EFFICIENCY AS A GROWTH DRIVER

ANNUAL REPORT 2013
EFFICIENCY AS A GROWTH DRIVER

Despite a difficult market environment, URALCHEM delivered a solid financial and operating performance in 2013. Our success was due to the hard work and professionalism of employees, as well as to a resilient and flexible business model which ensures strong performance in any market conditions.

We have maintained our leadership among Russia’s nitrogen fertilizer producers. Continuous improvements in production efficiency supported by a stable financial position give us confidence in our ability to deliver long-term business and value growth for URALCHEM Group.
We closely monitor changes in demand in the mineral fertilizer market and consistently grow our production. In 2013, ammonium nitrate output was up 15%, with total commercial output reaching 6.039 million tonnes.

**SUPPLY**

**OUTPUT IN 2013**

6.039 MILLION TONNES

See more on page 36

**DEMAND**

Demand for mineral fertilizers continues to grow. According to the IFA’s estimates, mineral nutrient consumption was up 0.5% in 2013 and projected to grow by as much as 2.3% in 2014.

**DEMAND VOLUME IN 2014**

182.7 MILLION TONNES OF NUTRIENTS

See more on page 30
We continue to invest in upgrading production capacity, improving efficiency and launching new high-margin products.
Resource savings and production stability
In 2013, natural gas consumption rates per tonne of ammonia produced were reduced by 0.6%, while the daily rate of ammonia production grew 1.5% year-on-year. The production process became more stable, with downtimes reduced across URALCHEM Group by an average of 12%.

Kirovo-Chepetsk Plant Upgrade Project, investments: US$46 million
MFP KCCW plant upgrades accounted for the bulk of URALCHEM Group’s investments in 2013. CAPEX was mostly spent on building calcium nitrate production capacity and equipment upgrades to ramp up production of mineral fertilizers and chemicals.

See more on page 43
URALCHEM GROUP OFFERS A WIDE RANGE OF PRODUCTS, WHICH ALLOWS FLEXIBILITY IN RESPONDING TO CHANGES IN THE MINERAL FERTILIZER MARKET. NEW PRODUCT LAUNCHES INCREASE THE GROUP’S SALES SUSTAINABILITY AND ENABLE ENTRY INTO NEW MARKET NICHES.
Launch of water-soluble monoammonium phosphate and anhydrous calcium nitrate

In 2013, we launched two new products: water-soluble monoammonium phosphate (MAP) produced by VMF and anhydrous calcium nitrate produced by MFP KCCW. The launch of both products was a logical step in the development of the Water-Soluble Products project that was initiated in 2011 to help the Group enter the water-soluble fertilizers sector, which is currently showing the highest growth rates globally. In 2013, these products were sold in more than 20 countries around the world.

See more on page 38
ENSURING TRANSPORTATION SECURITY THROUGH THE DEVELOPMENT OF RAILWAY AND PORT INFRASTRUCTURE IS ONE OF THE GROUP’S PRIORITIES. OUR PROPRIETARY RAIL CAR FLEET AND A SEAPORT TERMINAL IN RIGA, LATVIA, ENABLE UNINTERRUPTED SUPPLIES.
Commissioning a terminal in Riga, Latvia

Construction of the first phase of a 2 million tonnes-per-year fertilizer transhipment terminal in the port of Riga, Latvia, was among URALCHEM Group’s most important infrastructure projects in 2013. The terminal is designed to service all classes of vessels used in the Baltic Sea to transport mineral fertilizers. The terminal was launched in Q4 2013 and will reach its maximum transhipment capacity in 2014.

See more on page 44
WE PAY CLOSE ATTENTION TO BUILDING A HIGHLY SKILLED AND MOTIVATED TEAM OF PROFESSIONALS
Building the best team of professionals
URALCHEM Group makes every effort to attract and retain the best industry professionals. We not only offer transparent and attractive financial incentives but also provide continuous development and training. The Group runs management and production training programmes, and a succession programme was launched in 2013. We pay particular attention to attracting talented young people. In 2013, the intake of high potential graduates to the Group’s enterprises grew by 40%.

See more on page 56
BY MAKING INVESTMENTS IN PROMISING MINERAL FERTILIZER MARKET SEGMENTS UNDER FINANCIALLY STABLE CONDITIONS, URALCHEM GROUP DRIVES EXTRA GROWTH IN SHAREHOLDER VALUE
A strategic investment driving the Group’s shareholder value

In 2013, URALCHEM Group showed solid financial performance, with the net debt/EBITDA ratio reduced to 1.0x by early 2013, an all-time low for the Company and one of the lowest ratios in the industry. This allowed us to invest in a 19.99% stake in the authorised capital of OJSC Uralkali, a major Russian company that enjoys high margins and profitability in a promising sector of the mineral fertilizer market. We expect the acquired asset to show further market capitalisation growth and offer high dividends.

See more on page 45
URALCHEM is one of the leading companies in the nitrogen and phosphate fertilizer markets of Russia, the CIS and Eastern Europe.

01 MFP KCCW, OJSC (MFP KCCW) Kirovo-Chepetsk
A leading Russian producer of nitrogen and complex mineral fertilizers. MFP KCCW produces over ten mineral fertilizer products, including ammonium nitrate, ammonium nitrate with sulphur, and NPK/NPKS complex fertilizers. The plant’s production capacity is 1,150 thousand tonnes of ammonia and 1,250 thousand tonnes of ammonium nitrate per year.

02 Azot Branch of URALCHEM UCC, OJSC Berezniki
A leading Russian producer of ammonia and nitrogen fertilizers and the only producer of higher aliphatic amines, potassium and sodium nitrates, and crystalline sodium nitrite in the Russian market. The plant’s production capacity is 1,100 thousand tonnes of ammonia, 1,250 thousand tonnes of ammonium nitrate, and 530 thousand tonnes of urea per year.

03 Minudobrenia, OJSC (PMU) Perm
A leading producer of nitrogen fertilizers in the Urals region and Western Siberia. The plant’s production capacity is 580 thousand tonnes of ammonia and 670 thousand tonnes of urea per year.

The plant became a part of URALCHEM Group in 2012.
Voskresensk Mineral Fertilizers, OJSC (VMF)

VMF is a top four producer of phosphate fertilizers, fodder additives, and phosphoric and sulphuric acids in the Russian market. The plant’s production capacity is 750 thousand tonnes of mono- and diammonium phosphate, 750 thousand tonnes of nitrogen and phosphate fertilizers, as well as 1,050 thousand tonnes of sulphuric acid and 330 thousand tonnes of phosphoric acid per year.

Over 95% of the Group’s products are shipped by rail, with URALCHEM-TRANS, LLC providing freight transportation services. URALCHEM-TRANS has a rail car fleet large enough to provide guaranteed rail transportation of URALCHEM Group’s products. It also owns the Murashi depot. Railway transportation volumes in 2013 were 6.7 million tonnes of products, including raw materials.

The Group’s product exports are delivered mostly by sea, with SIA URALCHEM Trading (Riga, Latvia) handling seaport transhipment of products and their transportation by sea. In 2013, a total of 3.4 million tonnes of fertilizers and ammonia were shipped for export via the ports of Saint Petersburg, Riga, Vyborg, and Novorossiysk.

URALCHEM Group offers approximately 80 types of products in more than 60 countries around the world. In 2013, the Group shipped 69% of its total output of mineral fertilizers and ammonia to non-CIS countries, with 31% sold in Russia and CIS markets. The biggest importers of our products are Brazil, Mexico, Finland, Ireland, Peru and Sweden.

URALCHEM Group’s product sales in Russia and CIS markets are covered by URALCHEM Trading House, LLC, while the Group’s products in foreign markets are sold by SIA URALCHEM Trading (Latvia) and URALCHEM TRADING DO BRASIL LTDA. (Brazil).
WHERE WE OPERATE

URALCHEM is a reliable supplier of high-quality mineral fertilizers. We produce approximately 80 types of products, shipping them to over 60 countries around the world.

Map key
- Holding companies
- Management companies
- Production assets
- Transport and logistics
- Sales
- Services

Latin America
South and Central America are the world’s biggest importers of the Group’s products by volume, representing 32% of the Group’s total exports in 2013. Brazil is the single largest importer in the region (21.6% of total export sales).

- URALCHEM TRADING DO BRASIL LTDA., Sao Paulo

SHARE OF TOTAL REVENUE FROM LATIN AMERICA
28%
Europe

European countries are an important export market for URALCHEM Group, accounting for 27% of sales volume and 30% of revenue in 2013. The key importers of our products in 2013 were Finland (7.6% of export volumes), Ireland (6.9%), Sweden (4.8%), Lithuania (3.4%), Latvia (2.6%) and Denmark (2.6%).

Russia and CIS

Fertilizer production for Russian consumers remains a priority for the Group, with 24% of the Group’s total output sold in the domestic market. In 2013, we produced and sold 1,785 thousand tonnes of products in Russia and CIS markets.

- URALCHEM UCC, OJSC, Moscow
- MFP KCCW, OJSC, Kirovo-Chepetsk
- Azot Branch of URALCHEM UCC, OJSC, Berezniki
- Voskresensk Mineral Fertilizers, OJSC, Voskresensk
- Minuolobrenia, OJSC, Perm
- URALCHEM-TRANS LLC, Moscow
- URALCHEM Trading House, LLC, Perm

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**SHARE OF TOTAL REVENUE FROM EUROPE**

30%

**SHARE OF TOTAL REVENUE FROM RUSSIA AND CIS**

33%
Since its establishment in 2007, URALCHEM Group has consistently consolidated assets in the nitrogen segment of Russia’s mineral fertilizer industry, while at the same time diversifying into phosphate and complex fertilizer segments. In 2012, the Group became Russia’s top producer of ammonia and ammonium nitrate. The Group’s current focus is on production efficiency and launches of new high-margin products.

**OUR HISTORY**

- **2007**
  - Launch of URALCHEM UCC, OJSC; URALCHEM OJSC’s acquisition of controlling stakes in KCCW, OJSC (Kirovo-Chepetsky Khimichesky Kombinat named after B.P. Konstantinova) and OJSC ‘Azot’ (Berezniki)
  - Launch of calcium ammonium nitrate with sulphur (CNS) and a line of NPKS complex fertilizers with high content of nitrogen at MFP KCCW

- **2008**
  - 100% of shares in OJSC ‘Azot’ consolidated in URALCHEM Group’s ownership
  - URALCHEM UCC, OJSC’s acquisition of a 71.7% stake in Voskresensk Mineral Fertilizers, OJSC
  - Launch of URALCHEM Trading House, LLC to sell products in Russia and URALCHEM TRADING DO BRASIL LTDA. – in South and Central America
  - Launch of URALCHEM-TRANS, LLC’s operations

- **2009**
  - URALCHEM Group’s acquisition of a 46.5% stake in Minudobrenia, OJSC (Perm)
  - Launch of SIA URALCHEM Trading (Riga, Latvia) to consolidate export sales and international logistics
  - Products: Launch of NPK complex fertilizer with high content of phosphate and potassium at VMF

- **2010**
  - URALCHEM UCC, OJSC’s interest in Voskresensk Mineral Fertilizers, OJSC increased to 89.89%
  - KCCW, OJSC (Kirovo-Chepetsky Khimichesky Kombinat named after B.P. Konstantinova) merged with MFP KCCW, OJSC
  - OJSC ‘Azot’ merged with URALCHEM UCC, OJSC, with property transferred to Azot Branch of URALCHEM UCC, OJSC in Berezniki
  - All URALCHEM Group’s products were registered by the European Chemicals Agency as complying with REACH
100% of shares in Minudobrenia, OJSC (Perm) consolidated in URALCHEM Group’s ownership

URALCHEM Group became the top producer of ammonia and ammonium nitrate and the second largest urea producer in Russia

Products: Launch of NS 30:7, an innovative product, at MFP KCCW

The Group remained Russia’s top ammonia and ammonium nitrate producer and second largest urea producer

A proprietary seaport terminal for short-term storage and transhipment of bulk mineral fertilizers was commissioned in Riga, Latvia

URALCHEM UCC, OJSC’s acquisition of a 19.99% stake in OJSC Uralkali’s authorised capital

Products: Launch of water-soluble fertilizers – monoammonium phosphate at VMF and calcium nitrate at MFP

- 100% of shares in Voskresensk Mineral Fertilizers, OJSC and MFP KCCW, OJSC consolidated in URALCHEM UCC, OJSC’s ownership
- SIA URALCHEM Trading successfully certified to FIAS (Fertilizer Industry Assurance Scheme)
**HIGHLIGHTS**

**EBITDA MARGIN**

28%

**REVENUE**

US$2,265 MILLION

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**Revenue and EBITDA margin in 2009–2013**

- **Revenue, US$m**
  - 2009: 949
  - 2010: 1,089
  - 2011: 2,080
  - 2012: 2,543
  - 2013: 3,200

- **EBITDA margin**
  - 2009: 7%
  - 2010: 14%
  - 2011: 21%
  - 2012: 28%
  - 2013: 35%

**Breakdown of sales revenue from mineral fertilizers**

- **Nitrogen-based**
  - 2012: 14%
  - 2013: 15%

- **Phosphate-based**
  - 2012: 71%
  - 2013: 73%

- **Complex fertilizers**
  - 2012: 15%
  - 2013: 12%

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**Cash flow and investments, US$m**

