1</sup>. In Perm region, the real paycheck of economically active people increased by 7.8% compared to 2011, the investment in fixed assets – by 4.2%, the profit in the sector of processing industry – by 11.8%, the retail trade turnover - by 2.8%<sup>2</sup>. the results of social and economic development of Moscow region were not published as of the date of this writing. However, traditionally Moscow region is considered to be one of the most promising regions with rapidly growing economy, and is the financial center of the Russian Federation.

The current social and economic policy of the Russian Federation geared at supporting agro-industrial complex makes it possible to come to

a conclusion about sufficiently high sustainability of the regions where the Company is present. the URALCHEM's policy of country and regional risk management is aimed at diversification of sales geography. Geographical diversity of consumers minimizes potential negative consequences of the economic risks. the broad sales geography enables the Company to minimize the impact of potential regional crises. the URALCHEM management has been constantly monitoring the situation in the countries of the Company's presence in order to take all possible negative changes of world market environment into consideration.

## FINANCIAL RISKS

The following financial risks which URALCHEM may face in future can be singled out:

### IMPACT OF FINANCIAL RISKS ON FINANCIAL STATEMENTS OF THE COMPANY:

RISK FACTOR	RISK PROBABILITY	URALCHEM RISK MANAGEMENT POLICY
Interest rates growth	Medium	Interest rate changes expressed in the cost increase of credit resources may result in higher financial expenditures (interest payable) and eventually, in decrease in the net income. the expenses for debt service will increase together with general growth of rates in the economy. Part of the Company's debt has a floating interest rate, and specifically the syndicated credit of 167 million USD taken out in 2012.
Increase of the exchange rate	Medium	Exchange rate fluctuations may also affect the financial performance of URALCHEM because the Company exports its products. the operating expenses of the Company are mainly nominated in rubles while the revenue - primarily in USD. the growth of the dollar rate is economically beneficial for URALCHEM for it contributes to the growth of profit figures. It should be noted that the exchange rate fluctuations are balanced by the foreign currency part of the borrowings.
Inflation growth	Medium	Inflation risks can affect the growth of the Company's prime costs, as well as result in reduction in the national currency's purchasing power. Such risks can hamper successful execution of investment and production program of the Company. On the other hand, the product selling price will increase which will cause the growth of revenue. the final effect on net profit will be determined depending on the ratio of revenue growth rate to cost of production growth rate.

**The URALCHEM financial risks management policy** includes constant monitoring and analysis of the situation in financial markets, as well as taking prompt managerial decisions based on the results of analysis: to review the structure of financing, to optimize expenses, to review investments, to work with accounts receivable turnover.

In case of significant inflation growth, the Company may reduce the amount and age of accounts receivable. But in case the interest rate growth risk realizes, the Company may begin looking for more advantageous credit sources outside of Russia. Besides, the Company strictly controls the net debt/EBITDA ratio. the admissible ratio is set at the level of 2, preventing excessive dependence on interest rates. Currency risks are diversified by allocating free cash in the stable hard currencies and by achieving a balance between the revenue structure and liabilities (gaining loans in the currency of revenue).

The Company is also engaged in mid- and long-term planning aimed at maximum control over potential risks. However, it should be noted that part of financial risks is beyond the Company's control because it depends on the economic situation in the country. In such case the Company's

goal can only be the most efficient adaptation to the changed business environment.

The URALCHEM's level of financial stability is high enough to overcome short-term negative economic changes. In case of economic instability which may negatively affect the Company's performance, a number of anti-crisis measures with a view to mobilizing business and mitigating negative impact on it, will be taken.

## LEGAL RISKS

Carrying out its financial and economic activities, URALCHEM is subject to risks related to changes in currency, tax, anti-monopoly legislation, customs and licensing regulations. Legal risks are mainly associated with changes in the Russian legislation governing the Company's activities.

> **Changes in foreign exchange control legislation.** Today, legal regulation of Russian foreign exchange control legislation has no strict administrative limitations. the Company is highly dependent upon foreign exchange control legislation. In order to avoid potential risks,

<sup>1</sup> According to data from the Government of Kirov region <http://www.kirovreg.ru>

<sup>2</sup> According to data from the Office of the Governor of Perm region <http://www.perm.ru>

the Company's legal department keeps a close watch on all changes in foreign exchange control regulations and their practical application. the probability of drastic changes in foreign exchange control regulations which would worsen the performance of URALCHEM's Group in the export markets is considered to be low.

- > **Risks of changes in tax legislation** Tax legislation of the Russian Federation is subject to frequent changes and allows for ambiguous interpretation of its individual provisions which may hamper tax planning and increase the risk of paying penalty fees. Possible changes in tax legislation leading to increase in the tax burden may result in higher Company's expenses for tax and obligatory payments thereby reducing profit and cash flow. the Company is engaged in effective tax planning and responds immediately to changes in tax legislation and its practical application in order to fully and adequately comply with its requirements.
- > **Changes in customs regulations, control and duties.** Taking into consideration the fact that a substantial part of the Company's products is exported, its activity is subject to customs regulations. Over the last years, a number of amendments were made in the Customs Code of the Russian Federation, and other documents related to customs clearance and establishment of the Customs union of Russia, Kazakhstan and Belorussia were adopted. There is a risk that possible changes in regulatory acts governing the rules of customs control and duties may result in decisions which may complicate customs declaring. To prevent the above risks, the Company monitors customs legislation and its practical application.
- > **Changes in requirements for licensing** of the core business or licensing of the rights to use property of limited transferability. There are no risks related to the lack of opportunity to extend the licensing of certain type of business, or to use property of limited transferability (including natural resources). In case of changes in requirements for licensing of business and the rights to use natural resources, the Company will do its best to comply with the requirements as amended.
- > **Changes in anti-monopoly legislation.** Over the last years, the Russian anti-monopoly legislation has been subject to significant changes. the Company conducts its business strictly in accordance with the requirements of Russian competition law. Besides, the Company

refrains from any actions which may limit competition in the Russian fertilizer market and adheres to fair and open competitive business practices. the probability of adverse consequences for the Company due to this risk is estimated as "minimal".

## RISKS RELATED TO ACTIVITIES OF THE COMPANY

### RISKS RELATED TO ANTHROPOGENIC ACCIDENTS, NATURAL DISASTERS AND JOB-RELATED ACCIDENTS.

The Company has been carrying out its production activities strictly in compliance with legislative rules and regulations and designs worked out by specialized engineering organizations. There are special divisions in the Company responsible for compliance with the safety regulations and conducting regular safety inspections; the employees take safety training and undergo regular medical check-ups.

### RISKS RELATED TO LITIGATIONS IN WHICH THE COMPANY IS INVOLVED.

Today, the Company is not involved in any litigation which might invoke significant expenditures and have substantial adverse impact on its performance. the Company closely monitors changes in judicial practices related to the Company's activities and promptly takes them into account. the risks associated with changes in judicial practices are evaluated as "low".

### RISKS RELATED TO A POTENTIAL LOSS OF MAJOR CLIENTS.

The Company has an extensive client base. There is no excessive dependency on one or several major clients. Besides, the Company has had long-term and well established ties with most of its major clients, therefore such risks are evaluated as "low".

### RISKS RELATED TO LIABILITY FOR THIRD-PARTY DEBTS.

Risk of holding URALCHEM UCC, OJSC liable for third party debts including the debts of its subsidiaries is minimal. the liability may arise only in cases stipulated by the legislation according to the established procedure, and the subsidiaries' own funds are sufficient to satisfy their payment obligations.

# CORPORATE GOVERNANCE

## KEY EVENTS IN THE FIELD OF CORPORATE GOVERNANCE OF URALCHEM GROUP IN 2012

### FEBRUARY

Andrey S. Pakhomenkov is appointed Chief Financial Officer of URALCHEM UCC, OJSC.

### MARCH

A representative office of URALCHEM UCC, OJSC in the Republic of Belarus is opened. Egeniy G. Shavel has been the head of the representative office since March 11, 2012.

### APRIL

Murad M. Chaparov is appointed Director of Azot Branch of URALCHEM UCC, OJSC since April 2, 2012.

Minudobrenia (Perm) Branch of URALCHEM UCC, OJSC is opened in Perm.

Sergey A. Drinevsky is appointed General Director of Voskresensk Mineral Fertilizers, OJSC effective April 2, 2012.

URALCHEM UCC, OJSC became the managing company for Minudobrenia, OJSC in accordance with the Agreement to delegate the powers of the sole executive body to a managing company (№D/O-204-12 of 28.04.2012).