- **Net operating cash flow**
  - 2011: 525
  - 2012: 664
  - 2013: 473

- **CAPEX**
  - 2011: 109
  - 2012: 165
  - 2013: 174

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**Financial position**

- **Net debt, US$m**
  - 2011: 937
  - 2012: 845
  - 2013: 722

- **Net debt/EBITDA**
  - 2011: 7.2
  - 2012: 4.5
  - 2013: 2.6
### Operating highlights

**TYPES OF PRODUCTS**

80

**COUNTRIES OF OPERATION**

60

**EMPLOYEES**

11,492

**LABOUR PRODUCTIVITY**

+7%

**OUTPUT**

6,039 thousand tonnes

#### Production breakdown by product, '000 tonnes

<table>
<thead>
<tr>
<th>Product</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>AN/SAN, CAN/CNS</td>
<td>6,024</td>
<td>6,039</td>
</tr>
<tr>
<td>Urea</td>
<td>359</td>
<td>330</td>
</tr>
<tr>
<td>Ammonia</td>
<td>789</td>
<td>789</td>
</tr>
<tr>
<td>NPK/NPKS</td>
<td>1,164</td>
<td>1,136</td>
</tr>
<tr>
<td>DAP/MAP</td>
<td>2,605</td>
<td>2,789</td>
</tr>
<tr>
<td>Other, including acids</td>
<td>433</td>
<td>581</td>
</tr>
</tbody>
</table>

#### Production breakdown by enterprise, '000 tonnes

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFP KCCW</td>
<td>2,304</td>
<td>2,119</td>
</tr>
<tr>
<td>Azot Branch</td>
<td>829</td>
<td>787</td>
</tr>
<tr>
<td>PMU</td>
<td>2,229</td>
<td>2,304</td>
</tr>
<tr>
<td>VMF</td>
<td>2,050</td>
<td>863</td>
</tr>
</tbody>
</table>

#### Output structure by product

- AN/SAN, CAN/CNS: 46%
- Urea: 19%
- Ammonia: 13%
- NPK/NPKS: 10%
- DAP/MAP: 7%
- Other, including acids: 5%

#### Commercial output breakdown by enterprise

- MFP KCCW: 38%
- Azot Branch: 35%
- PMU: 14%
- VMF: 13%
Having enjoyed dynamic market growth in 2010–2012, in 2013, the mineral fertilizer industry had to struggle with the negative impact of a market slowdown and declines in global prices for most products. For many producers, 2013 put the viability and soundness of chosen strategies to test. URALCHEM was well equipped to face the challenge. In the preceding years, we laid solid foundations to ensure the long-term sustainability of our business. Prompted by negative market forecasts, we made timely adjustments to our short-term strategy and refocused our efforts on the areas that bring the greatest benefit in times of recession. For 2013, the Company focused on business efficiency measures and production gains through more efficient utilisation of existing capacity as its key development priorities. This strategy allowed the Group to consolidate its market positions among the leading nitrogen fertilizer producers.

The 2013 trends in the phosphate fertilizer market confirmed negative expectations: Voskresensk Mineral Fertilizers, OJSC faced a number of significant challenges. Its phosphate rock supplier refused to renew a contract with VMF on the basis of previous pricing. Given the recent declines in global prices for phosphate fertilizers, the new proposed feedstock pricing would have made the plant’s operations unprofitable. VMF also failed to reach an agreement with the supplier on the volume of feedstock supplies to fully utilise VMF’s production capacity in 2014. This extremely negative raw materials supply situation continues in 2014, which means that VMF will face significant difficulties.

‘For 2013, the Company focused on business efficiency measures and production gains through more efficient utilisation of existing capacity as its key development priorities.’
Nevertheless, 2013 was quite a successful year for the Company. In December, we completed one of the Group’s most notable investment projects in recent years – the commissioning of a strategically important logistics facility, a terminal for transhipment of bulk mineral fertilizers in the Riga port. In a model example of mutually beneficial bilateral cooperation between Russia and Latvia, this major state-of-the-art infrastructure project was constructed in a very short time. Having our own terminal will help us strengthen the Group’s positions in the global market, optimise logistics flows, cut transportation costs and improve flexibility and response times in meeting the needs of our customers.

URALCHEM entered 2013 with a stable financial position, bringing the net debt/EBITDA ratio to 1.0x, an all-time low for the Group and one of the lowest ratios in the industry. URALCHEM’s reputation as a credible borrower and responsible partner was recognised by leading financial institutions. Based on our assessment of new long-term investment options, we decided to acquire a 20% stake in OJSC Uralkali. The deal was funded by leveraged finance, which shows our confidence in the attractive fundamentals and favourable long-term prospects of the potash market. I view the acquisition of the stake in Uralkali not only as a profitable strategic investment but also as an opportunity for the two companies to create significant new value through sharing best practices and management solutions. Our objective is to carry on from where the previous shareholders left in successfully developing Uralkali as the world’s largest potash producer.

I would like to thank the Company’s Board of Directors and management, and all its employees for their hard and efficient work, which has enabled us to reinforce our positions and ensure continued steady development in a difficult market environment. We continue as a team to build a high-performance company, operating in a promising and attractive market and making high-demand products for the benefit of society.

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

Acquisition of the stake in Uralkali is not only a profitable strategic investment but also an opportunity for the two companies to create significant new value through sharing best practices and management solutions.
2013 was a difficult but rewarding year for the Company – we had to invest a lot of effort in ensuring strong performance in the face of increasingly unfavourable market trends. In 2013, the Company primarily focused on improving the efficiency of its business processes, boosting productivity, driving margins and reducing operating costs. We not only successfully achieved our targets but also implemented a number of major projects with long-term positive benefits for the Company.

In 2013, URALCHEM reinforced its leadership in the nitrogen fertilizer sector, delivering a record gross output of ammonia in the Russian market – over 2.8 million tonnes, up 1.3% from the previous year. We maintained our traditional leadership in ammonium nitrate, remaining the top producer with 15% growth year-on-year. We were the second largest urea producer, with a slight drop in urea production. Finally, we remained Russia’s top ammonia producer by output per ammonia unit measure, with a daily production rate of 1,656 tonnes.

Decreases in global prices for industry products of 10% to 15% were particularly visible in the sector of phosphate fertilizers. This had a negative impact on the financial performance of all major players in the industry and URALCHEM was no exception. The Group’s consolidated revenue dropped by 7% to US$2.27 billion, with EBITDA down 24% to US$632 million. That said, URALCHEM’s performance justified its strategy choice, as the Group retained leading positions in margins among Russian producers, posting a 28% EBITDA margin in 2013.

The Group has shown resilience and an ability to grow even at a time when markets are falling. We continued implementing our long-term capex programme aimed at technical re-equipment of existing production facilities, as well as new strategic projects. In 2013, total investments grew by 5.5% to US$174 million, with US$84 million spent on the Group’s investment projects and the remaining US$90 million used to finance capital investments in equipment upgrades and capitalised repairs at our production sites.

‘URALCHEM’s performance justified its strategy choice, as the Group retained leading positions in margins among Russian producers, posting a 28% EBITDA margin in 2013.’
MFP KCCW completed a project to expand the capacity of one of its two nitric acid units and started a capacity expansion project on the other unit, which boosted ammonium nitrate production at the plant’s Shop 57. The plant continued its efforts to increase the ammonia unit’s capacity. The Perm-based Minudobrenia completed phase one of a major upgrade to its ammonia unit. Azot Branch completed similar projects on its ammonia, urea and nitric acid units. Simultaneously, we pursued projects aimed at improving the resource efficiency of our production. Natural gas consumption rates per tonne of ammonia produced were cut by 0.6%, while the daily rate of ammonia production grew by 1.5%. We also reduced downtime across the Group by an average of 12% to the lowest level seen in recent years.

In 2013, we maintained our focus on developing advanced technologies. We launched a long-term R&D cooperation project, signing a joint technology development agreement for the synthesis of urea with Stamicarbon, the world’s top developer and licensor of urea processes. Design work was started on a pilot unit at PMU as part of the project.

In 2013, we completed a harmonisation project to align URALCHEM Group’s organisational structures with the aim of improving the management model and boosting performance of key business processes. The United Service Centre (USC) Branch, launched just over a year ago in Perm, became a service hub comprising a number of functions to support operations of the Company’s production sites, including IT, accounting, source document management, preparation of reporting and tax accounting.

Towards the end of the year, we achieved two milestones with a positive impact on the Company’s fundamental outlook. We completed a major logistics project that took three years of hard work to accomplish. In Riga, Latvia, we commissioned a new port terminal for short-term storage and transhipment of up to 2 million tonnes of bulk mineral fertilizers per year. This will bring the Group to a fundamentally new level of logistics efficiency, slashing transportation and transhipment costs for our exports. We expect the terminal to reach design capacity in 2014, enabling the Group to give up reliance on third-party stevedores for servicing our key export flows in favour of own services. Investments in this project totalled US$78 million, with US$34 million invested in 2013.

In December 2013, URALCHEM made a strategic investment. Based on our assessment of the Group’s potential future development options through greenfield projects or M&A, we decided to acquire a 19.99% stake in OJSC Uralkali. The deal helped URALCHEM Group enter a new market segment and open up new growth opportunities linked to industry prospects. We placed our confidence in the world’s largest potash producer, developing a unique, high-quality source of raw materials. High margins and good development prospects made a compelling case for us to invest in OJSC Uralkali.

The credit for the Group’s 2013 results goes to our employees. URALCHEM values its staff and is committed to providing attractive working conditions for employees, including competitive compensation, extensive benefit packages, training and professional advancement programmes and sports and leisure activities. In 2013, a succession programme was launched across the Group to train and promote energetic and talented employees to key positions and grow our own succession pool to fill management roles.

In summarising the year’s results, I would like to thank all our employees for their strong performance, notable accomplishments and individual contributions to our common cause. We are one big close-knit team that has proven its efficiency and ability to cope with the most complex tasks, make good decisions and drive development. The year 2014 ahead promises to be as exciting as the previous year.

Dmitry V. Konyaev
Chief Executive Officer
URALCHEM UCC, OJSC
BUSINESS MODEL

Creating competitive advantages for growth.

SALES
- Forecasting demand
- Growing presence in premium markets
- Direct product sales
- Additional services to customers
- Driving sales growth

Growth drivers
- Optimising the production process
- Increasing logistics efficiency
- Developing distribution infrastructure
- Reducing operating costs

LOGISTICS
- Drive for self-reliance in logistics
- Proprietary fleet of rail cars
- Proprietary port terminal for transshipment of mineral fertilizers in Riga, Latvia

Increasing operating efficiency

Innovative products
Development tools

SUPPLIERS AND RAW MATERIALS
- Reducing raw materials and energy consumption rates
- Signing long-term contracts

Investments

Customer-centric business model

Engaged employees

R&D

PRODUCTION
- Flexibility through a balanced product range
- Increasing operating efficiency
- Investment in production growth
- Environmental and corporate social responsibility

Investment in production growth

Environmental and corporate social responsibility

Market demand-driven production

Product innovation

Production efficiency

Flexible production structure

Increasing production capacity efficiency
URALCHEM Group seeks to strengthen its leading position in the Russian market for nitrogen fertilizers. We intend to deliver rapid growth by consistently increasing our product output and taking full advantage of our integrated business model, while relying on organic growth, higher business margins and efficient management.

<table>
<thead>
<tr>
<th>Strategic goals</th>
<th>Priorities</th>
</tr>
</thead>
</table>
| 01 Increasing production volumes through organic growth in output | ✓ Enhancing performance of existing equipment;  
✓ Minimising failures and production downtime;  
✓ Reducing consumption rates for raw materials and energy. |
| 02 Efficient cost management | ✓ Streamlining production costs;  
✓ Boosting revenue;  
✓ Increasing labour productivity;  
✓ Enhancing operating performance. |
| 03 Increase in sales effectiveness | ✓ Boosting sales by enhancing product quality, expanding product mix and diversifying sales breakdown;  
✓ Increasing high-margin sales;  
✓ Expanding sales channels; actively engaging end consumers;  
✓ Building up sales through direct selling;  
✓ Focusing on sales to domestic end consumers;  
✓ Thoroughly examining target markets to streamline the offer. |
## Our performance in 2013

- Commercial output rose by 0.3% despite adverse market conditions;
- No. 1 in Russia by ammonium output with a record high of 2.8 million tonnes;
- No. 1 in Russia by ammonia nitrate output, with annual growth of 15%;
- No. 2 in Russia by output of nitrogen fertilizers;
- No. 2 in Russia by urea output;
- 12% decrease in failures and production downtime;
- 1.5% increase in the daily ammonium output rate;
- 0.6% decrease in natural gas consumption rates per tonne of ammonium.

## Priorities for 2014

- Achieving output targets across the Group;
- Implementing the operations modernisation and upgrade programme;
- Enhancing equipment performance;
- Reducing resource and energy consumption rates;
- Ensuring smooth and safe operation of production facilities.

## Priorities for 2014

- Achieving output targets across the Group;
- Implementing the operations modernisation and upgrade programme;
- Enhancing equipment performance;
- Reducing resource and energy consumption rates;
- Ensuring smooth and safe operation of production facilities.

- Reduced costs and streamlined the cost of production through an increase in operating, marketing, logistics and employee performance;
- Achieved a 7% year-on-year growth in labour productivity at production facilities;
- Improved human resources management;
- Unified organisational structures;
- Enhanced procurement;
- Rolled out IT solutions for repair planning and follow-up;
- Streamlined lending terms.

- Further reducing costs and streamlining the cost of production through better operating, marketing, logistics and employee performance;
- Enhancing cost management;
- Streamlining lending terms.

- Enhanced product quality;
- Expanded the customer base and improved customer loyalty;
- Commercialised water-soluble products: anhydrous calcium nitrate and water-soluble monoammonium phosphate;
- Revenue from premium sales stayed flat year-on-year;
- Direct sales stood at 75% of the total sales.

- Boosting sales by enhancing product quality, expanding the product mix, and diversifying the sales breakdown by target market and product portfolio;
- Increasing high-margin sales and promoting high-margin products in target markets;
- Expanding sales channels and establishing stronger ties with end consumers to maximise value offered to them;
- Increasing share of direct sales.
## STRATEGY continued

<table>
<thead>
<tr>
<th>Strategic goals</th>
<th>Priorities</th>
</tr>
</thead>
</table>
| 04 Logistics security           | - Setting up a single operation point for railway logistics across the Group: URALCHEM-TRANS, LLC;  
                                   | - Launching the Group’s own port terminal in Riga (Latvia).                                   |
| 05 Enhanced human resources management | - Building a robust remuneration system;  
                                          | - Increasing the share of young employees in the overall headcount by engaging talented young people;  
                                          | - Developing employees’ professional skills and leadership.                                   |
| 06 Operating model evolution    | - Centralising individual functions common to Group companies;  
                                          | - Outsourcing non-core functions.                                                             |
| 07 Enhanced corporate governance| - Complying with Russian and international corporate governance practices.                  |
| 08 Legal security               | - Preventing and minimising legal risks in making and executing business transactions;  
                                          | - Settling claims and court proceedings against contractors of the Group companies and government authorities to defend the rights and legal interests of URALCHEM Group companies;  
                                          | - Defending the rights and legal interests of URALCHEM Group companies as minority shareholders in other companies. |
Our performance in 2013

- In 2013, the Group expanded its rolling stock to 8,471 cars on average, including 59% owned or in financial and operating lease;
- Completed the consolidation of railway facilities into URALCHEM-TRANS, LLC;
- Increased the share of sea shipments via corporate port infrastructure by commissioning the Riga port terminal.

Priorities for 2014

- Developing railway infrastructure and rolling stock;
- Ensuring efficient operation of port facilities.

- Setting up a single operation point for railway logistics across the Group: URALCHEM-TRANS, LLC;
- Launching the Group’s own port terminal in Riga (Latvia).

- In 2013, the Group expanded its rolling stock to 8,471 cars on average, including 59% owned or in financial and operating lease;
- Completed the consolidation of railway facilities into URALCHEM-TRANS, LLC;
- Increased the share of sea shipments via corporate port infrastructure by commissioning the Riga port terminal.

- Launching an automated human resources management system (Success Factor, SAP);
- Implemented an additional programme of support to retirement-age employees, reducing the share of retirement-age employees at production facilities from 10% to 8%;
- The inflow of high potential graduates increased by 40%;
- Developed and launched a regular management training programme;
- Succession planning programme has been put in place.

- Improving the remuneration system and extending the list of positions taking part in the performance management system;
- Implementing a unified and differentiated motivation system across all business units;
- Consistently implementing programmes to provide supplementary support to retired employees; encouraging an inflow of high potential graduates and an employee continuity programme;
- Implementing and cascading the management training programme for line managers;
- Implementing the development programme for middle and top managers;
- Implementing standard operating procedures for production staff.

- Set up the United Service Centre (USC) and divested financial and IT functions to the USC;
- Right-sized the headcount by divesting non-core operations.

- Completing the transfer of financial and IT functions to the USC;
- Assessing whether other common functions need to be divested to the USC to improve manageability and implement best practices across the Group.

- Streamlined the structure of URALCHEM UCC, OJSC.

- Improving incorporation and other corporate documents of URALCHEM UCC, OJSC and Group companies;
- Adopting a new Code of Corporate Conduct for URALCHEM UCC, OJSC.

- Streamlined contract approval procedures in URALCHEM Group’s companies;
- Achieved a high percentage of court and out-of-court awards dismissing claims made by third parties as unjustified;
- Achieved a high percentage of awards by courts and other government authorities upholding claims made by URALCHEM Group companies to defend their rights and legal interests;
- No adverse implications for Group companies were caused by incorrect legal qualification and assessment of risks.

- Continuing measures intended to streamline and enhance contractual relations and organisation of bidding procedures;
- Continuing efficient court and out-of-court efforts to defend the rights and legal interests of URALCHEM Group companies;
- Continuing efforts aimed at defending the rights and legal interests of URALCHEM Group companies as minority shareholders;
- Continuing efforts seeking to provide efficient legal assessment of risks and preparing recommendations to minimise or eliminate these risks.
Demand for mineral fertilizers

According to the International Fertilizer Industry Association (IFA), in 2013, global demand for mineral fertilizers grew by 0.5% year-on-year to 178.6 million tonnes in nutrient value. Consumption of nitrogen and potassium fertilizers rose by 1.1% and 0.7% respectively, while demand for phosphate fertilizers dropped by 1.1%.

The growth of the mineral fertilizer market was mainly fuelled by good weather in most parts of the world. This boosted crop output by 8% year-on-year and, accordingly, drove down prices for mineral fertilizers.

Other unfavourable market factors were reduced fertilizer subsidies in India and the depreciation of regional currencies in South Asia and Southeast Asia – the leading importers of mineral fertilizers. During the year the Thai baht and Indian rupee lost 10% against the US dollar. In the Brazilian and Turkish markets (traditionally important for Russian fertilizer exports), the real and the lira decreased by 15% and 19% against the US dollar, respectively. Restructuring of potassium sales and shortages of natural gas supplies to the nitrogen sector in Egypt, Southeast Asia, South Asia, and Latin America also added to the uncertainty.

In 2013, the utilisation breakdown by fertilizer type stayed flat year-on-year, as it did the year before: nitrogen fertilizers accounted for 61%, phosphate 23% and potassium 16% of total fertilizer consumption.

Production capacity

In 2013, the aggregate global output of ammonia, rock phosphate and potassium raw materials was 234.4 million tonnes in nutrient value (N, P₂O₅, K₂O), including 179 million tonnes used as fertilizers and 54 million tonnes used for other purposes. In 2013, total capacities for production of ammonia, phosphoric acid and potassium grew by 11 million tonnes year-on-year to 278 million tonnes, including a rise in ammonia production capacities by 5 million tonnes of nitrogen, phosphoric acid – by 2 million tonnes of phosphorus pentoxide (P₂O₅), and potassium – by 4 million tonnes of potassium oxide (K₂O). At the same time, 60 out of 90 new projects for commissioning new capacities planned for 2012–2013 were postponed to a later date. In 2014, global capacities are expected to grow by 7 million tonnes in nutrient value, or by 3% year-on-year.

During the reporting period, the utilisation ratio of production assets in the mineral fertilizer industry stood flat year-on-year at 87%. The highest utilisation ratio was recorded for ammonia and urea, and the lowest for potassium. Ammonia and urea outputs grew by 2% and 5% respectively, production of phosphates stayed flat year-on-year, while potassium output grew by 2%.

As in 2012, the industry conventionally posted a surplus in terms of supply and demand in the reporting year.

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1 Estimated by the UN Food and Agriculture Organization (FAO).
2 Hereinafter data by P. Heffer, IFA, December 2013, unless otherwise indicated.
The price of phosphate fertilizers on the basis of FOB Tampa averaged US$443 per tonne in 2013, representing a 17.4% year-on-year decline. The key factor behind the price reduction was a sharp drop in import demand in India due to the accumulation of significant reserves of phosphate and complex fertilizers in the country. Increased stocks resulted from low phosphorus usage in 2012 due to the drought that hit the country during the application season.

Fundamental conditions took shape in 2013 for a general decline in prices both in the short and medium term. The current need for mineral fertilizers is not supported by solvency levels and, as such, does not transform into demand. China’s increasing role as a supplier of fertilizers, coupled with the expectation that the country’s costs will remain stable (or even reduce slightly) will significantly constrain other producers’ opportunities to increase prices, even seasonally. The US is moving away from importing nitrogen products to domestic production, which will increase competition in other regions and put additional pressure on prices.

Breakdown of supply and demand by mineral fertilizer segment

Nitrogen fertilizers

Ammonia

In 2013, the ammonia supply exceeded demand by 6.3%, or 9.5 million tonnes, while ammonia exports dropped by 4.7% year-on-year to 17.9 million tonnes. In Southeast Asia, Europe, and Latin America, ammonia shortages grew to push up demand for ammonia imports from other regions. In North America, ammonia shortages went down year-on-year. Industrial demand for ammonia stayed high in 2013, with demand from fertilizer producers remaining low. In 2014, the global ammonia market is expected to grow by 800 thousand tonnes both on the back of industrial demand and through mounting demand from mineral fertilizer producers. IFA estimates that, in general, the global ammonia market will stay balanced.

The price of ammonia FOB Yuzhny Port decreased during 2013 from US$600 per tonne in January to US$385–425 per tonne in December. Key factors driving the negative trend were a drop in demand from Indian fertilizer producers, moderate demand from industrialized Asian countries, the weakening of the phosphate fertilizer market and lower prices for urea.

In 2013, the price of urea FOB Yuzhny Port dropped by 24% to US$312 per tonne as compared with US$408 per tonne in 2012. The price declines were mainly driven by China strengthening its positions in export markets, with urea production costs sharply pulled down by lower coal prices.

Global price trends for mineral fertilizers

Current conditions in the markets for mineral fertilizers and intermediate products indicate that the earlier upside scenarios in global market outlooks need to be revised. Population growth and the dwindling ratio of arable land per capita, formerly viewed as growth drivers, only identify the general need, not the actual demand, for fertilizers. In a number of cases, this need is proving to be insolvent. For instance, the solvency of importers was shattered by the overall macroeconomic downturn, particularly through devaluation of national currencies in countries importing mineral fertilizers, as well as more stringent lending terms. As a result, prices for basic types of fertilizers and pre-products have fallen sharply.

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1 Calculations of URALCHEM Group.
MINERAL FERTILIZER MARKET
International market
continued

Global ammonia supply and demand, 2012–2014, m metric tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Supply</th>
<th>Demand</th>
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<tr>
<td>2012</td>
<td>145.7</td>
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<tr>
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</tr>
<tr>
<td>2014F</td>
<td>153.8</td>
<td>144.9</td>
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Urea
In 2013, the supply surplus of urea grew by 8% to 14 million tonnes, while exports rose by 3.4% year-on-year to 44.5 million tonnes. Growth was driven by the output increase in Algeria, China and the UAE, which considerably surpassed the urea shortage in Europe, North America, Latin America and South Asia. In 2014, the supply and demand gap will stay flat year-on-year at approximately 8%. The expected increase in demand for urea will be fully covered by new mineral fertilizer production facilities to be commissioned in Algeria (an EDEOLA 1 plant with an annual capacity of 1.3 million tonnes) and in Saudi Arabia (the Safco V plant with an annual capacity of 1.3 million tonnes), and by the build-up in output at the operating plants of Sorfert (Algeria) and Fertil (UAE).

Phosphate fertilizers
In 2013, the supply of phosphoric acid outpaced demand by 4.6 million tonnes (or 10%). In 2014, this ratio will remain at the level of 2013. Major importers based in Southeast Asia, South Asia and Latin America will experience shortages of phosphoric acid, which will result in increased imports from other countries. Both phosphoric acid output and exports will grow in most exporting regions. Specifically, Saudi Arabia is planning to launch its Wa’ad al-Shammar phosphate project in 2016. As a result, the country will increase its phosphoric acid output by 1.5 million tonnes by 2018. Morocco is also planning to boost the capacity of its phosphate hub in Jorf Lasfar. This will help the country build up its phosphoric acid output by 20% to 5.4 million tonnes.

Global phosphoric acid supply and demand, 2012–2014, m metric tonnes

<table>
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<tr>
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<tr>
<td>2013</td>
<td>46.9</td>
<td>42.4</td>
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<tr>
<td>2014F</td>
<td>48.0</td>
<td>43.1</td>
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</table>

Global urea supply and demand, 2012–2014, m metric tonnes

<table>
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<tr>
<th>Year</th>
<th>Supply</th>
<th>Demand</th>
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</thead>
<tbody>
<tr>
<td>2012</td>
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<td>161.9</td>
</tr>
<tr>
<td>2013</td>
<td>182.9</td>
<td>168.9</td>
</tr>
<tr>
<td>2014F</td>
<td>199.2</td>
<td>179.9</td>
</tr>
</tbody>
</table>
Potassium fertilizers

In 2013, the supply of potassium fertilizers exceeded demand by 9.4 million tonnes after new capacities were commissioned in North America and Eastern Europe, with US Intrepid, OJSC Uralkali and JSC Belaruskali being major contributors. Demand stayed flat year-on-year, while exports grew slightly from 38.3 million to 39.8 million tonnes. We estimate that, in 2014, the supply vs. demand ratio for potassium fertilizers will stay at the level of 2013.

Global potassium fertilizer supply and demand, 2012–2014, m metric tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Supply</th>
<th>Demand</th>
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<td>2014F</td>
<td>33.4</td>
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</table>
**MINERAL FERTILIZER MARKET**

**Domestic market**

### Production of mineral fertilizers in Russia

In 2013, Russia produced 17.4 million tonnes of mineral fertilizers in nutrient value, representing a 3.6% increase year-on-year. Growth was supported by an increase in the output of nitrogen and potassium fertilizers, while the output of phosphate fertilizers decreased slightly due to adverse global market conditions.