### AUGUST

Murad M. Chaparov is appointed Director of Minudobreniya Branch of URALCHEM UCC, OJSC in Perm since August 1, 2012.

### OCTOBER

Svetlana V. Chekalova is appointed Director of Human Resources of URALCHEM UCC, OJSC.

### NOVEMBER

"The United Service Centre" Branch of URALCHEM UCC, OJSC is opened in Perm (USC of URALCHEM UCC, OJSC). Natalya V. Starikova is appointed Director of the Branch.

Grigory G. Popov is appointed director for business development in Minudobrenia (Perm) and Azot Branches since August 1, 2012.

## CORPORATE GOVERNANCE POLICY

The improvement of corporate governance is the most important part of URALCHEM Group business effectiveness. The corporate governance system is based on the rules of Russian legislation and tends to correspond to the requirements of international standards. High corporate governance standards adopted by the Company are designed to improve the process of managerial decision-making and to protect the rights and legitimate interests of the shareholders.

The corporate governance system of URALCHEM is based on the principles as follows:

- > Equal treatment of the Company's shareholders, observance of their legitimate rights and interests;
- > Effective system of internal control and audit;
- > Adequate level of information awareness and financial transparency of the Company;
- > Observance of the good corporate conduct standards.

The main documents in the field of corporate governance of URALCHEM UCC, OJSC are as follows:

- > The Articles of Association;
- > The Regulations on the General meeting of shareholders;
- > The Regulations on the Board of directors;
- > The Regulations on the committees of the Board of directors;
- > The Regulations on the Revision Commission;
- > The Regulations on the policy of internal control over financial and production activities;
- > The Regulations on the dividends policy;
- > The Regulations on the information policy;
- > The Code of corporate conduct.

The text of the above documents can be found at the Internet: <http://www.e-disclosure.ru/portal/company.aspx?id=12361> or on the Company's website in the "Shareholders and Investors" section: [http://www.uralchem.ru/rus/to\\_shareholders\\_and\\_investors/information\\_disclosure/uralchem/](http://www.uralchem.ru/rus/to_shareholders_and_investors/information_disclosure/uralchem/)

The Code of corporate conduct was approved and has been in force since 2008. It was worked out on the basis of the legal requirements and recommendations of the Federal Commission for the Securities Market (Directive N° 421/p of 04.04.2002).

## CORPORATE GOVERNANCE STRUCTURE

In accordance with the Russian legislation and the incorporation documents of the URALCHEM Group companies, a corporate governance system includes as a rule three levels:

- > The General meeting of the shareholders;
- > The Board of Directors;
- > The sole executive body (Chief Executive Officer/Director)

Depending on the form of business ownership, the highest executive body of the companies making up the Group is either the General meeting of the shareholders or the General meeting of the participants.

The general economic management of the Group's companies can be carried out by the Board of Directors which is elected in a joint stock company by the general meeting of the shareholders until the next annual general meeting or for a term specified in the articles of association in a limited liability company.

The sole executive body (Chief Executive Officer/Director) carries out day-to-day management of the Group's companies. The powers of the sole executive body can be delegated by agreement to a commercial organization (Managing company).

The mid-term priority for governing bodies is to provide the most effective management of the URALCHEM Group's companies, including production enterprises, trading and transport companies both in Russia and abroad.

## THE GENERAL MEETING OF SHAREHOLDERS

The general meeting of shareholders of URALCHEM UCC, OJSC is the supreme governing body. Procedures for the preparation, convocation, conduct and competence of general shareholders' meeting are set in the Articles of Association and the Regulations "On the General meeting of shareholders of URALCHEM UCC, OJSC", approved by the resolution of the annual general shareholders' meeting (Minutes No. 5 of June 3, 2008).

The general shareholders' meeting is held no less than once a year. In 2012, at one annual and four extraordinary general shareholders' meetings the following decisions were taken:

- > The numerical composition of the Board of Directors was determined, and its members elected (see Section "The Board of Directors" for more details);
- > The members of the Revision Commission were elected;
- > The auditor of URALCHEM UCC, OJSC was approved: "Deloitte & Touche CIS" CJSC;
- > The results of activities in 2011 were summarized, namely the annual and book-keeping reports for 2011 were approved;
- > The decision was taken regarding profit distribution based on the results of the financial year 2011;
- > For the first time in the Company's history, the decisions were taken regarding intermediate dividend payment based on the results of the first Quarter and of the nine months of the financial year 2012.

## THE BOARD OF DIRECTORS

The Board of Directors is a collective governing body which has overall charge of URALCHEM UCC, OJSC except issues referred to by the legislation and the Company's Articles of Association as falling under the authority of the General shareholders' meeting.

The General annual meeting of shareholders of URALCHEM UCC, OJSC held on June 29, 2011 (Minutes N°22 of June 30, 2011) elected the Board of Directors as follows:

1. Dmitry A. Mazepin
2. Dmitry V. Konyaev
3. Dmitry V. Osipov
4. Dimitry V. Tatyandin
5. Mikhail V. Genkin
6. Yulia E. Orlovskaya
7. Petr V. Krupnov
8. Sophie J-L Vergnas Sokolov

The General URALCHEM UCC, OJSC shareholders' annual meeting held on June 29, 2011 (Minutes N°27 of July 3, 2011) reelected the prior Company's Board of Directors as stated above.

In 2012, 63 meetings of the Board of Directors were held, including 12 in the form of joint presence of the Board of Directors members to discuss the agenda items, and 51 meetings in the form of absentee vote.



**DMITRY A. MAZEPIN**

**CHAIRMAN**

**Date of Birth:** 1968

**Education:** Higher  
**1992** – Moscow State Institute of International Relations (MGIMO);  
**2004** – "VNIINeft" post-graduate school

**Positions held:**

**2007 – Up to date** – URALCHEM UCC, OJSC, Chairman of the Board of Directors  
**2008 – Up to date** – HaloPolymer, OJSC, Chairman of the Board of Directors  
**2010 – Up to date** – URALCHEM HOLDING P.L.C., Chairman of the Board of Directors  
**2010 – Up to date** – Private Company Limited CI-CHEMICAL INVEST LIMITED, Director

**He does not have any shares in the Company's authorized capital/common shares.**

**In 2012 he did not make any transactions related to acquisition or transfer of the Company's shares.**



**DMITRY V. KONYAEV**

**Date of Birth:** 1971

**Education:** Higher  
**1993** – Lomonosov Moscow State University, Political Economy;  
**2003** – Institute of Business and Economics, MBA, Marketing

**Positions held:**

**2007 – 2008** – Azot OJSC, Member of the Board of Directors  
**2007-2010** – HC Uralchem, LLC, Commercial Director  
**2007 – Up to date** – URALCHEM UCC, OJSC, Member of the Board of Directors  
**2007 – 2010** – MFP KCCW, OJSC, Member of the Board of Directors  
**2008 – 2012** – URALCHEM-TRANS LLC, Chairman of the Board of Directors  
**2009 – Up to date** – SIA Riga fertilizer terminal, Chairman of the Board of Directors  
**2010-2010** – HC URALCHEM, CJSC, Commercial Director  
**2010 – 2010** – HC URALCHEM, CJSC, Member of the Board  
**2010 – 2010** – Azot, OJSC, Member of the Board of Directors  
**2010 – 2011** – URALCHEM UCC, OJSC, Commercial Director  
**2011 – 2011** – URALCHEM UCC, OJSC, Member of the Board  
**2011 – 2012** – KCCW Repair and Engineering Works, LLC, Member of the Board of Directors  
**2011 – Up to date** – URALCHEM UCC, OJSC, Chief Executive Officer  
**2011 – Up to date** – MFP KCCW, OJSC, Member of the Board of Directors  
**2011 – Up to date** – Voskresensk Mineral Fertilizers, OJSC, Member of the Board of Directors  
**2012 – Up to date** – Minudobrenia, OJSC, Member of the Board of Directors