In the reporting period, volumes of nitrogen fertilizers grew by 2.7% year-on-year to 8.24 million tonnes in nitrogen terms (a record high for the last 20 years). Growth was driven by mounting export shipments.

In 2013, output of potassium fertilizers rose by 7.5% year-on-year to 6.08 million tonnes of K₂O. This growth was made possible by a surge in the potash output by OJSC Uralkali.

In 2013, the share of nitrogen fertilizers in the total output of Russian mineral fertilizers dropped slightly: by 0.4% year-on-year (47.3% against 47.7% in 2012), with the share of phosphate fertilizers declining by 0.8% year-on-year (17.8% against 18.6% in 2012) and the share of potassium fertilizers increasing by 1.3% year-on-year (34.9% against 33.6% in 2012).

### Breakdown of mineral fertilizer output in Russia

- **N**: 17.8%
- **K₂O**: 47.3%
- **P₂O₅**: 34.9%

Nitrogen fertilizers accounted for the bulk of mineral fertilizers produced in 2013: 48% (only slightly lower than in 2012). The output of potassium fertilizers, net of K₂O in complex fertilizers, accounted for 24% against 21% in 2012. The share of NPK fertilizers of all types, including prefabricated fertilizer blends, stood at 16% (17% in 2012) of the total amount of fertilizers. As with the year before, conventional phosphate fertilizers (DAP/MAP) accounted for 10% of total fertilizer output. Other fertilizers accounted for 3%, at the same level as 2012. In 2013, the share of the three core fertilizers (potash (23%), ammonium nitrate (20%), and urea (16%)) accounted for 59% of total mineral fertilizer output by weight.

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*Hereinafter this subsection uses the data from a survey by Azotecon-Plus, unless otherwise indicated.*
Domestic consumption

In 2013, Russian agricultural companies acquired 2.4 million tonnes of mineral fertilizers in nutrient value (a 3.1% decline year-on-year). In 2013, purchases of nitrogen and potassium fertilizers recorded a decline (-2.5% and -11.1%, respectively), while those of phosphate fertilizers stayed flat (+0.1%). In the reporting year, agricultural companies acquired 13.9% of the total mineral fertilizers produced in Russia, which represented a 0.9% decline year-on-year.

The drop in sales of mineral fertilizers to the agricultural industry was also caused by a late spring and a summer drought in a number of regions, followed by abnormal precipitation that affected the harvesting campaign and winter sowing. Other adverse factors included the reduction of sugar beet planting (sugar beet consumes a lot of potassium), by approximately 21% year-on-year.

The Russian agricultural industry has seen a recovery over the last decade, pushing fertilizer consumption up. Despite a year-on-year decline in fertilizer consumption in 2013, sales of mineral fertilizers to the agricultural sector grew by 1 million tonnes in nutrient value year-on-year: from 1.4 million tonnes in 2002 to 2.4 million tonnes in 2013.

Export sales

In 2013, exports of Russian mineral fertilizers, including those to CIS countries, dropped by 7.7% year-on-year to 12.8 million tonnes in nutrient value. Exports were pulled down by plummeting global prices for potassium fertilizers. In general, the reporting period saw a drop in Russian exports of potassium fertilizers by 25.2%, while exports of nitrogen and phosphate fertilizers rose by 7.4% and 3.2% year-on-year respectively.

In 2013, Russian producers exported 71% of their total nitrogen fertilizer output (against 67.9% in 2012), and 76.5% of the total phosphate fertilizer output (73.3% in 2012). In the reporting year, the breakdown of mineral fertilizer exports by volume was as follows: potash – 23.2%, urea – 19.4%, NPK – 17.4%, ammonium nitrate – 16.1% and DAP/MAP – 11.1%.

Sales of phosphate rock posted the highest export growth in 2013 for raw materials and intermediate products (37.7% year-on-year). In the reporting year, ammonia exports grew by 11.1% year-on-year. Only sulphur exports declined in 2013 in the Russian sector of raw materials and intermediate products (17.1% year-on-year).

The Russian Ministry of Agriculture estimates that, in 2014, demand by the agricultural sector for mineral fertilizers for seasonal fieldwork will grow to 2.55 million tonnes: 1.76 million tonnes will be required for spring field work and approximately 0.6 million tonnes for winter crops.
Production
URALCHEM today is an efficient and dynamic innovation-driven company. It has become a major agrochemical producer in Russia in just a few years.

Notwithstanding an unfavourable global market for mineral fertilizers, in 2013 we increased commercial output of core products to 6,039 thousand tonnes, up 0.3% year-on-year. URALCHEM Group reinforced its leadership in the nitrogen fertilizers sector in 2013, remaining the top ammonia and ammonium nitrate producer in Russia and the second largest urea producer. Voskresensk Mineral Fertilizers, OJSC (VMF) had to reduce phosphate fertilizer output in 2013, due in large part to adverse conditions on the global phosphate fertilizer market and an inability to renew its contracts with the monopolistic supplier of raw materials on the same terms and conditions.

The Group mitigated the negative effect of price reduction in certain market sectors by increasing output of ammonium nitrate, the product most favoured by the market. In 2013, URALCHEM set a Russian record in ammonia production, demonstrating total output of 2,819 thousand tonnes, up 1.3% year-on-year. Output grew on the back of stable plant operation during the year, steps taken to increase daily output at the facilities in the Perm Territory and MFP KCCW, as well as shorter repair times, and less forced and unscheduled downtime.

Production of ammonium nitrate and its derivatives was up 7% in 2013, reaching 2,789 thousand tonnes. Commercial ammonia output was down slightly (a 3% decrease to 768 thousand tonnes year-on-year, which was attributable to increased ammonium nitrate production), as was urea production (a 2% decrease to 1,138 thousand tonnes year-on-year, caused mainly by a prolonged equipment overhaul at Minudobrenia, OJSC (PMU)). Output of complex fertilizers was down by 5% to 581 thousand tonnes, which resulted from MFP complex fertilizer shop overhaul and lower production at VMF. Production of phosphate fertilizers (MAP/DAP) was down by 13% to 433 thousand tonnes driven by a lower output at VMF.

Having increased its output by 75.1 thousand tonnes, which is a 3.4% increase year-on-year, MFP KCCW was the main contributor to the Group’s production growth in 2013. It was followed by Azot Branch, which demonstrated production growth of 68.9 thousand tonnes or 3.4%. As a year before, MFP KCCW accounted for the biggest share of commercial output (38%) in 2013.
Production efficiency improvement

In 2013, we implemented an integrated programme to modernise our facilities and improve the operational procedures at the Group’s enterprises, which increased labour productivity. In 2013, product output per employee increased by 14.1% to 912 tonnes/employee at PMU, by 15.3% to 753 tonnes/employee at Azot Branch, and by 15.4% at MFP KCCW, reaching 652 tonnes/employee. However, VMF’s output per employee dropped by 7.3% to 331 tonnes/employee, caused by a lower output of phosphate fertilizers.

In 2013, the Group continued to maintain focus on cost optimisation. We took steps to cut fixed costs, reduce consumption of basic raw materials and energy resources, streamline expenses on procurement of other raw materials, improve energy efficiency and set repair cost limits.

In the reporting period, URALCHEM took many efforts to shorten unscheduled downtime at its core production facilities. This resulted in a 12% reduction of downtime and enabled the Group to increase production of nitrogen fertilizers and ammonia.
Product portfolio extension
URALCHEM Group’s product portfolio is among the most diversified and balanced portfolios in the industry. Although our key objective is to supply mineral fertilizers to agricultural producers, we also produce raw materials for the chemical industry and production of explosives. In total, we produced approximately 80 types of products in 2013.

The Group’s portfolio includes nitrogen, phosphate, and complex mineral fertilizers, with new products added on a regular basis. This enables the Group to satisfy demand for the maximum number of consumers. The Group’s diversified portfolio helps increase flexibility in responding to changes in the external environment and promptly adjust production volumes to mitigate potential losses and gain maximum profit under certain market conditions.

URALCHEM Group’s product portfolio is divided into three segments: base products, derivative products, and premium (niche) products. Base products include ammonia, ammonium nitrate, urea, ammophos and diammonium phosphate. Base products account for the bulk of production and sales. In 2013, their share in the production structure increased significantly year-on-year, totalling 70%.

The Group is striving to diversify its product portfolio as much as possible, initially with innovative products that yield a high margin. URALCHEM continued to expand its product portfolio in 2013, and launched sales of pilot batches of two new products: water-soluble monoammonium phosphate (MAP) produced by VMF and anhydrous calcium nitrate produced by MFP. The launch of both products was a logical step in the development of the Water-Soluble Products project initiated in 2011 to help the Group enter a new fast-growing sector of water-soluble fertilizers. In 2013, these products were sold in more than 20 countries around the world.

In 2013, nitrosulphate NS 30:7 produced by MFP received a 100 Best Products of Russia award, and was also recognised in the New Product of the Year nomination. Nitrosulphate is an innovative product with perfectly balanced nitrogen and serum components. It effectively stimulates consumption of phosphorus by plants, facilitates the uptake of phosphates accumulated in the soil, improving characteristics of agricultural produce, in particular their baking properties.
Distribution and logistics

Railway transportation

The geographic location of the Group’s enterprises and the unique features of its products (mineral fertilizers) make rail the most efficient means of product delivery to buyers. More than 95% of products are delivered by rail. Rail logistics for all the URALCHEM Group’s enterprises is managed by URALCHEM-TRANS, LLC, which has a developed infrastructure and a fleet of owned and leased rail cars.

Railway transportation volumes in 2013 remained unchanged year-on-year and totalled 6.7 million tonnes (including raw materials).

The Group is constantly expanding its rail car fleet in view of growing output and expanding sales geography. In 2013, 400 new cars, including 200 specialised cars for mineral fertilizers (gondola cars) and 200 tank cars, were added to its own fleet. The average annual number of rail cars managed by URALCHEM-TRANS in 2013 was 8,471 rolling stock units, which guaranteed uninterrupted supplies of our products.

In 2013, we continued to improve railway transportation efficiency. In particular, we completed the transfer of enterprises’ rail shop functionality to URALCHEM-TRANS. In this way, we established a single operation point for railway logistics. This enabled us to take an integrated approach to URALCHEM Group’s transportation management and redistribute rolling stock among production facilities taking into account the current situation, as well as to interact promptly with contracting forwarding agents and reduce transportation costs.
As with the year before, transportation of the Group’s finished products along direct exit routes was actively promoted in 2013. Over the year, 108 block trains with ammonia and 434 block trains with fertilizers were dispatched from the Group’s production facilities, a more than two-fold increase year-on-year. Total savings from rail rates amounted to US$3.1 million and more than doubled compared to 2012.

URALCHEM-TRANS branches have their own facilities for rolling stock maintenance, including both pre-load servicing at the plants and scheduled repairs at the Murashi depot (the Kirov Region). The Group is taking steps to maximise the workload of its maintenance infrastructure. The Murashi depot is able to perform any preventive repairs on its rolling stock, with the exception of overhauls for rail car life extension.

Transportation services to third parties are also provided to minimise empty runs after unloading of mineral fertilizers. Such services to external customers yielded US$3.8 million in 2013.

Sea shipments
Export supplies are delivered mainly by sea. Products are transported to a seaport either by rail or river (in summer). Product transhipment at seaports and transportation by sea are arranged by SIA URALCHEM Trading (Riga, Latvia) which, apart from export sales of the Company’s products, is also responsible for loading goods at ports and chartering vessels.

In 2013, URALCHEM Group shipped its products through the ports of Saint Petersburg, Riga, Vyborg, and Novorossiysk. In total, 3,372 thousand tonnes of commercial products, including 3,078 thousand tonnes of fertilizers and 294 thousand tonnes of ammonia, were shipped for export via ports, which is a 4% increase year-on-year.

In late 2013, URALCHEM Group, together with SIA Rīgas tirdzniecības osta, Latvia, commissioned a new specialised port terminal for storage and transhipment of up to 2 million tonnes of bulk fertilizers per year. Its own port facilities will enable the Group to ensure more reliable export supplies in 2014 (for more details on construction of the port in Riga see ‘Investment programme and capital investments’ section on page 44).

Road transportation
In 2013, we continued to promote deliveries by road to end buyers in Russia and almost doubled the amount of fertilizers transported by road year-on-year. Road transport was used mainly for ammophos and diammophoska produced at VMF. The Group will expand such deliveries as long as they are cost efficient and comply with transportation safety requirements.
Sales
In 2013, URALCHEM Group’s sales of finished products by volume remained nearly flat year-on-year, totalling 5,794 thousand tonnes, with 69% of sales falling to exports to non-CIS countries and 31% attributable to sales in Russia and the CIS.

Commercial product sales by world region (by volume)

Sales in Russia and the CIS
The Group sold 1,785 thousand tonnes of products in Russian and CIS markets in 2013, up by 2 thousand tonnes year-on-year. Conventionally, most Russian and CIS demand was for ammonium nitrate and its derivatives, accounting for 48.1% of sales or 859.3 thousand tonnes, down by 51 thousand tonnes year-on-year. Decreased ammonium nitrate sales in the Russian and CIS markets were driven by increased export sales of this product. Urea sales totalled 199.5 thousand tonnes, flat with respect to 2012, while mono- and diammonium phosphate sales grew moderately to 198.2 thousand tonnes. The share of sales of complex fertilizers also increased moderately year-on-year to reach 9.2% or 164.5 thousand tonnes. Ammonia sales remained flat compared with 2012, amounting to 130.9 thousand tonnes.

In 2013, we continued to improve sales efficiency in line with a marketing policy focused on product promotion, as well as work with distributors and end consumers in the regions where we operate. The total share of direct sales has remained unchanged since 2012, slightly above 75%. We are committed to promoting direct sales, thereby increasing our sales income.

In the Russian and CIS markets, the Group’s products are sold by URALCHEM Trading House (URALCHEM TH), based in Perm. URALCHEM TH has offices in Moscow, Voskresensk, Nizhny Novgorod, Kirovo-Chepetsk and Bereznik, as well as a mineral fertilizer storage depot in Sergach, the Nizhny Novgorod Region.

Domestic sales promotion is focused on direct sales to agricultural producers. Early in 2013, URALCHEM TH launched a trade policy governing the negotiation process and pricing strategies to sell mineral fertilizers and established other rules on interacting with URALCHEM TH customers for mineral fertilizer sales on the Russian market. The key goal of the trade policy is to establish an objective and transparent pricing mechanism in Russia’s commodity markets and balance the interests of URALCHEM Group and consumers of our products. Strict adherence to the trade policy has facilitated the expansion of the Group’s customer base and has driven direct sales in Russia.
Export sales
URALCHEM Group exported 4,009 thousand tonnes of products in 2013, nearly flat compared with 2012.

As in Russia, the bulk of foreign demand was for ammonium nitrate and its derivatives, accounting for 46.4% of export supplies. Sales of ammonium nitrate and its derivatives increased by 9% (or 151 thousand tonnes) year-on-year to reach 1,860 thousand tonnes. This positive trend came with a favourable market environment. Urea sales in 2013 dropped by 47 thousand tonnes year-on-year, mainly as a result of lower output. Urea sales accounted for 23.3% of all products sold outside Russia and the CIS (933 thousand tonnes). Ammonia sales remained almost unchanged compared with 2012 and amounted to 13.6% (547 thousand tonnes) of total exports. Export sales of mono- and diammonium phosphate decreased by 103 thousand tonnes due to a drop in demand caused by an unfavourable global market for phosphate fertilizers, amounting to 5.6% (224 thousand tonnes).

Thus, ammonium nitrate and its derivatives, urea, NPKS complex fertilizers, and ammonia enjoy steadily high demand in foreign markets.

The Group exported its products to over 60 countries in 2013.
Investment programme and capital investments

In 2013, URALCHEM Group continued to implement its long-term investment programme focused on new production projects, technical re-equipment of existing facilities, and acquisition of promising assets. The long-term goal of the investment programme is to increase output (including the launch of new high-margin products), improve efficiency and reduce resource consumption.

The 2013 capital investment programme was focused on the following top-priority projects:
- replacing worn-out and obsolete equipment;
- driving performance and increasing the environmental safety of production;
- launching new high-margin products;
- developing logistics through expansion of the rail car fleet and construction of proprietary port facilities.

In 2013, capital investments increased by 5.5% and totalled US$174 million, including US$84 million spent on investment projects, US$77 million invested in upgrading worn-out and obsolete equipment, and US$13 million expended on capitalised repairs.

The Group invested in three areas:
- Investment projects – aimed at developing new products or technologies to improve workflow efficiency. URALCHEM’s KPIs are increased output and/or reduced resource consumption.
- Capital investments – aimed at maintaining or upgrading existing facilities.
- Capitalised repairs – carried out every 18 months or more to keep equipment in serviceable condition.

URALCHEM Group’s investments by area in 2013

<table>
<thead>
<tr>
<th></th>
<th>US$m</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment projects</td>
<td>84</td>
<td>48%</td>
</tr>
<tr>
<td>Capital investments</td>
<td>77</td>
<td>44%</td>
</tr>
<tr>
<td>Repairs (beyond 18 months)</td>
<td>13</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>174</td>
<td>100%</td>
</tr>
</tbody>
</table>

Investments by the Group’s enterprises in 2013, US$m

<table>
<thead>
<tr>
<th></th>
<th>US$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFP KCCW</td>
<td>46</td>
</tr>
<tr>
<td>Azot Branch</td>
<td>41</td>
</tr>
<tr>
<td>Minudobrena</td>
<td>26</td>
</tr>
<tr>
<td>Voskresensk Mineral Fertilizers</td>
<td>13</td>
</tr>
<tr>
<td>Fertilizer transhipment terminal in the seaport of Riga</td>
<td>34</td>
</tr>
<tr>
<td>Other</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>174</td>
</tr>
</tbody>
</table>

Key investment projects in 2013

**MFP KCCW**

Investments: US$46 million.

In 2013, investments at MFP KCCW were primarily aimed at building up capacity to manufacture new products and renovating the existing plants to increase output of mineral fertilizers and chemical products.

We continued a project to launch a new product – calcium nitrate (anhydrous and dihydrate). The project’s total budget will be US$16 million. In 2013, we purchased new core equipment to produce calcium nitrate dihydrate, and began assembly and installation work. The first stage of production is scheduled to be launched in Q1 2014, while the second stage, i.e., production of calcium nitrate dihydrate to be used as a mineral fertilizer, is expected to be completed in late 2014. Production is expected to reach full capacity in 2015.

In 2013, design and working documents were drafted for re-equipment of existing complex mineral fertilizer production facilities to achieve a significant increase in NS 30:7 nitro sulphate output. Project development will be completed in Q1 2014.

In 2013, a project to increase ammonia plant capacity continued, and its capacity reached 1,700 tonnes per day. The project’s budget totalled US$7.6 million.
In 2013, we completed a project launched in the previous year to increase the capacity of one of the two nitric acid plants. This project’s implementation helped increase the output of ammonium nitrate, for which nitric acid is a raw material. The project’s budget totalled US$7.2 million. We also began similar work on the other nitric acid plant, which will be completed in 2014.

In 2013, the Group completed a project to build up ammonium nitrate solution production capacities and re-equip its magnesium additive production unit. The project has enabled us to increase ammonium nitrate output and improve production safety.

Among the key projects in 2013 was the introduction of an automated workflow control system at the ammonia plant. Project completion is expected in 2014. The new system will streamline workflow control and reduce unscheduled downtime.

Azot Branch
Investments: US$41 million.
In 2013, investments at Azot Branch were made primarily in projects to increase production and reduce raw materials consumption at ammonia, urea and nitric acid plants.

In 2013, we implemented a number of projects to replace production equipment with a view to ensuring uninterrupted operation of the enterprise, including:

- purchasing and installing a feed water heater at one of the ammonia production shops;
- purchasing and installing a stage I distillation condenser for the urea production shop.

In 2013, we implemented a project to modernise the industrial control system (ICS) for ammonia at one of the ammonia production shops, and started a similar project at another shop.

In 2013, the enterprise completed preparations and purchased core production equipment for a number of projects, including:

- replacing the synthesis gas compressor turbine;
- purchasing and installing a feed water heater at one of the ammonia production shops;
- upgrading the absorption plant for syngas purification.

Equipment installation and commissioning within these projects is scheduled to take place during shutdown repairs in 2014.

In 2013, URALCHEM Group launched a project to renovate Beraton biological treatment facilities, with investments exceeding US$13 million.

Minudobrenia
Investments: US$26 million.
In 2013, we continued the ammonia plant modernisation investment programme at PMU to increase output, reduce raw materials consumption and mitigate the impact of weather conditions on uninterrupted plant operation.

In 2013, the ammonia plant modernisation programme completed the following steps:

- upgrading a steam turbine and process air compressor;
- upgrading a steam turbine and synthesis gas compressor;
- installation of an additional ammonia evaporative condenser.

The initial results of the plant’s operation in Q4 2013 confirmed the effectiveness of these steps.

Voskresensk Mineral Fertilizers
Investments: US$13 million.
The largest and the most important project at VMF in 2013 was the construction of a plant to produce a new premium fertilizer: high-purity mono-ammonium phosphate. The plant was launched in spring 2013. Workflow was adjusted to meet customer demands regarding product quality. Core production equipment will be manufactured and assembled in 2H 2014. Investment in this project will exceed US$10 million.

Fertilizer transhipment terminal in the seaport of Riga
Investments: US$34 million.
Construction of the first phase of a 2 million tonnes-per-year fertilizer transhipment terminal in the port of Riga was among the Group’s most important infrastructure projects. The terminal is intended to service all classes of vessels used in the Baltic Sea for mineral fertilizer transhipment. To implement this project, a joint venture, SIA Riga Fertilizer Terminal, was incorporated, with 51% owned by URALCHEM Group and the remaining 49% held by SIA Rīgas tirdzniecības osta.

The terminal was launched in Q4 2013 and will reach its maximum transhipment capacity in 2014. Investments in this project will total US$78 million, with US$34 million invested in 2013.
In 2013, URALCHEM Group further invested in building up its rolling stock. Finance leasing was used to fund the acquisition of new cars and tank cars. In 2013, approximately US$3 million was spent on 200 new gondola cars, as well as 200 new and 151 used ammonia tank cars. On the one hand, advance-free finance leasing enabled the Company to buy more cars and, and on the other hand, to cut rail car lease costs in 2013 by US$5 million through savings on advance payments.

Apart from leasing, URALCHEM-TRANS made its own capital investments of US$7 million, including US$2 million spent on investment projects to create and develop infrastructure facilities, and US$5 million invested in maintenance and upgrades to fixed assets.

Investments in OJSC Uralkali
The robust performance of URALCHEM Group helped the Company reduce the debt ratio to its historical minimum in early 2013, with net debt/EBITDA of 1.0x, and also demonstrate strong financial performance. A decision was made to acquire 19.99% of shares in the authorised capital of OJSC Uralkali, a major Russian and global producer of potassium fertilizer enjoying high margins and profitability. The key goal behind this acquisition is to increase the Company’s own capitalisation and gain profit in the form of dividends. The belief that the potassium fertilizer market has solid growth potential and favourable long-term prospects to a large extent contributed to this important investment decision.

R&D and innovation
URALCHEM is actively investing in R&D and introducing unique technologies to improve product quality, launch new products, increase labour productivity, reduce raw materials consumption, and enhance energy efficiency and environmental safety of its production facilities. The Group has more than 100 R&D employees, and its R&D expenses totalled US$1.7 million in 2013, a 43.7% increase year-on-year.

In innovative research, URALCHEM Group successfully cooperated with a number of Russian and foreign research centres, institutions and organisations, such as the Lomonosov Moscow State University, Russian Timiryazev State Agrarian University, Penza State University, Novosibirsk State University, Gvozdev Research Institute of Concrete and Reinforced Concrete, CERIB (France), Geneseds Recursos Geneticos LTDA (Brazil), ADUAI Consultoria LTDA (Brazil), and Inifap (Mexico).

Key research areas in 2013 included:
- studying methods of extraction of rare-earth metals (REM) from phosphogypsum (hemihydrate). These studies resulted in the development of a new technology to use hemihydrate phosphogypsum for high recovery of REM (90–95%). This is used to manufacture high-tech products and for obtaining high-purity calcium sulphate dihydrate (gypsum) with qualities similar to that of natural gypsum, which meets construction industry standards;
- a joint project with the National University of Science and Technology MISIS to study methods of extraction of REM from long-term storage phosphogypsum (dihydrate) and methods of removing impurities from phosphogypsum dihydrate. This made it possible to process phosphogypsum dihydrate to extract REM and remove phosphates and fluorides through an improved process;
- studying methods to obtain chloride-free potassium sulphate by processing fused potassium disulphate in a steam atmosphere, making it possible to obtain K2 S2 O4 with low residual chloride.

In 2013, URALCHEM partnered with Stamicarbon, a global leader in urea production technology development and licensing, to develop a new urea production technology. The new technology, which will be based on Stamicarbon’s intellectual property and the results of joint research conducted by the Group and the Faculty of Chemistry at the Lomonosov Moscow State University, will help produce urea of better quality and at lower cost.
This financial performance overview is based on the audited consolidated IFRS financial statements of URALCHEM UCC, OJSC for the year ended on 31 December 2013.

Key financial indicators
In 2013, unfavourable global market conditions and declining mineral fertilizer prices were among the key factors affecting the Group’s financial performance. Notwithstanding the adverse market environment, URALCHEM continued to pursue its strategy of improving operational efficiency by streamlining its production, logistics, financial and administrative costs. This allowed the Group to mitigate the negative impact of declining mineral fertilizer prices and generate a positive cash flow. In 2013, the acquisition of a 19.99% stake in OJSC Uralkali and revaluation of VMF’s assets, which was driven by challenges with raw material supplies and phosphate fertilizer prices, were significant contributors that dramatically affected the contents and structure of the Group’s financial statements.

Although the Group’s commercial output in 2013 remained flat year-on-year, its revenues decreased by 7% to US$2,265 million due to declining mineral fertilizer prices.

In 2013, the Group’s EBITDA² was US$632 million, down by US$202 million or 24% year-on-year. EBITDA dropped on the back of decreasing revenue and increasing prices for raw materials. EBITDA margin was 28%, down by 6% year-on-year, but is still at the top of the industry.

In 2013, consolidated net profit dropped to US$261 million, down by US$403 million year-on-year. Net profit was pulled down by lower gross profit resulting from an unfavourable pricing environment, exchange rate differences and revaluation of VMF’s assets.