**He does not have any shares in the Company's authorized capital/common shares.**

**In 2012 he did not make any transactions related to acquisition or transfer of the Company's shares.**

**DMITRY V. OSIROV**

**Date of Birth:** 1966

**Education:** Higher  
**1990** – Lobachevsky Gorky State University, Department of Radio Physics and Electronics

**Positions held:**

**2006 – 2010** – KCCW, OJSC, Member of the Board of Directors  
**2007 – 2010** – HC URALCHEM LLC, Chief Executive Officer  
**2007 – 2010** – URALCHEM UCC, OJSC, Chief Executive Officer (by-work)  
**2007 – 2010** – Azot OJSC, Member of the Board of Directors  
**2007 – Up to date** – URALCHEM UCC, OJSC, Member of the Board of Directors  
**2008 – 2010** – MFP KCCW, OJSC, Member of the Board of Directors  
**2008 – Up to date** – Voskresensk Mineral Fertilizers, OJSC, Member of the Board of Directors  
**2008 – Up to date** – HaloPolymer, OJSC, Member of the Board of Directors  
**2010 – 2010** – HC URALCHEM CJSC, Chairman of the Board  
**2010 – 2010** – HC URALCHEM CJSC, Chief Executive Officer  
**2010 – 2010** – URALCHEM UCC, OJSC, Chief Executive Officer  
**2010 – 2011** – URALCHEM UCC, OJSC, Chairman of the Board  
**2011 – 2012** – SKB MT LLC, Chairman of the Board of Directors  
**2011 – 2012** – KCCW Repair and Engineering Works, LLC, Member of the Board of Directors  
**2011 – Up to date** – URALCHEM UCC, OJSC, Deputy Chairman of the Board of Directors  
**2011 – Up to date** – MFP KCCW, OJSC, Chairman of the Board of Directors  
**2011 – Up to date** – SIA Riga Fertilizer Terminal, Member of the Board of Directors  
**2012 – Up to date** – Minudobrenia, OJSC, Member of the Board of Directors

**He does not have any shares in the Company's authorized capital/common shares.**

**In 2012 he did not make any transactions related to acquisition or transfer of the Company's shares.**

**DIMITRY V. TATYANIN**

**Date of Birth:** 1967

**Education:** Higher  
**1993** – Voronezh State University, Jurisprudence

**Positions held:**

**2005 – 2010** – KCCW, OJSC, Member of the Board of Directors  
**2007 – 2010** – HC URALCHEM LLC, Chief Legal Officer  
**2007 – 2010** – URALCHEM UCC, OJSC, Chief Legal Officer (by-work)  
**2007 – 2010** – Azot OJSC, Member of the Board of Directors  
**2007 – Up to date** – URALCHEM UCC, OJSC, Member of the Board of Directors  
**2008 – Up to date** – URALCHEM UCC, OJSC, Deputy Chairman of the Board of Directors  
**2008 – Up to date** – Voskresensk Mineral Fertilizers, OJSC, Member of the Board of Directors  
**2010 – 2010** – HC URALCHEM CJSC, Chief Legal Officer  
**2010 – Up to date** – HaloPolymer, OJSC, Member of the Board of Directors  
**2011 – 2011** – URALCHEM UCC, OJSC, Member of the Board  
**2012 – Up to date** – Minudobrenia, OJSC, Chairman of the Board of Directors

**He does not have any shares in the Company's authorized capital/common shares.**

**In 2012 he did not make any transactions related to acquisition or transfer of the Company's shares.**

**MIKHAIL V. GENKIN**

**Date of Birth:** 1967

**Education:** Higher  
**1991** – Gorky State University, Department of Radio Physics and Electronics

**Positions held:**

**2007 – 2010** – HC URALCHEM, LLC, Adviser/Director for Business Development  
**2007 – 2010** – URALCHEM UCC, OJSC, Director for Business Development (by-work)  
**2007 – 2010** – Azot, OJSC, Member of the Board of Directors  
**2007 – 2009** – Halogen, OJSC, Member of the Board of Directors  
**2007 – Up to date** – URALCHEM UCC, OJSC, Member of the Board of Directors  
**2008 – 2010** – KCCW, OJSC, Member of the Board of Directors  
**2008 – Up to date** – Voskresensk Mineral Fertilizers, OJSC, Chairman of the Board of Directors  
**2008 – Up to date** – HaloPolymer, OJSC, Member of the Board of Directors  
**2010 – 2010** – HC URALCHEM, CJSC, Director for Business Development  
**2010 – 2011** – URALCHEM UCC, OJSC, Member of the Board  
**2010 – Up to date** – URALCHEM UCC, OJSC, Director for Business Development  
**2011 – 2012** – SKB MT, LLC, Member of the Board of Directors  
**2011 – Up to date** – MFP KCCW, OJSC, Member of the Board of Directors

**He does not have any shares in the Company's authorized capital/common shares.**

**In 2012 he did not make any transactions related to acquisition or transfer of the Company's shares.**





**YULIA E. ORLOVSKAYA**

**Date of Birth:** 1972

**Education:** Higher  
**1994** – Moscow State Institute of International Relations (MGIMO), Department of International Economic Relations

**Positions held:**

**2008 – 2009** – GE Money Bank, CJSC, Marketing Department Director  
**2010 – 2010** – HC URALCHEM, LLC, Executive Director  
**2009 – Up to date** – URALCHEM UCC, OJSC, Member of the Board of Directors  
**2009 – Up to date** – URALCHEM UCC, OJSC, Adviser to the Chairman of the Board of Directors  
**2010 – 2010** – HC URALCHEM, CJSC, Executive Director  
**2010 – 2011** – URALCHEM UCC, OJSC, Executive Director  
**2010 – 2010** – HC URALCHEM, CJSC, Member of the Board  
**2010 – 2011** – URALCHEM UCC, OJSC, Member of the Board  
**2011 – 2012** – KCCW Repair and Engineering Works, LLC, Member of the Board of Directors

**She does not have any shares in the Company's authorized capital/common shares.**

**In 2012 she did not make any transactions related to acquisition or transfer of the Company's shares.**



**PETR V. KRUPNOV**

**Date of Birth:** 1962

**Education:** Higher  
**1986** – Novopolotsk Polytechnical Institute, Chemical Engineer, Technologist

**Positions held:**

**2003 – 2010** – Sibur-Neftechim OJSC, Chief Executive Officer  
**2010 – 2010** – Sibur, OJSC, Adviser to the President  
**2011 – Up to date** – URALCHEM UCC, OJSC, Member of the Board of Directors  
**2012 – Up to date** – United Petrochemical Company, OJSC, Vice-president of United Petrochemical Company, OJSC, Director of Ufa Branch

**He does not have any shares in the Company's authorized capital/common shares.**

**In 2012 he did not make any transactions related to acquisition or transfer of the Company's shares.**



**SOPHIE J-L VERGNAS SOKOLOV**

**Date of Birth:** 1963

**Education:** Higher  
**1987** – ESCP Europe, École supérieure de commerce de Paris, France

**Positions held:**

**2001 – Up to date** – KBS Associates Ltd., Moscow representative office, Director, Head of representative office  
**2004 – Up to date** – Moscow representative office of KBS Internationale S.A., Switzerland, Head of representative office  
**2011 – Up to date** – URALCHEM UCC, OJSC, Member of the Board of Directors

**She does not have any shares in the Company's authorized capital/common shares.**

**In 2012 she did not make any transactions related to acquisition or transfer of the Company's shares.**



## COMMITTEES OF THE BOARD OF DIRECTORS

With a view to improve the effectiveness of the URALCHEM UCC, OJSC Board of Directors, the following committees have been established:

### STRATEGY AND INVESTMENT COMMITTEE

The Committee operates on the basis of the Regulations for Strategy and Investment approved by the company's Board of Directors (Minutes N°27 of 7.02.2012).

#### GOALS AND OBJECTIVES OF THE COMMITTEE

The main goal of the Committee is to ensure effective work of the URALCHEM UCC, OJSC Board of Directors in dealing with issues within its competence.

The objectives of the Committee include working out and submitting recommendations (opinions) to the Board of Directors on the following issues:

- > Determination of priorities in the company's business, strategic goals and main principles of the company's strategic development;
- > Growth of the company's investment attractiveness;
- > Improvement of the investment activities and well-grounded decision-making.

### AUDIT COMMITTEE

The Regulations for the Audit Committee were approved by the URALCHEM UCC, OJSC Board of Directors (Minutes N° 14 of 17.06.2011).

#### GOALS AND OBJECTIVES OF THE COMMITTEE

The main goals and functions of the Audit Committee are as follows:

- > To control financial and economic activities of the company, main business-processes;
- > To control accounting, preparation of financial statements, audit of financial statements of the Company and its subsidiaries;
- > To control investment activities of the Company including modernization and technical upgrading projects.

### REMUNERATIONS COMMITTEE

The Committee operates based on the Regulations for the URALCHEM UCC, OJSC Remunerations Committee approved by the company's Board of Directors (Minutes N°27 of 07.02.2012).