In 2013, the Group’s net debt increased dramatically from US$845 million to US$4,552 million, driven by a long-term loan raised to purchase shares in OJSC Uralkali.

In 2013, revenue per employee remained flat year-on-year due to efficient business performance and sale/dissolution of non-core businesses. In 2013, EBITDA per employee decreased by US$13,000 year-on-year to US$55,000.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial output, ’000 tonnes</td>
<td>6,039</td>
<td>6,024</td>
<td>5,093</td>
</tr>
<tr>
<td>Growth rate</td>
<td>0.3%</td>
<td>18%</td>
<td>5%</td>
</tr>
<tr>
<td>Revenue, US$m</td>
<td>2,265</td>
<td>2,423</td>
<td>2,080</td>
</tr>
<tr>
<td>Growth rate</td>
<td>-7%</td>
<td>16%</td>
<td>50%</td>
</tr>
<tr>
<td>EBITDA, US$m</td>
<td>632</td>
<td>834</td>
<td>751</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>28%</td>
<td>34%</td>
<td>36%</td>
</tr>
<tr>
<td>Net profit, US$m</td>
<td>261</td>
<td>664</td>
<td>447</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>12%</td>
<td>27%</td>
<td>21%</td>
</tr>
<tr>
<td>Net debt, US$m</td>
<td>4,552</td>
<td>845</td>
<td>937</td>
</tr>
<tr>
<td>Net debt/EBITDA</td>
<td>7.2</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Revenue per employee, US$</td>
<td>197,094</td>
<td>196,898</td>
<td>183,952</td>
</tr>
<tr>
<td>Growth rate</td>
<td>0.1%</td>
<td>7%</td>
<td>64%</td>
</tr>
<tr>
<td>EBITDA per employee, US$</td>
<td>54,829</td>
<td>67,777</td>
<td>66,420</td>
</tr>
<tr>
<td>Growth rate</td>
<td>-19%</td>
<td>2%</td>
<td>164%</td>
</tr>
<tr>
<td>Commercial output per employee, tonnes</td>
<td>525</td>
<td>490</td>
<td>450</td>
</tr>
<tr>
<td>Growth rate</td>
<td>7%</td>
<td>9%</td>
<td>15%</td>
</tr>
</tbody>
</table>

² Earnings before interest, taxes, depreciation, and amortisation.
Revenue
In 2013, URALCHEM Group’s revenue was US$2,265 million versus US$2,423 million in 2012. This indicator deteriorated due to negative price trends on the mineral fertilizer market. In this context, the revenue breakdown by product changed moderately in 2013, with nitrogen fertilizers increasing by 2% to 73%, compensating for decreasing phosphate fertilizer sales caused by the uncertainty around apatite supplies to VMF and an unfavourable phosphate fertilizer market environment.

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fertilizers</td>
<td>2,179</td>
<td>2,333</td>
<td>1,998</td>
<td></td>
<td>-7%</td>
<td>17%</td>
</tr>
<tr>
<td>Mineral fertilizers</td>
<td>1,761</td>
<td>1,889</td>
<td>1,692</td>
<td></td>
<td>-7%</td>
<td>12%</td>
</tr>
<tr>
<td>Ammonia</td>
<td>334</td>
<td>359</td>
<td>231</td>
<td></td>
<td>-7%</td>
<td>52%</td>
</tr>
<tr>
<td>Inorganic acids</td>
<td>31</td>
<td>33</td>
<td>30</td>
<td></td>
<td>-6%</td>
<td>10%</td>
</tr>
<tr>
<td>Other fertilizers</td>
<td>53</td>
<td>52</td>
<td>45</td>
<td></td>
<td>2%</td>
<td>14%</td>
</tr>
<tr>
<td>Other businesses</td>
<td>86</td>
<td>90</td>
<td>82</td>
<td></td>
<td>-4%</td>
<td>10%</td>
</tr>
<tr>
<td>Total revenue</td>
<td>2,265</td>
<td>2,423</td>
<td>2,080</td>
<td></td>
<td>-7%</td>
<td>16%</td>
</tr>
</tbody>
</table>

In 2013, revenue by geographic location saw no major changes. As in past years, non-CIS product sales accounted for the greatest share of income, approximately 70%.

Cost of production
In 2013, URALCHEM Group’s production costs increased by 3% year-on-year to US$1,052 million. This was primarily the result of increased natural gas, energy, repair and labour costs.

In 2013, the Group’s raw materials costs increased by 2.6% to US$667 million. As in the previous year, natural gas accounted for the largest share of such costs. In 2013, URALCHEM’s natural gas procurement costs increased to US$403 million, 12% higher than in 2012. Greater natural gas costs mainly resulted from an approximate 14% tariff increase, which was partially offset by lower gas consumption rates during ammonia production. Other production costs were reduced by changing the output balance, specifically by increasing nitrogen fertilizer output. For phosphate rock, costs decreased by US$23 million, which was primarily due to decreasing phosphate fertilizer output.

The Group is reducing its costs for potassium chloride through a 4% decrease in procurement prices and changes in the output balance. For sulphur, the Group is cutting costs through lower output, responding to poor demand on the sulphuric acid market, and, consequently, through reduced sulphuric acid output at VMF.

Revenue from mineral fertilizer sales

<table>
<thead>
<tr>
<th>Revenue from mineral fertilizer sales</th>
<th>US$m</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nitrogen fertilizers</td>
<td>1,293</td>
<td>1,346</td>
<td>1,058</td>
<td></td>
</tr>
<tr>
<td>Share of nitrogen fertilizers</td>
<td>73%</td>
<td>71%</td>
<td>63%</td>
<td></td>
</tr>
<tr>
<td>Phosphate fertilizers</td>
<td>213</td>
<td>286</td>
<td>344</td>
<td></td>
</tr>
<tr>
<td>Share of phosphate fertilizers</td>
<td>12%</td>
<td>15%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Complex fertilizers</td>
<td>255</td>
<td>257</td>
<td>290</td>
<td></td>
</tr>
<tr>
<td>Share of complex fertilizers</td>
<td>15%</td>
<td>14%</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>Total mineral fertilizers</td>
<td>1,761</td>
<td>1,889</td>
<td>1,692</td>
<td></td>
</tr>
</tbody>
</table>
URALCHEM Group’s cost of production

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost of production:</strong></td>
<td>1,052</td>
<td>1,023</td>
<td>868</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Raw materials</td>
<td>667</td>
<td>650</td>
<td>541</td>
<td>63%</td>
<td>62%</td>
</tr>
<tr>
<td>Energy and utilities</td>
<td>157</td>
<td>141</td>
<td>134</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Staff costs</td>
<td>121</td>
<td>117</td>
<td>102</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>81</td>
<td>78</td>
<td>69</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>14</td>
<td>10</td>
<td>7</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
<td>29</td>
<td>15</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

URALCHEM Group’s raw materials costs

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Natural gas</td>
<td>403</td>
<td>359</td>
<td>285</td>
<td>12%</td>
<td>26%</td>
</tr>
<tr>
<td>Phosphate rock</td>
<td>129</td>
<td>152</td>
<td>134</td>
<td>-15%</td>
<td>13%</td>
</tr>
<tr>
<td>Potassium chloride</td>
<td>32</td>
<td>46</td>
<td>28</td>
<td>-30%</td>
<td>64%</td>
</tr>
<tr>
<td>Sulphur</td>
<td>20</td>
<td>24</td>
<td>33</td>
<td>-17%</td>
<td>-27%</td>
</tr>
<tr>
<td>Other</td>
<td>83</td>
<td>69</td>
<td>61</td>
<td>20%</td>
<td>13%</td>
</tr>
<tr>
<td>Total raw materials</td>
<td>667</td>
<td>650</td>
<td>541</td>
<td>2,6%</td>
<td>20%</td>
</tr>
</tbody>
</table>

URALCHEM Group’s energy and utilities costs increased by 11% year-on-year, due to an 8% increase in electricity tariffs, as well as a considerable increase in other utility tariffs.

In 2013, staff costs increased by 3.4% to US$121 million. This growth was driven by increased compensation at the Group’s enterprises under incentive, employee retention and employee development schemes.

In 2013, the Group successfully addressed the challenge of efficiently managing production costs. Despite growing tariffs on key resources – a 14% increase for natural gas and an 8% increase for electricity – aggregate growth in production costs did not exceed 3% while output remained flat year-on-year. In 2014, URALCHEM will maintain its focus on improving production efficiency.

**Selling and administrative expenses**

In 2013, the Group’s selling, distribution and administrative expenses increased by 4% to US$695 million, primarily resulting from an increase in selling and distribution expenses derived from growing FOB and CFR sales, increased freight rates versus 2012 and changes in the shipment balance.
### Selling, distribution and administrative expenses

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Selling, distribution and administrative expenses</td>
<td>695</td>
<td>671</td>
<td>552</td>
<td>4%</td>
<td>22%</td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling and distribution expenses</td>
<td>524</td>
<td>498</td>
<td>443</td>
<td>5%</td>
<td>12%</td>
</tr>
<tr>
<td>Administrative and other expenses</td>
<td>171</td>
<td>173</td>
<td>109</td>
<td>-1%</td>
<td>59%</td>
</tr>
</tbody>
</table>

### Selling and distribution expenses

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling and distribution expenses</td>
<td>524</td>
<td>498</td>
<td>443</td>
<td>5%</td>
<td>12%</td>
</tr>
<tr>
<td>Transportation</td>
<td>429</td>
<td>416</td>
<td>378</td>
<td>3%</td>
<td>10%</td>
</tr>
<tr>
<td>railway tariff</td>
<td>217</td>
<td>210</td>
<td>181</td>
<td>3%</td>
<td>16%</td>
</tr>
<tr>
<td>freight and transshipment</td>
<td>153</td>
<td>138</td>
<td>139</td>
<td>11%</td>
<td>-1%</td>
</tr>
<tr>
<td>rail car rent</td>
<td>37</td>
<td>44</td>
<td>40</td>
<td>-16%</td>
<td>10%</td>
</tr>
<tr>
<td>other</td>
<td>22</td>
<td>24</td>
<td>18</td>
<td>-8%</td>
<td>33%</td>
</tr>
<tr>
<td>Staff costs</td>
<td>35</td>
<td>27</td>
<td>21</td>
<td>30%</td>
<td>29%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>18</td>
<td>15</td>
<td>12</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Advertising and marketing</td>
<td>9</td>
<td>10</td>
<td>8</td>
<td>-10%</td>
<td>25%</td>
</tr>
<tr>
<td>Customs duties and other costs</td>
<td>33</td>
<td>30</td>
<td>24</td>
<td>10%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Staff costs attributable to employees engaged in logistics, product distribution and marketing grew on the back of increased headcount, revised compensation and greater contributions to social funds.

In 2013, URALCHEM significantly reduced its rail car rent costs by 16% to US$37 million owing to its consistent strategy of expanding proprietary rolling stock. This also resulted in increased depreciation costs (by 20% to US$18 million). Despite growing depreciation charges, the Group will continue to expand its rail car fleet to provide for logistics security and improve its overall operating performance.

### Debt burden

In 2013, URALCHEM Group’s debt burden increased 4.6-fold to US$4,668 million. The debt burden increased considerably after the Group raised credit funds to purchase a 19.99% stake in OJSC Uralkali. These credit funds were received under a long-term loan, denominated in foreign currency.
The Group had been steadily reducing its debt and interest expenses in 2013 until the acquisition. Notwithstanding the considerable debt increase in December, the Group managed to keep total interest payments flat year-on-year.

URALCHEM Group has experience in successfully managing large debt. In 2009, for example, the Group’s net debt/EBITDA ratio was the highest in the industry, but by the end of 2012 it managed to achieve the lowest debt value among Russian peers, 1x. URALCHEM believes it will be able to successfully address its increased debt given the expected boost in value of the acquired OJSC Uralkali shares and their high dividend yield.

**Cash flow and capital expenditures**

Net cash flow from operating activities totalled US$473 million in 2013 versus US$664 million in 2012. This negative trend resulted, first of all, from decreased mineral fertilizer prices causing the Group’s cash revenue from product sales to drop. Net cash flow from financing activities increased dramatically and amounted to US$3,397 million, attributable to the loan raised by URALCHEM Group to finance the acquisition of a block of shares in OJSC Uralkali.

In 2013, URALCHEM Group continued to pursue its large-scale investment programme to re-equip its existing assets, build up capacity to manufacture new products, and improve its performance. Investments over the year totalled US$174 million, up by 5.5% year-on-year. Completed construction of a 2 million tonne-per-year fertilizer transhipment terminal in the port of Riga was the Group’s most important infrastructure project, where total investments amounted to approximately US$78 million, including US$34 million invested in 2013.

Notwithstanding lower revenue, higher prices for key resources, increased investments and allocations made to buy a stake in the authorised capital of OJSC Uralkali, the Group dramatically reduced net cash outflow, from US$93 million in 2012 to US$46 million in 2013. As of the end of the reporting period, the Group had US$116 million in cash.
Our investment programme is intended to assist the modernisation of our asset base; create greater capacity for production of new products; and improve operational efficiency.
URALCHEM Group’s efforts in the near future will be focused on increasing production efficiency, reducing specific emission and waste rates and further upgrades of production equipment to use more eco-friendly solutions.

Environmental protection
Environmental policy
URALCHEM Group takes responsibility for the environmental impact of its business. Our commitment to environmental safety is strong and growing as we seek to minimise our footprint.