#### GOALS AND OBJECTIVES OF THE COMMITTEE

The main goals and objectives of the Remunerations Committee are as follows:

- > To ensure effective work of the Board of Directors of the company with regard to decisions in the field of control over the system of remuneration and compensations.
- > To build proper remuneration system for the members of the Board of Directors, senior executives of subsidiaries and affiliates with regard to the shareholders' interests, consistency with the company's general labor compensation policy and remuneration level of other employees, as well

as ensure the competitiveness of the remuneration system adopted in the Company.

### NOMINATIONS COMMITTEE

The Committee operates on the basis of the Regulations for the Nominations Committee approved by the Board of Directors of URALCHEM UCC, OJSC (Minutes N°27 of 07.02.2012).

#### GOALS AND OBJECTIVES OF THE COMMITTEE

The main goals and objectives of the Committee are as follows:

- > To ensure effective work of the Board of Directors of the company with regard to decisions related to personnel;
- > To ensure continuity and high professional and managerial level when replacing members of the Board of Directors, CEO, top managers of URALCHEM UCC, OJSC, directors of subsidiaries and affiliates.

## THE CHIEF EXECUTIVE OFFICER

**Dmitry V. Konyaev** has been the Chief Executive Officer of URALCHEM UCC, OJSC since 25.01.2011 (Minutes of the Board of Directors meeting No.4 of 24.01.2011).

Brief biographical and other information about Dmitry V. Konyaev is given in the "Board of Directors" Section.

## REMUNERATION OF KEY MANAGEMENT

Total remuneration paid to a person working in the capacity of a sole executive body, and to each member of the Board of Directors in 2012 amounted to 158.8 million roubles.

## INTERNAL CONTROL AND AUDIT

The internal control over financial and economic activities is primarily designed to:

- > Increase the effectiveness of the Company's financial and economic activities;
- > Receive adequate reports and information about the Company's activities;
- > Provide for compliance with the requirements of the effective legislation, Articles of Association and other documents of the Company.

### THE REVISION COMMISSION

The Revision Commission was created to control financial and economic activity of the URALCHEM UCC, OJSC.

The Revision Commission, elected by decision of the annual general shareholders' meeting on June 29, 2012 (Minutes No. 3.07.2012) consists of three members.

- > Mariya A. Kuzmina (Chairperson)

- > Yulia V. Bulantseva
- > Andrey V. Ermizin

The Revision Commission audits financial and economic activities of the company at any time at its own discretion, by decision of the General shareholders' meeting, the Board of Directors or upon a request of a shareholder (shareholders) possessing at least 10 (ten) % of the company's voting stock.

In 2012, no remuneration was paid to the members of the Revision Commission.

Apart from the Revision Commission of URALCHEM UCC, OJSC, the internal audit of financial and economic activities of the company, its subsidiaries and affiliates in 2012 was carried out by the bodies listed below:

- > The Board of Directors of the company and its Audit committee;
- > The Revision Commissions of subsidiaries and affiliates;
- > The Internal Audit and Control Department of URALCHEM UCC, OJSC;
- > The Department of internal control of Azot Branch of URALCHEM UCC, OJSC in Berezniki;
- > The Department of internal control of KCCW Branch of URALCHEM UCC, OJSC in Kirovo-Chepetsk;
- > The Internal Audit Group of Minudobrenia (Perm) Branch of URALCHEM UCC, OJSC in Perm;
- > The Internal Audit and Control Service of Voskresensk Mineral Fertilizers, OJSC.

The internal control bodies are meant to solve tasks of implementation of URALCHEM's development strategy, increasing the Company's profitability and competitiveness, providing for its financial and economic sustainability, contributing to realization and protection of rights and legitimate interests of URALCHEM UCC, OJSC shareholders, and providing for return on their investments.

In their work, internal control bodies are governed by the Regulations for the Revision Commission of URALCHEM UCC, OJSC (approved by the General shareholders' meeting, (Minutes No. 25 of 29.12.2011) the Regulations for the Policy of Internal Control over the Financial and Economic Activities of URALCHEM UCC, OJSC (approved by the Board of Directors, (Minutes No. 1 of 17.09.2008) and by other documents of URALCHEM UCC, OJSC and the Group's companies.

The United Internal Audit Team of URALCHEM has operated since 2008. As of 31.12.2012 it consisted of:

- > The Internal Audit and Control Department (since July 2011 – IACD), reporting administratively and functionally to the company's CEO;
- > The Internal Control Administration of Azot Branch in Berezniki and Internal Control Administration of KCCW Branch in Kirovo-Chepetsk as well as Internal Audit Group of Minudobrenia (Perm) Branch in Perm (since 2012) which are structural units of the branches, and report functionally to Head of IACD, and administratively to Directors of the company's branches;
- > The Internal Audit and Control Division of Voskresensk Mineral Fertilizers, OJSC which is a unit of Voskresensk Mineral Fertilizers, OJSC, and reports to the CEO of Voskresensk Mineral Fertilizers, OJSC.

There are regulations that govern the operation of each of the above units.

## INFORMATION ABOUT THE OUTSIDE AUDITOR

An outside auditor invited to conduct the audit of financial and economic activities is entirely independent of the executive bodies of the Company. In accordance with provisions of the Federal law "On Auditing Activities", its remuneration does not depend on the results of the audits.

**Deloitte & Touche CIS, CJSC** (125047, 5 Lesnaya Street, Moscow, Russian Federation; Primary State Registration Number (OGRN): 1027700425444; Certificate № 3026 of membership in self-regulated organization of auditors Nonprofit partnership "Audit Chamber of Russia", registered in the register on May 20, 2009; Principal Number of Registration Entry (ORNZ): 10201017407), an independent auditor, was invited to conduct the audit of URALCHEM UCC, OJSC, its subsidiaries, affiliates and controlled companies individual financial (accounting) statements for 2012 in accordance with the Russian accounting standards.

The independent audit of consolidated financial statements of URALCHEM Group for 2012 in accordance with the International Financial Reporting Standards was carried out by the auditors of **Deloitte Group of companies**.

## STRUCTURE OF SHARE CAPITAL

The authorized capital of URALCHEM UCC, OJSC is **2,000,000,000 (two billion)** rubles, the Company issued 500,000,000 (five hundred million) ordinary registered uncertified shares with nominal value of 4 (four) rubles each.

The shareholders of URALCHEM UCC, OJSC are:

- > **URALCHEM HOLDING P.L.C.** – 99.9999998% of share capital;
- > **Private Company Limited CI-CHEMICAL INVEST LIMITED** – 0.0000002% of share capital

**"Registrar NIKoil", OJSC** is the official Registrar of URALCHEM UCC, OJSC  
**Address:** 121108, Moscow, 8 Ivana Franko Street.

**OGRN** (Primary State Registration Number): 1027700060607  
**INN** (Individual Taxpayer Number): 7730081453.

The License to keep share registers No. 10-000-1-00290 was issued on June 17, 2003 by FFMS (Federal Financial Markets Service) of Russia.

## DIVIDENDS

In 2012, for the first time in its history, URALCHEM UCC, OJSC took a decision to pay out intermediate dividends to the shareholders. It was decided at the extraordinary General shareholders' meeting on June 12, 2012, to pay out dividends for first quarter of the financial year 2012 in the amount of 2.5 billion rubles, i.e. five rubles per share (Minutes No.26 of June 1, 2012). On November 30, 2012, it was decided at the extraordinary General shareholders' meeting to pay out dividends for nine months of the financial year 2012 in the total amount of 4.2 billion rubles, i.e. 8.4 rubles per share (Minutes No. 30 of November 30, 2012).

The dividends were paid in full in accordance with the decisions of the General shareholders' meetings.

# HUMAN RESOURCES AND SOCIAL POLICY

## KEY EVENTS IN THE FIELD OF HUMAN RESOURCES AND SOCIAL POLICY

### 2012

The centralization of managerial and service functions of Azot Branch in Berezniki and PMU in Perm is directed at optimization of the management of both plants.

The acquisition of Minudobrenia OJSC and integration of the staff of the new asset (1,080 people.) into the URALCHEM Group's structure.

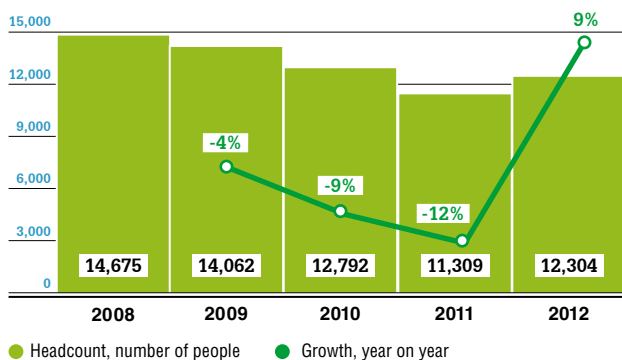
Annual study of the employees' involvement and satisfaction by their working conditions demonstrated the growth of the involvement indicator by 5% in 2012.

An annual donor campaign was held in favor of the Fund "Gift of Life". During the campaign about 100 full doses of blood and blood plasma were collected, all of them were transferred for helping children.

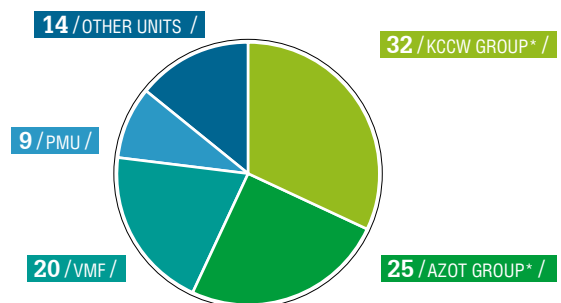
The establishment of the United Service Centre (USC) in Perm allowed to introduce innovative methods in the field of workplace management.

For the first time in the Company's history, 1st summer URALCHEM Olympics were held intended to strengthen intra-corporate relations. All main enterprises of the Group participated in the Olympics.

URALCHEM GROUP'S HEADCOUNT DYNAMICS IN 2008-2012, people



URALCHEM GROUP PERSONNEL STRUCTURE, IN 2012, %



\* KCCW Group for the purposes of this Chapter: MFP KCCW, OJSC and its subsidiaries; KCCW Branch, OJSC of URALCHEM UCC, OJSC in Kirivo-Chepetsk.

\* Azot Group for the purposes of this chapter: Azot Branch of URALCHEM UCC, OJSC in Berezniki; AZOTPROEKT, LLC; Poliklinika Azot, LLC; Azot, OJSC (until December 2010).

## PERSONNEL STRUCTURE

The Company's policy in the field of personnel management is aimed at attracting the best candidates and retaining skilled employees.

To this end, the Company has improved the system of motivation, it applies an integrated approach to the assessment and training of staff, carrying out projects to improve the work performance and the level of employee's involvement in business processes.

The basic principles of the Company's human resources policy:

- > Contribution to the successful business development.
- > Creation of professional teams.
- > Application of the most advanced and effective technologies in order to attract, motivate, retain and train the employees.

In 2012, the URALCHEM Group's headcount increased by 9% to 12,304 people, the operational personnel comprised 9,463 people (+17% compared to 2011).

To a large extent, this growth was due to the take-over of Minudobrenia, OJSC by the Group. the share of employees of the newly affiliated company in the personnel structure of the Group in 2012 was 9%.

The Company is committed to improving the work performance, which is reflected in the systematic reduction of the total number of employees. Thus, over five years the number decreased by 16%, even with regard to the merger of Minudobrenia, OJSC. the number of operational personnel however increased by 4%. Meanwhile, the total production in the Group increased by 47% over five years. Therefore the work performance in the Company has increased significantly over the period of 2008-2012 indicating, inter alia, the effectiveness of the personnel management policy.

## LABOR COMPENSATION

In order to retain skilled staff members and to attract new ones, URALCHEM keeps the compensation of their employees at a competitive level. the motivation system in the Company also includes bonuses and incentives conducting the increase in productivity and effectiveness of the team.

In 2012, the average payroll expenditures in the Group of companies increased by 11% compared to the previous year, and amounted to 35.9 thousand rubles per employee (32.2 thousand rubles in 2011). the wages of operational personnel increased by 20% to 28.4 thousand rubles compared to 23.7 thousand rubles in 2011.

The dynamic growth of production and financial indicators of URALCHEM in recent years is reflected in the growth of its labor compensation. Over five years from 2008 to 2012, the average paycheck in the Group increased by 58%, and that of operational personnel – by 78%. the annual paycheck growth rates over this period were 13% and 16%, respectively.

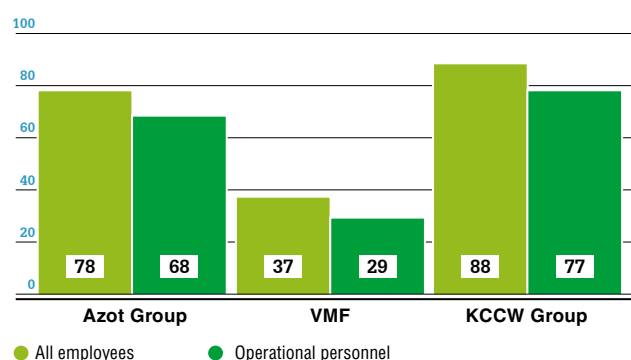
A significant increase in the average paycheck was demonstrated at all the production assets of the URALCHEM Group. the most dynamic growth was recorded in the companies of KCCW Group – 88% for personnel in general and 77% for operational personnel, this, on the one hand, being due to the intent of the Company to follow the trends of the labor market and, on the other hand, to retain highly skilled employees in the region which is characterized by high rate of out-migration compared to other Russian regions.

In addition to competitive remuneration in the existing regional labor markets, the Company also encourages its employees by social guarantees. At each of the four plants, the social program is governed by collective agreements.

**DYNAMIC OF AVERAGE PAYCHECK AT URALCHEM, 000' rubles**



**LABOR COMPENSATION GROWTH OVER FIVR YEARS, 2008-2012, %**



IN 2012, THE EXPENDITURES FOR SOCIAL PROGRAMS UNDER COLLECTIVE AGREEMENTS

AMOUNTED TO **79.8** MILLION RUBLES

IN 2012, THE OVERALL EXPENDITURES FOR URALCHEM ENTERPRISES EMPLOYEES' TRAINING

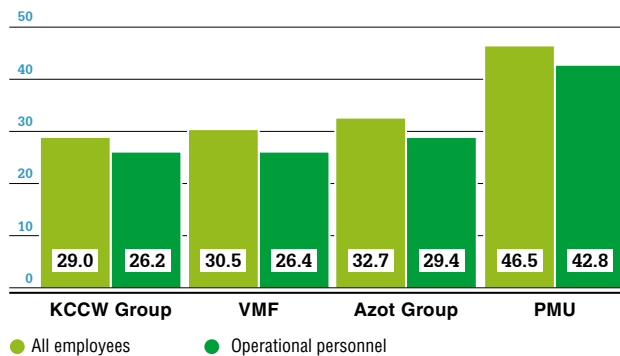
AMOUNTED TO **56.5** MILLION RUBLES

The main lines of social policy at the enterprises in 2012 were:

- > Work with young professionals,
- > Increase in employees' satisfaction and involvement,
- > Retention of the best employees and their professional development,
- > Observance of the rights and guarantees of employees in the field of labor and employment.

In 2012, the expenditures for social programs under collective agreements amounted to 79.8 million rubles, including PMU - 34.1 million rubles, KCCW Group - 19.9 million rubles, Azot Group - 16.0 million rubles, VMF - 9.8 million rubles.

**LABOR COMPENSATION LEVEL AT THE GROUP'S ASSETS IN 2012, 000' rubles**



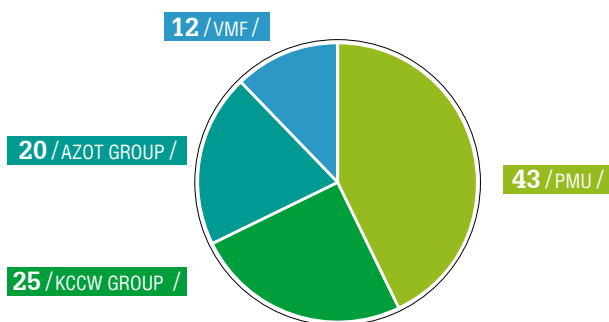
## PERSONNEL TRAINING AND RETRAINING

URALCHEM executives strive to create all the conditions for professional and personal development of each employee, as well as for the formation of the modern corporate culture. The Company has been systematically identifying and addressing the needs in training and professional development, helping employees to acquire the necessary knowledge and skills.

The continuous professional development of employees helps building the reserve pool of future executives. When filling vacancies, the priority is given to in-house candidates.

The Company has a corporate training program for employees and hosts sporting and social events considering them a significant part of the Company's corporate culture.