In using natural resources and protecting the environment, the Group is governed by internal policies that ensure compliance of its operations with the law, balance its business interests with the needs of society, and provide for investments into rational use of natural resources and eco-conscious production methods. Policies also focus on continuous monitoring of the Group’s environmental impact.

Our environmental policies guide MFP KCCW, Azot Branch, PMU and VMF in their efforts to introduce state-of-the-art process units and emission and discharge treatment solutions, ensure proper waste disposal and reclaim their waste disposal sites.

Environmental management
The Group’s environmental activities are managed by the Group’s Environmental Service and are based on Russian environmental regulations, URALCHEM’s internal documents, and advanced environmental management systems such as ISO 14001.

Special units within the Group are responsible for developing and updating environmental documents and procedures, the Group’s mandatory environmental reporting and internal environmental audits.

Compliance with international standards
Environmental management systems in place at PMU, VMF, MFP KCCW and Azot Branch are certified to ISO 14001:2004. In 2013, compliance audits of these production facilities demonstrated full compliance of their environmental management systems with ISO 14001:2004 requirements.

URALCHEM ensures compliance with European legislation on the circulation of chemical substances and all applicable standards, performing required checks on the contents of exported products and their toxic and ecotoxic properties.

Labelling
For its supplies to EU countries, URALCHEM follows the CLP Regulation’s requirements.

The products exported to the EU are labelled according to the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and CLP Regulation. To meet the requirements of CLP Regulation (EC) No. 1272/2008 the Group regularly reviews classification of its chemicals and updates labels as necessary.

Products delivered to other countries are subject to the Globally Harmonised System of Classification and Labelling of Chemicals (GHS), regulations of importing countries and customer preferences.
Reduction of emissions
URALCHEM consistently implements environmental measures to ensure compliance with emission standards. Despite production growth, we are still below acceptable limits. We are continuously upgrading and renovating our emissions and wastewater treatment systems.

URALCHEM Group seeks to minimise its industrial wastewater discharge and ensure the best possible water treatment with state-of-the-art, multi-level water treatment and re-use systems.

All URALCHEM Group production facilities are certified to ISO 14001.

In 2013, the Group had its anhydrous calcium nitrate product registered by the European Chemicals Agency as complying with Regulation (EC) No. 1907/2006 (REACH), which enables supplies of this product to the European Union.
Energy and resource conservation
The Group has developed an energy and resource conservation plan to 2016. Our production capacity is constantly growing, and so is our need for electric power. Nevertheless, through our regular key production equipment upgrades, energy consumption per tonne of ammonia was cut across the Group by 1.66 kWh in 2013 year-on-year.

In 2013, six out of nine priority retrofit projects scheduled for the year on core process equipment were completed, including reduction of specific natural gas consumption and production ramp-up, with the amount of natural gas consumed by the Group for ammonia production cut from 1,159 Nm³ in 2011 to 1,130 Nm³ in 2013. The other three projects are expected to be completed in 2014.

Our current medium-term objective is to achieve a 3% annual reduction in water consumption to less than 50 million m³ per year.

River water is primarily used in demineralisation plants and water cooling systems at production sites. We have designed a series of projects aimed at water conservation and improved wastewater treatment to be implemented by 2016. These include replacement of water circulation systems, introduction of chemical water treatment systems and retrofittings of water cooling systems. In 2013, our specific water consumption for weak nitric acid production was cut by 6 m³/t.

In 2013, the Group carried out the following energy conservation projects:
> introduction of frequency control systems for electrical equipment;
> shift to more energy efficient lighting equipment;
> replacement of worn thermal equipment insulation;
> retrofit of heating systems.

The Group’s gains in energy and resource conservation are leading to increased production efficiency.

Consumption of key energy resources
The table below contains details on URALCHEM Group’s natural gas and power consumption in 2013.

<table>
<thead>
<tr>
<th>Volume, physical value</th>
<th>Volume, monetary value, '000 roubles</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MFP KCCW</strong></td>
<td></td>
</tr>
<tr>
<td>Natural gas, '000 m³</td>
<td>1,485,911</td>
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<tr>
<td>Electric power, kWh</td>
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<tr>
<td><strong>Azot Branch</strong></td>
<td></td>
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<tr>
<td>Natural gas, '000 m³</td>
<td>1,599,278</td>
</tr>
<tr>
<td>Electric power, kWh</td>
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<tr>
<td><strong>PMU</strong></td>
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<tr>
<td>Natural gas, '000 m³</td>
<td>722,065</td>
</tr>
<tr>
<td>Electric power, kWh</td>
<td>105,840,687</td>
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<tr>
<td><strong>VMF</strong></td>
<td></td>
</tr>
<tr>
<td>Natural gas, '000 m³</td>
<td>83,848</td>
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<tr>
<td>Electric power, kWh</td>
<td>265,505,972</td>
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<tr>
<td><strong>URALCHEM Group total</strong></td>
<td></td>
</tr>
<tr>
<td>Natural gas, '000 m³</td>
<td>3,891,102</td>
</tr>
<tr>
<td>Electric power, kWh</td>
<td>1,330,690,121</td>
</tr>
</tbody>
</table>

Energy audit
URALCHEM carries out regular energy audits to inform planning efforts for Company-wide energy conservation activities. Our key focus is on low-cost or medium cost rapid-payback projects; however, we also consider projects with payback periods of more than three years, provided they offer additional environmental or labour safety benefits.

A total of US$ 4.2 million is expected to be invested before 2016 in improvement projects identified by energy audits, with payback periods of between one and four years. The Group plans to invest another US$ 11.7 million in energy conservation before 2016, with payback periods of one to two years.
Waste disposal
URALCHEM implements a consistent programme to reduce its production and consumer waste and resulting impact on the environment.

The Group’s environmental policy is focused on two key areas in waste reduction:
> maximising waste recycling and separation of useful materials for further sale or transfer for use by third parties;
> waste processing and neutralisation by waste treatment companies.

URALCHEM Group has a special unit responsible for targeting prospective consumers of the Group’s industrial waste. In the near future, we are planning to launch a dedicated trading platform to sell components obtained from our industrial waste to interested parties.

In 2013, the Group spent RUB 584 million on environmental activities, up 26% year-on-year. The increase was mostly due to the purchase and installation of an ammonia condenser at Azot Branch to reduce ammonia content in wastewater.
Under URALCHEM Group’s incentive scheme, bonuses are paid both for individual performance and achievements and for meeting team and Group-wide targets.

Human resource management
Skilled and engaged employees are our key asset, ensuring the Group’s steady development. This approach guides URALCHEM in its particular focus on effective human resources management and implementing measures to attract and retain a highly qualified workforce. Each company of the Group ensures full compliance with labour law in their operations. In addition to statutory benefits, employees are offered additional social benefits, a safe working environment and opportunities for career advancement.

URALCHEM is currently one of the largest employers in the Russian fertilizer market. In 2013, the Group’s average headcount was 11,492. We are committed to continuous improvement in labour productivity and working conditions of our employees.

Motivation system
Labour compensation at URALCHEM is based on the current labour market and a performance-based pay system.

The Group regularly participates in market salary surveys to ensure it can offer competitive remuneration comparable to leading manufacturers in the regions where we operate. Employees in pivotal roles that are critical to the Group success and business stability are paid above market levels. At the same time, URALCHEM employs a differentiated remuneration approach, with compensation levels tied to employees’ experience, qualifications and individual performance.

In 2013, salaries across the Group demonstrated an 8.6% year-on-year increase, outstripping both consumer price indices in the regions where we operate and the agreed collective bargaining pay rates.
Under URALCHEM Group’s incentive scheme, bonuses are paid both for individual performance and achievements and for meeting team and Group-wide targets. Our average fixed/variable pay ratio is 70/30.

Employee performance against target is evaluated under the Management by Objectives programme, which currently covers 400 employees across the Group. The Management by Objectives programme was the first to be automated, based on a SuccessFactors (SAP) platform as part of our human resources management automation programme launched in 2013.

The findings of an employee engagement survey conducted by Aon Hewitt for URALCHEM Group in 2013 suggest a 2–5 point rise year-on-year in the pay satisfaction index among industrial employees.
Social security guarantees and benefits
In addition to statutory benefits, URALCHEM Group’s employees are offered additional benefits and allowances, including free meals, voluntary medical insurance policies, allowances for special occasions (weddings, birth of children, etc.), additional paid vacation days, summer camps and New Year’s presents for employees’ children.

Over 80% of the Group’s employees are covered by collective bargaining agreements, which guarantee their social and employment rights, protect their professional interests, and regulate relations between employers, employees and trade unions. Local trade union organisations at Azot Branch, PMU, MFP KCCW and VMF, the Group’s four plants, actively engage in discussions over the pay structure, salary rates, changes in headcount, etc. Trade union social programmes at the enterprise level are supported by URALCHEM.

In 2013, we introduced a new retirement benefit. Employees willing to coach their younger colleagues before retirement are guaranteed an additional allowance.

Education and training
URALCHEM encourages the professional and personal development of its employees. We undertake regular training needs assessments and make necessary arrangements to ensure that our employees can improve their knowledge, skills and competencies.

Professional training
The Group’s professional development system has three pillars:

- mandatory professional training for workers and specialists;
- job-specific training;
- leadership development.

Mandatory professional training for workers and specialists is provided on a regular basis through internal licensed training centres. Two such centres have already been launched at PMU and VMF, and one more internal training centre is being established at Azot Branch.

In 2013, in addition to mandatory professional training, the Group launched the Leadership Development Programme, which is designed to facilitate production efficiency gains through improved management skills. All current and future managers are expected to enrol in the Programme.

In 2013, URALCHEM’s top managers, including Board members went through the Executive Development corporate programme at INSEAD, one of Europe’s leading business schools. In addition, one of the Board members successfully completed the Executive Education programme course in ‘Driving Corporate Performance’ at Harvard Business School.

Succession planning
URALCHEM Group launched a Succession Planning programme, designed to prepare successors for both managerial and blue-collar positions that are critical to sustainable operations across the Group and at the enterprise level.

The programme consists of three stages: assessment of the needs in successor candidates for key staff, identification of suitable candidates and development of their management skills and appointment. Successor candidates can be either nominated by a unit manager or self-nominated. All prospective successors are required to undergo an assessment, differentiated for each level of positions. Successful candidates then complete a special training course.

As of 31 December 2013, the Group had 358 key management positions, 713 specialist positions and 60 skilled worker positions. We are running a targeted successor-training course to fill specific positions.
Attracting young professionals
URALCHEM Group’s human resources policy is focused, among other things, on attracting talented young professionals. This is partly done through proactive and successful cooperation with industry-specific educational establishments.

In 2013, URALCHEM took a number of steps to expand its cooperation with such establishments, including the development of specific corporate programmes to promote partnerships. One example is an agreement that was signed with Vyatka State University to establish a new laboratory to train inorganic chemistry specialists. In addition, we are continuing our internship programme for university students, with internship positions offered across the plants. In 2013, 697 students from 27 educational establishments trained in internships at our production sites.

Enterprises in the Perm Territory run a Ready-To-Use Specialists programme. This facilitates the inflow of skilled labour for the Group and the local economy and refocus the vocational education system to train specialists that are in demand in the industrial sector.

URALCHEM Group is working to make its employment opportunities more attractive to young professionals through its Group-wide Formula of Youth social and educational programme.

In 2013, 157 graduates of technical universities were employed by the Group.

Occupational health and safety
Occupational health and safety have always been a top priority for URALCHEM Group. We ensure strict compliance with OHS rules and regulations, industry OHS standards, and internal harmonised standards for individual protection equipment, contractor cooperation and incident-alert procedures employed across the Group.

PMU, VMF, MFP KCCW and Azot Branch have independently certified OHSAS 18001:2007 integrated OHS systems in place.

The Group runs mandatory medical check-ups for employees engaged in hazardous or transport-related activities or who are exposed to potentially harmful elements. Employees are not allowed to work unless they have passed such an examination and proved that they have no health restrictions.

In 2013, we developed a harmonised OHS Policy and communicated it to every employee. Mandatory Key Safety Rules were introduced across the Group to prevent potentially dangerous situations.

The Group has an OHS Department responsible for regular internal OHS audits. In 2013, audits were carried out at PMU, MFP KCCW and Azot Branch.

Corporate culture and internal communications
We are fully aware of the critical importance of engaging the Group’s employees with its management. In 2013, we further developed our internal communication system and improved communication channels between managers and staff.

At regular on-site meetings, our managers discuss key events and performance with our production site teams and drive the development of action plans.

Team-building events are a particular priority for the Group. In 2013, we held a corporate yacht race to celebrate URALCHEM UCC’s anniversary. We also hold New Year’s events for employees’ children and families.

It is essential for us to acknowledge and celebrate those employees who make significant contributions towards the successful development of their plants. Every year, URALCHEM Group’s top management award Best Employees of the Year with golden commemorative badges and travel or education certificates.

In 2013, over 6,800 URALCHEM employees (more than 62%) participated in various training programmes.
To ensure efficient spending for charitable purposes, all charitable projects are evaluated for their consistency with the areas selected for support and specified in the Policy on Charitable and Sponsorship Activities.

Social investments
Social investments are an integral part of the Group’s activity, and we are committed to making the greatest possible contribution to the development of the regions where we operate. We carry out charitable projects and provide sponsorships in the Moscow and Kirov Regions, the Perm Territory and Latvia to support education and disadvantaged social groups, improve living conditions and public health, and promote participation in sports.