**STRUCTURE OF EXPENDITURES FOR THE SOCIAL PROGRAM IN 2012, %**



The corporate training program includes:

- > Mandatory training;
- > Professional development;
- > Advanced training through courses, seminars and conferences;
- > Business trainings to develop corporate and managerial competencies.

Moreover, the Company is trying to attract new skilled employees, the majority of whom are young professionals capable of mastering innovative technologies.

The Human Resources Directorate has been developing programs aimed at establishing partnership relations with educational institutions, and the work is carried out not only with senior students, but also with schoolchildren.

The programs of enrollment and adaptation of young professionals are underway. The system of career growth and professional development is built for them, and social guarantees and financial stability are provided. The Councils of young professionals established at the enterprises help new employees adapting to their working environment. At Council's meetings, the initiatives

IN 2012, THE URALCHEM GROUP  
**232.3** MILLION RUBLES  
 ALLOCATED TO FINANCE SOCIAL  
 AND CHARITABLE PROJECTS

IN 2012, THE ALLOCATIONS FOR  
 PROMOTION OF CHILDREN'S AND YOUTH SPORTS  
 EXCEEDED **77.1** MILLION RUBLES

of young professionals are reviewed and implemented, if promising, leading thereby to cost reductions in the Company and to better work performance and social conditions.

In 2012, the overall expenditures for URALCHEM enterprises employees' training amounted to 56.5 million rubles, including 7.1 million rubles in URALCHEM UCC, OJSC.

In 2012, 10 business trainings were held at the URALCHEM enterprises within the framework of reserve pool development, where 46 employees completed training. In addition, 44 business trainings were devoted to the development of corporate and managerial competences. They were attended by 363 people. 159 employees of the Holding company completed a course of professional development at the Chemistry Department of Lomonosov Moscow State University including 32 people under the Analytical Chemistry program. the course was specifically designed by request of factory labs of the URALCHEM Group.

In 2012, the Company recruited 113 young professionals.

## SOCIAL PROGRAMS AND CHARITY

Corporate social responsibility is an integral part of URALCHEM activities. the mineral fertilizer industry, where the Company belongs, is socially oriented itself: agricultural products produced with the use of the Company's fertilizers are the basis of people's life-sustaining activities. Besides, due to the payment of taxes and providing job opportunities, the URALCHEM Group enterprises contribute to the development of the regions where they are present – Kirov, Moscow and Perm regions.

The principles of social responsibility of the Company are:

- > Promotion of social and economic development of the region where it operates.
- > Charitable activities.
- > Industrial safety and protection of environment.

For URALCHEM, one of the main priorities is social stability and good living conditions of people in the regions where the Group operates. Big and stable tax payments by the Group's enterprises enable the regions to successfully meet the challenges of their economic and social development. In 2012, the Group's

enterprises paid to the budgets of all levels of the Russian Federation about 5.655 billion rubles of taxes and contributions.

In 2012, the URALCHEM Group allocated 232.3 million rubles to finance social and charitable projects. Support for social and charitable programs is one of the most important components of the corporate strategy of the URALCHEM Group. Record-breaking production and financial results accomplished by the Company in 2012 enabled it to increase funding for social programs almost 2.5 times compared to 2011.

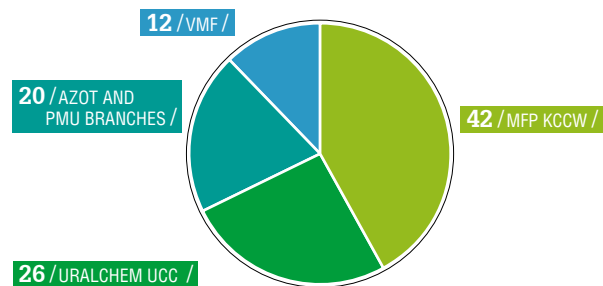
The charitable activities of URALCHEM in 2012 were prioritized as follows:

- > Promotion of children's and youth sports. In 2012, the allocations for these purposes exceeded 77.1 million rubles.
- > Support of children's and youth programs aimed at improving their health, education, and recreation.
- > Helping veterans and non-working pensioners.
- > Holding sports and cultural events.

In 2012, MFP KCCW, OJSC allocated 97.9 million rubles to charitable and sponsorship programs, 22% (21.35 million rubles) of which was directed to the unprecedented campaign to support 70 large low-income families with five or more children: they received Lada-Granta automobiles as a gift from URALCHEM.

Azot and PMU Branches located in the Perm region allocated 45.8 million rubles to charitable projects, while Voskresensk Mineral Fertilizers - 27.7 million rubles. URALCHEM UCC, OJSC allocated about 61 million rubles.

### SOCIAL CHARITABLE PROGRAMS FINANCING STRUCTURE IN 2012, %



THE ALLOCATIONS FOR OCCUPATIONAL HEALTH SAFETY ACTIVITIES AMOUNTED

FOR **268.6** MILLION RUBLES IN 2012

FOR THE ACTIVITIES IN THE FIELD OF INDUSTRIAL SAFETY IT WAS

SPENT **142.2** MILLION RUBLES

## HEALTH AND SAFETY

The Company is aware of its social responsibility to provide safe working conditions, propagate the safety culture, and protect the health of workers and the population of the regions in which the URALCHEM companies operate. Safety activities at the Group's enterprises are carried out in full compliance with the regulations, the plans of main organizational activities and collective agreements.

In 2012, along with conforming to legislative safety requirements, the Company has been realizing its plans of organizational measures to improve the activities in this area:

- > In 2012, the Department of Health and Safety was established to address the goals and objectives to further improve working conditions and industrial safety.
- > In 2012, a draft Policy in the field of health and safety was worked out, in accordance with which the goals and commitments of the Company were set and documented in this area - to minimize the accident rate, eliminate fatal accidents, and rule out industrial accidents.
- > During the year, the Company's top management has familiarized itself with the European companies' practices in the field of health and safety. the best practices are taken into consideration and are being introduced in the URALCHEM enterprises.
- > A safety management system, aimed at preventing workplace injuries has been in place at all the enterprises of the Group. Prevention activities were

directed at reducing the accident rate, occupational diseases, technical failures and emergencies.

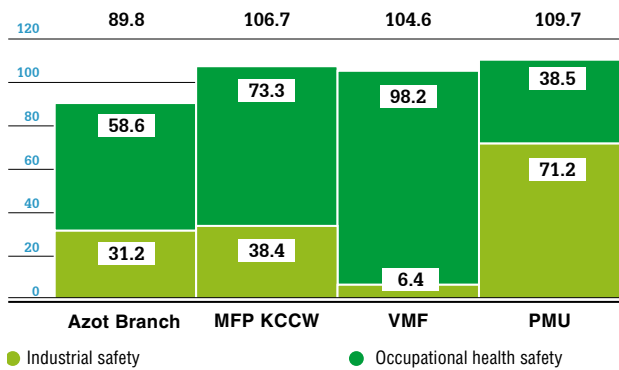
- > The health and safety divisions carried out production supervision by organizing and participating in comprehensive and targeted surveys of health and safety at the workplace.

The Company's executives are aware that in order to achieve sustainable progress in the field of health and safety, all employees should be consciously involved in these activities.

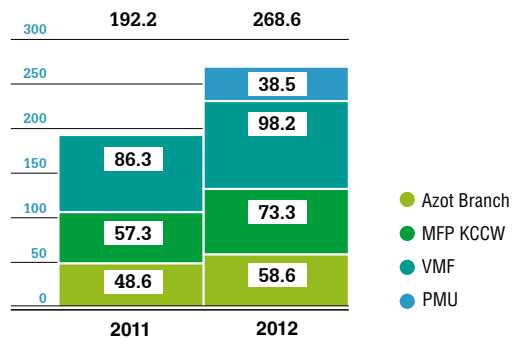
Such a policy of the Company resulted in low level of workplace injuries and occupational illnesses. Over the last three years, there was no technical failure at the URALCHEM enterprises.

Health and safety expenditures in 2012 amounted to 410.8 million rubles. Among the enterprises of the Group, this amount was distributed relatively evenly, the allocations for occupational health safety activities amounted for 268.6 million rubles in 2012, which was 40% higher than in 2011 (192.2 million rubles), while for the activities in the field of industrial safety it was spent 142.2 million rubles.

**STRUCTURE OF EXPENDITURES FOR OCCUPATIONAL HEALTH AND INDUSTRIAL SAFETY BY ENTERPRISES OF THE GROUP IN 2012, million rubles**



**HEALTH AND SAFETY EXPENDITURES DYNAMICS IN 2011-2012, million rubles**



**KEY ALLOCATIONS FOR ENVIRONMENT PROTECTION MEASURES IN 2012**

AZOT BRANCH	MFP KCCW	PMU	VMF
<p>Funding for environmental activities <b>44</b> million rubles.</p>	<p>Funding for environmental activities <b>259</b> million rubles.</p>	<p>Funding for environmental activities <b>70</b> million rubles.</p>	<p>Funding for environmental activities <b>92</b> million rubles.</p>
<p>The pollutant emissions from stationary sources were reduced by 3%.</p>	<p>In 2012, emissions mass decreased to 52,49% of the fixed limit set by the regulating authorities, compared to 57.8% in 2011.</p>	<p>Due to particular characteristics of production, 90% of the costs are tied to optimization of the water utilization scheme through the projects aimed to upgrade the technology, reduce water consumption, eliminate leakages in the water supply and sewer system. This is particularly important given that Minudobrenia, OJSC does not dump waste water into the surface water.</p>	<p>The principal measures were associated with the re-equipment and improvement of the technological processes both in the main shops and in the shops for industrial effluents neutralization and treatment, water supply and sewerage.</p>
<p>The content of mono ethanolamine pollutants in waste water was reduced by 37% and that of suspended substances by 11%.</p>	<p>State-of-art technological installations were put into operation, while the gas purification systems were re-equipped.</p>		
<p>Emissions of nitrogen oxides into atmospheric air were reduced by 10% and those of carbonic oxide by 9%.</p>	<p>Completion of the liquid state of the 6th section of chalk tailing dump within the framework of large-scale long-term recultivation project.</p>		

**PROTECTING THE ENVIRONMENT**

The Company's activities are associated with production processes which adversely affect the environment. It is manifested in the emissions of pollutants into the atmospheric air and water.

The URALCHEM management pays serious attention to ecological safety of the production and protection of the environment, the main lines of activity of the Company to minimize the impact of its production units on the environment are:

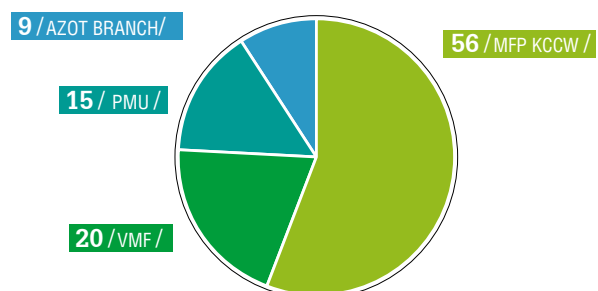
- > Compliance with current legislative requirements regulating the Company's activities in the field of environmental protection;
- > Gradual reduction of emissions of hazardous substances while increasing the use of waste products;
- > Rational use of natural resources;
- > Introduction of innovative, environmentally-friendly technologies;
- > Planning of operating activities with regard to compliance with the established environmental quality standards.

The Company is fully aware of its role in protecting the environment for future generations and is making every effort to minimize its negative impact.

Throughout 2012, the Company has continued its activities to improve and increase the level of environmental friendliness of the production processes.

The expenditures associated with the implementation of environmental protection measures at the Company's enterprises over the last three years have more than doubled and increased by 28% compared to 2011, to 465 million rubles in 2012. It made it possible in particular to put state-of-art technological installations and purification systems into operation, to utilize industrial waste and reclaim the waste disposal sites.

**STRUCTURE OF EXPENITURES FOR ENVIRONMENTAL PROTECTION MEASURES IN 2012, %**





In 2012, to improve the environmental effectiveness of the production, reduce the negative impact of the enterprises, the Group has carried out activities in the following spheres:

- > Technical re-equipment based on the best available technologies. In 2012, state-of-art technological installations meeting the modern requirements in the field of environmental protection were commissioned.
- > Modernization and technical re-equipment of the industrial installations and cleaning systems. the following projects were realized at MFP KCCW: modernization of the prilling tower scrubber of the AC-72/2 installation with a view to reduce the pollutant emissions into the atmosphere; a new modification of the Bekaflex gas treatment unit was installed; a number of projects aimed at deactivation and utilization of emergency and volley discharges of pollutants were completed. At VMF, the pumping equipment and catalyzers were replaced, the filters-bioreactors in the shop of neutralization and treatment of industrial waste water were upgraded.
- > Construction and reconstruction of environmental facilities. In 2012, works continued on recultivation of the chalk tailing dump section, and on reducing pollution by chemical compounds of floodplain lakes; the conditions are created for elimination of excess water pollution and compliance with the water protection regulations in the catchment areas.

## RESPONSIBLE CARE PROGRAM

In 2009, URALCHEM joined the international program of Responsible Care within the framework of the sustainable development concept. Responsible Care is a large-scale initiative of the chemical companies aimed at continuous improvement in health, safety and environmental performance, plant safety and production process. the United Nations Environment Program (UNEP) approved the Responsible Care program as a basis for sustainable development of enterprises and the chemical industry worldwide.

The Responsible Care is both ethics and commitment aimed at increasing confidence in URALCHEM of the public, consumers and the state, which is an important condition for improving material well-being, quality of life and sustainable development. the Responsible Care program, which is being carried out currently by 54 associations, received high evaluation of its results.

Currently, URALCHEM is the only major player in the mineral fertilizer industry in Russia to have joined this program. As a result of the strict system of security questions, activity indicators and audit procedures, time-wise improvements were demonstrated by the company, thereby making it possible to develop the strategy for further improvements.

## GREENHOUSE GAS EMISSIONS AND ENERGY EFFICIENCY

The Company takes measures providing for a systemic approach to greenhouse gas emissions control. Its enterprises take a number of measures to reduce greenhouse gas emissions in accordance with the obligations taken

by Russia as a result of ratification of the United Nations Framework Convention on Climate Change.

In 2012, within the framework of the international system of energy management, the measures were taken to improve the energy efficiency of the Group's enterprises.

Besides, activities continued with a view to reduce the consumption of natural energy resources. Thus, the measures aimed at protection of water resources made it possible to reduce the water volume for technological needs by 4,429 thousand cubic meters, while the waste water volume in 2012 was reduced by 4,274 thousand cubic meters.

Implementation of measures aimed to protect the atmospheric air has led to the growth of commercial output without increasing the emissions of pollutants into the air. This has been confirmed by the results of analytical control at the borders of sanitary protection zones and in a residential zone in the vicinity of the Company's production facilities. Throughout the year, there were no reported cases of violating the air quality standards.

In 2012, despite the increase in production volumes and changes in the product line, VMF reduced total emissions by 158.67 tonnes, while at Azot Branch the emissions decreased by 92.65 tonnes.

## OBSERVANCE OF EUROPEAN LEGISLATION IN THE FIELD OF CHEMICAL SUBSTANCES TREATMENT (REACH)

In 2012, activities continued with a view to implement the requirements of the European legislation in the field of chemical substances treatment (REACH):

- > In accordance with the requirements of REACH, Article 31 (9), the safety passports (SDS) for the Company's products were updated based on the new information about hazards received from consortia and leading registrants.
- > Work has been done to translate the SDS for the Company's products into the languages of supplier countries.
- > In accordance with REACH requirements, work continued at the data exchange Forums about the hazards of chemical substances exported to the EU.
- > In cooperation with the experts of enterprises, works began to register new chemical substances (calcium nitrate, in particular).

## OBSERVANCE OF REQUIREMENTS OF THE EUROPEAN UNION REGULATION CONCERNING CLASSIFICATION, LABELING AND PACKAGING (CLP)

In compliance with the CLP requirements, labeling adjustment of the products produced by the Group's plants for the EU countries has been done.

Labeling the products to be delivered to the EU, the Company complies with the REACH requirements, i.e. the Harmonised classification and labeling (CLH) under Regulation (EC) No.1272/2008 (CLP Regulation).

Delivering its products all over the world, the Company takes into account the requirements of the Globally Harmonised System of Classification and Labeling of Chemicals (GHS), as well as the legislative requirements of the countries importing the Group's products and customer preferences. In 2012, new legislative requirements for chemical industry were introduced in a number of countries.

### THE CONSUMPTION OF MAIN ENERGY RESOURCES

The information on the URALCHEM UCC, OJSC natural gas and power consumption in 2012 is presented below.

ENERGY RESOURCES	VOLUME, PHYSICAL VALUE	VOLUME, MONETARY VALUE, '000 RUBLES
Natural gas, '000 cub.m	3, 879, 087	11,195, 045
Electric Power, kilowatt-hour	1,358, 127	2,743,417

URALCHEM UCC, OJSC does not consume other types of energy resources.

# ANNEXES

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## ANNEX 1

# MAJOR TRANSACTIONS AND RELATED-PARTY TRANSACTIONS

Transactions recognized by the Federal Law "On Joint-Stock Companies" as major ones were not closed by URALCHEM UCC, OJSC in 2012.

Related-Party Transactions subject to approval by executive bodies of URALCHEM UCC, OJSC according to the Federal Law "On Joint-Stock Companies" were not closed in 2012.

## ANNEX 2:

# COMPLIANCE WITH CORPORATE CODE OF CONDUCT

In 2012, URALCHEM UCC, OJSC corporate policy was based on the corporate governance code as follows:

No	CORPORATE GOVERNANCE CODE PROVISION	COMPLIANCE YES/NO
1	Shareholders shall be given at least 30-day notice of a general meeting, irrespective of the matters included in its agenda, unless the law provides for a longer notice period	YES
2	Shareholders may review the list of persons entitled to attend general meetings, starting from the date of notice of the general meeting of shareholders to the closing of the meeting session or, in the event of absentee voting, up to the closing of ballot submission	YES
3	Each shareholder may propose an item for the agenda of the general meeting or request that a general meeting be convened without submitting an excerpt from the share register, provided its title to shares is recorded in the share register system; if such title is recorded in the deposit account, a balance statement of such deposit account shall be sufficient for the shareholder to exercise the above rights	YES
4	The company's internal documents establish the procedure for registering participants to attend general shareholders meetings	YES
5	The company's Articles of Association authorize the board of directors to approve the company's financial and business plan each year	YES
6	The company's Articles of Association authorizes the board of directors to set the qualification requirements and remuneration of the chief executive officer, members of the managing board and heads of the company's key business units	YES
7	The company's Articles of Association authorize the board of directors to approve the contracts with the chief executive officer and members of the board	YES
8	The company's board of directors includes at least one independent director who meets the eligibility criteria of the Corporate Governance Code	YES
9	None of the company's directors has been convicted of any economic violation or violation against the government, government operations or operations of local authorities; or who has been subjected to administrative penalty for any violation committed in the capacity of an entrepreneur or a member of the financial industry or securities market, or for tax violations	YES
10	None of the company's directors is a member, chief executive officer (manager), member of governing bodies or employee of the company's competitors	YES
11	The company's Articles of Association provide for cumulative voting for elections to the board of directors	YES
12	The company's bylaws require members of the board of directors to refrain from actions leading to a conflict of interests or having the potential to do so; if there is a conflict of interests, the member involved shall notify the board of directors of the same	YES
13	The company's bylaws require the members of the board of directors to provide written notice to the board of their intent to perform any transactions with the company's securities or securities of its subsidiaries/affiliates, and to disclose the details of such transactions	YES
14	The company's board of directors shall meet at least once every six weeks in the year covered by the annual report.	YES
15	The company's bylaws set the procedure for holding board of directors meetings	YES
16	The company's internal documents entitle members of the board of directors to receive the information they need to perform their job duties from the company's executive bodies	YES
17	The board of directors has an audit committee, a nomination, a remuneration committee, a strategic planning and development committee	YES
18	The company's internal documents set rules allowing all audit committee members to have access to any corporate documents and information, subject to their confidentiality obligations	YES

№	CORPORATE GOVERNANCE CODE PROVISION	COMPLIANCE YES/NO
19	The company's board of directors has approved bylaws setting the procedure for forming its committees and regulating their proceedings	YES
20	The company's internal documents set the procedure for approving any transactions that are beyond the limits of the company's financial and business plan	YES
21	None of the members of the company's executive bodies is chief executive officer (manager), member of governing bodies or employee of any of the company's competitors	YES
22	None of the members of the company's executive bodies has been convicted of any economic violation or violation against the government, government operations or the operations of local authorities; or subjected to administrative liability for any violation committed in the capacity of an entrepreneur or a member of the financial industry or securities market, or for tax violations	YES
23	The company's executive bodies report to the board of directors on a monthly basis	YES
24	The company's contracts with its chief executive officer (managing company/manager) provide for liability for failure to comply with regulations on insider and sensitive information	YES
25	The company's Articles of Association or internal documents establish a procedure for appointing/electing the corporate secretary and outline his/her job duties	YES
26	The company's Articles of Association do not relieve a purchaser from his/her obligation to offer the remaining shareholders an opportunity to sell their common shares (or other securities convertible into shares) in the event of a merger	YES
27	The company's board of directors has approved a regulation describing the company's disclosure rules and procedures (Provisions for Information Disclosure)	YES
28	The company's bylaws contain a list of information, documents and materials to be submitted to shareholders for transacting the matters on the agenda of a general meeting	YES
29	The company has a website (a webpage provided by one of the information disseminators in the securities market) where information on the stock company is regularly disclosed	YES
30	The company's board of directors has approved a regulation on sensitive information regarding the company's business, shares and other securities and transactions therewith that is not in the public domain and, if disclosed, may have material impact on the price of the company's shares or other securities	YES
31	The company's board of directors has adopted internal financial and business controls	YES
32	The company has a department supervising compliance with internal control procedures (internal control or audit department)	YES
33	None of the company's internal auditors has been convicted of any economic violation or violation against the government, government operations or the operations of local authorities; or subjected to administrative penalty for any offense committed in the capacity of an entrepreneur, as a member of the financial industry or securities market, or for tax violations	YES
34	None of the company's internal auditors is its executive, member, chief executive officer (manager), member of governing bodies or employee of the company's competitors	YES
35	The company's board of directors has issued guidelines for determining recommendations on dividends (dividend policy provisions)	YES
36	Dividend policy provisions establish the procedure for determining the minimum percentage of the company's net profit to be distributed as dividends	YES
37	The company discloses its dividend policy and any amendments to the policy on its website provided by one of the information disseminators at the securities market	YES

## ANNEX 3:

# LEGEND AND ACRONYMS

## LIST OF BASIC TERMS AND ABBREVIATIONS USED IN THE ANNUAL REPORT OF URALCHEM UCC, OJSC, UNLESS OTHERWISE SPECIFIED ON THE TEXT OF THE ANNUAL REPORT

**URALCHEM UCC; the company** – URALCHEM UCC, OJSC

**The URALCHEM Company** – URALCHEM UCC, OJSC and its subsidiaries, affiliates and companies under its management

**URALCHEM; URALCHEM Group; Holding; the Group; the Company** – URALCHEM HOLDING P.L.C. and its subsidiaries (companies) under direct or indirect control

**Acron** – OJSC Acron and its subsidiaries (companies) under direct or indirect control

**Voskresensk Mineral Fertilizers; VMF** – Voskresensk Mineral Fertilizers, OJSC

**EuroChem** – EuroChem Mineral and Chemical Company, OJSC and its subsidiaries (companies) under direct or indirect control

**MFP KCCW; MFP** – Mineral Fertilizer Plant of Kirovo-Chepetsk Chemical Works, MFP KCCW, OJSC

**KuibyshevAzot** – KuibyshevAzot, OJSC

**Minudobrenia; PMU** – Minudobrenia, OJSC, Perm

**Minudobreniya** – MINUDOBRENIYA OJSC, Rossosh

**SBU (SDS) Azot** – JSC SDS Azot and its subsidiaries (companies) under direct or indirect control

**URALCHEM Trading House** – Trading house URALCHEM, LLC

**TogliattiAzot** – OJSC TogliattiAzot

**URALCHEM-TRANS** – URALCHEM-TRANS, LLC

**Azot Branch** – Azot Branch of URALCHEM UCC, OJSC in Berezniki

**KCCW Branch** – KCCW Branch of URALCHEM UCC, OJSC in Kirovo-Chepetsk

**USC Branch; United Service Centre; USC** – USC Branch of URALCHEM UCC, OJSC in Perm

**PMU Branch** – PMU Branch of URALCHEM UCC, OJSC in Perm

**PhosAgro** – OJSC PhosAgro and its subsidiaries (companies) under direct or indirect control

**Riga fertilizer terminal** – SIA Riga fertilizer terminal (Latvia)

**URALCHEM TRADING DO BRASIL** – URALCHEM TRADING DO BRASIL LTDA. (Brasil)

**URALCHEM FREIGHT** – URALCHEM FREIGHT LIMITED (Cyprus)

**URALCHEM Trading** – SIA URALCHEM Trading (Latvia)

# CONTACT INFORMATION

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