URALCHEM Group’s charitable and sponsorship activities are carried out in accordance with Russia’s federal laws ‘On Charitable Activities and Charitable Organisations’ and ‘On Advertising’ and are grounded in the Group’s internal regulations. The Group’s Policy on Charitable and Sponsorship Activities, which governs our efforts in this area, has been in place since 2011.

URALCHEM Group’s charitable efforts are focused on the following goals:
- balancing the Group’s business interests with the needs of society;
- improving social and economic conditions in the regions where we operate;
- reducing non-financial risks;
- ensuring the implementation of a sustainable development concept.

To achieve these goals, we pursue projects in the following areas:
- increasing participation in sports among children and young people
- supporting health, educational and leisure programmes for children and young people
- supporting veterans
- supporting cultural programmes

In 2013, URALCHEM Group’s charitable expenditure totalled RUB 288 million, up 24% from 2012.
Managing charitable activities
To ensure efficient spending for charitable purposes, all charitable projects are evaluated for their consistency with the areas selected for support and specified in the Policy on Charitable and Sponsorship Activities.

The amount of funds to be allocated for the upcoming year is determined within the Group’s single budgeting process and is subject to approval of the CEO of URALCHEM UCC, OJSC. During the selection process, preference is given to projects that are socially effective and have the greatest favourable impact on the Group’s core business, reputation and image.

Projects
Supporting sports
Healthy lifestyles and participation in sports are critical for quality of life, especially for young people. URALCHEM Group’s businesses provide support to sports associations, programmes and events in the area of children’s and youth sports.

MFP KCCW has been running the URALCHEM for Children programme for many years. In 2013, funds were used to support children’s ice hockey and figure skating classes offered by sports schools in Kirovo-Chepetsk. Thanks to this programme, every young resident of the city has the opportunity to take such classes free of charge. The plant is the principal sponsor of the Yana Shamaraeva All-Russia Swimming Competition, Greco-Roman wrestling and judo tournaments, and other sports events traditionally held in Kirovo-Chepetsk.

Azot Branch, in Berezniki, supports both high-performance sports and health and fitness activities for urban residents, primarily young people. Azot Branch provides annual financial support to the Perm Territory Swimming Federation and maintains the city’s Azot cultural and sports complex, which is open to all residents of Berezniki.

For many years, Voskresensk Mineral Fertilizers, OJSC (VMF) has been supporting DROZD-Voskresensk ANO (Autonomous Nonprofit Organization), the leading children’s sports association in the region, comprising six secondary schools and two preschool establishments. The association provides children the opportunity to take lessons in judo, sambo, boxing, volleyball and rhythmic gymnastics. Thanks to the plant’s support, the association has well-equipped facilities and resources to train young athletes, who deliver consistently strong performances at different levels of competition. VMF is also a sponsor of Khimik, a local ice hockey club.

In the reporting period, URALCHEM continued to provide financial support to the All-Russia Swimming Federation, the Perm Territory Swimming Federation and the Perm Territory Boxing Federation, as well as to various sports events.

Educational programmes
URALCHEM views care and support for the younger generation as a key component of its social policy. A particular focus is placed on the quality of education, which is key to the successful development of not only our Group but of Russia’s economy in general. URALCHEM runs projects aimed at supporting all levels of the education system – primary and secondary, college and postgraduate.

Since 2011, the Group has collaborated with the Lomonosov Moscow State University. In the period under review, a classroom in the university’s Chemistry Department was completely renovated using the Group’s funds. URALCHEM covered the financial and organisational aspects of all stages of the project, ranging from plan’s development and overhaul to the procurement of computer equipment and furniture. Now, the renovated classroom, which has maintained its historical interior design, features up-to-date laboratory equipment, PCs, office appliances and video-conferencing equipment.

A top priority for the PMU Branch’s charitable activity is supporting educational establishments that train students who may potentially join the Company in the future. In 2013, funds were provided to the local Territorial Industrial College to renovate its instrumentation & automatic devices laboratory and its training and production workshop, which was refurbished and equipped with an instrumentation line simulator.

For a number of years, the Group has been providing sponsorship support to general education schools. In 2013, MFP KCCW provided financial aid to two secondary educational establishments that offer in-depth study of chemistry – School No. 8 in Kirovo-Chepetsk and Lyceum No. 21 in Kirov. The funds provided by the Company helped partially upgrade the equipment in the laboratories and at the schools in general.

In 2013, MFP KCCW signed an Agreement on Supporting the Establishment and Development of the Prosnitsa Lyceum in the Kirov Region. This unique educational establishment will enrol the most gifted children from rural areas, giving them access to high-quality education regardless of their place of residence.

During the reporting period, URALCHEM Group continued its strategic cooperation with Perm National Research Polytechnic University by providing assistance in upgrading the equipment at its Technology of Inorganic Substances Department.
In 2013, URALCHEM Group significantly expanded its charitable activity in Latvia. In February 2013, the Group launched a programme to support Riga’s secondary schools located in the Vecmīlgrāvis district of the city. As part of the programme, which was launched together with Ziedot.lv, a leading Latvian charitable foundation, URALCHEM allocated approximately EUR 100 thousand to furnish chemistry classrooms with state-of-the-art equipment, purchase interactive whiteboards and other necessary equipment and furniture, and renovate and improve school buildings.

In 2013, the ‘URALCHEMists’ television game, a joint project between URALCHEM Group and Gosteleradiokompaniya Perm, a branch of the All-Russia State Television and Radio Broadcasting Company (VGTRK), presented a quiz programme for high school students learning chemistry who had already proven themselves in the subject at All-Russia and territorial school competitions. The project’s goal was not only to select the best student chemist but also to present chemistry as an exciting subject and increase its popularity among school students.

Supporting disadvantaged social groups
URALCHEM is committed to facilitating the improvement of society in the regions where it operates. We focus on disadvantaged social groups, such as large and needy families, retirees, and people with disabilities.

In December 2013, the ‘School Buses for Orphanages’ charity event took place in Kirovo-Chepetsk at the initiative of Mr Dmitry Mazepin, Chairman of the Board of Directors of URALCHEM UCC, OJSC, with 19 orphanages from the Kirov Region receiving comfortable new school buses from MFP KCCW.

For a number of years, MFP KCCW has cooperated with a Kirovo-Chepetsk-based centre to provide social support for families and children in difficult life situations. During the period under review, the company provided support to disadvantaged first-graders and assisted them in preparing for the new school year.

MFP KCCW places a particular focus on supporting veterans and non-working retirees. The company’s veterans’ organisation is the largest of its kind in the Kirov Region, bringing together over 8 thousand members. Traditionally, veterans are provided with financial aid and funds for home renovations, events and tours around their native region.

Since 2012, URALCHEM has been cooperating with the Latvian charitable foundation Ziedot.lv to provide support to severely ill children in need of special medical treatment or rehabilitation in Russia’s leading clinics. Children whose families are unable to cover all the costs are eligible for the programme. In 2013, EUR 80 thousand were spent to support severely ill children.

Support for disabled children is another important area of URALCHEM Group’s charitable activity in the Perm Territory. During the period under review, funds were provided to a Perm-based non-profit organisation supporting children who have suffered early disabilities, with the money used to pay for medical treatment and rehabilitation of young patients. Funds have also been given to support the Perm Territorial Federation of Physical Culture and Sports for Persons with Spinal Cord Injuries to organise and hold the 13th Perm Territorial Sports Festival for Disabled Children.

Cultural projects
Support for cultural programmes is a key area of the Group’s social investment activity. URALCHEM hosts events highlighting the best of the Russian cultural heritage and runs projects supporting social causes.

In 2013, with the Group’s support, the Russian National Orchestra directed by Mikhail Pletnev, an outstanding pianist, director and composer, performed in Latvia for the first time. A concert by one of the world’s top musical bands took place on 12 June 2013 for Russia Day. Alumni of the Jāzeps Vītols Latvian Academy of Music and the Emils Darzins Music School were afforded the opportunity to attend the performance and take part in the orchestra’s rehearsals.

In December 2013, the Mariinsky Theatre’s ballet company gave a performance in the Latvian National Opera in Riga with our financial support.

On the eve of Victory Day, events were held at all URALCHEM Group production sites as part of the nationwide St. George’s Ribbon campaign. The youth council’s activists and volunteers handed out St. George ribbons to residents in the streets of Perm, Berezniki, Kirovo-Chepetsk and Voskresensk, wishing them a happy Victory Day. During the festivities, more than 80,000 ribbons were distributed by activists. In all cities of the Group’s operations, ‘Memory Vigils’ took place at eternal flames and wreaths were laid at monuments devoted to soldiers who fell in battles while protecting the Soviet Union during the Second World War.

In the period under review, we also sponsored other important social projects, including ‘Russia’s Kind Heart’, the first nationwide charity ball launched with URALCHEM Group’s support. This event brought together charity and volunteering leaders from 70 regions across Russia and 14 other countries.
In 2013, URALCHEM Group set up corporate accounts on some of the more popular social media websites (Facebook, VK, and YouTube) to attract young, highly-skilled professionals through new communications channels targeting external audiences. We post both scientific materials and interesting chemistry facts and tips for chemistry students.
We are incrementally building an effective risk management system aimed at protecting URALCHEM UCC, OJSC shareholders against potential losses and facilitating the achievement of URALCHEM Group’s strategic and operational goals.

The Group’s risk management system is based on COSO’s Enterprise Risk Management Integrated Framework including components such as risk identification, risk measurement and classification, development of a risk management plan, implementation of risk management procedures and assessment of risk management results.

URALCHEM Group’s success depends to a significant extent on its ability to effectively manage risks.
All risks are ranked according to a rating and are included in a risk matrix. A risk rating is calculated by multiplying the level of an event’s impact on the business (calculated in monetary terms) by the probability of the event’s occurrence.

Risk ratings are regularly updated. Since 2013, the Group has conducted risk reviews at least once per quarter. Not only are risk probability and potential losses that may result from the risk reassessed, but the adequacy of mitigation measures to minimise the risk is also evaluated.

A risk manager is assigned for each risk to develop an action plan to minimise the risk. In addition, risk managers regularly report on their progress in risk management efforts. All current and historical risk matrices of the Group are stored on a SharePoint portal, a special online resource accessible by all risk managers of the Group. Information available in the SharePoint environment is regularly updated based on the reports produced by risk managers covering their risk management actions. This enables tracking of the Group’s risk management history. The Audit Committee of URALCHEM UCC, OJSC’s Board of Directors is responsible for monitoring and administering the risk management process across URALCHEM Group.

<table>
<thead>
<tr>
<th>Impact</th>
<th>US$m</th>
<th>Rating factor</th>
<th>Probability</th>
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</table>

During 2013, the Group continued to develop its risk management system, improving its performance. We are planning to improve risk management procedures in 2014, including the introduction of annual testing of key control procedures.

**Key risks for URALCHEM Group**

In its day-to-day operations, URALCHEM Group is exposed to a number of risks. The key risks identified by the Group and the actions taken to mitigate them are described below.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Rating</th>
<th>Risk description</th>
<th>Risk mitigation measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry risks</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significant reduction in prices for mineral fertilizers</td>
<td>20</td>
<td>There is a risk that market prices for our products may fall below the critical level, leading to sales losses or reduced revenue.</td>
<td>The Group cannot affect prices in the global mineral fertilizer market. To minimise this risk URALCHEM Group consistently improves operating efficiency and sales performance, including by expanding the geography of supplies, searching for alternative sales markets, expanding the product range, diversifying sales by product portfolio and sales market and improving the quality of its products.</td>
</tr>
<tr>
<td>Significant increase prices for raw materials and services used by the Group</td>
<td>18</td>
<td>A significant increase in prices for raw materials and services used by URALCHEM Group in its core activities may result in higher production costs of our products, additional costs, losses or reduced revenue.</td>
<td>The Group cannot affect prices for the key raw materials used for mineral fertilizer production. To mitigate the risk URALCHEM Group collaborates with the Federal Antimonopoly Service to prevent any pricing abuse on the part of raw materials suppliers who have a monopoly in the market. The Group also consistently improves operating efficiency and sales performance, including by implementing resource and energy saving measures and upgrading production facilities. The impact of the risk is reduced by executing long-term raw materials supply contracts that contain transparent pricing mechanisms. The Group performs cost optimisation and production cost management on an ongoing basis.</td>
</tr>
</tbody>
</table>
### Risk Management

#### Financial risks

<table>
<thead>
<tr>
<th>Risk</th>
<th>Rating</th>
<th>Risk description</th>
<th>Risk mitigation measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business sensitivity to the Russian rouble exchange rate</td>
<td>18</td>
<td>The Group’s business is sensitive to the RUB/US$ and RUB/EUR exchange rates since most of its products are sold abroad. The Group’s operating expenses are mostly in Russian roubles, with income mostly denominated in US$. The impact of a 10% change in the exchange rates on EBITDA would be over US$50 million per year.</td>
<td>The Group cannot affect the exchange rates of world currencies. To minimise the risk, loans are raised in the basic currency of revenues.</td>
</tr>
</tbody>
</table>

#### Operating risks

<table>
<thead>
<tr>
<th>Risk</th>
<th>Rating</th>
<th>Risk description</th>
<th>Risk mitigation measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment risks</td>
<td>15</td>
<td>Each year, URALCHEM Group allocates significant funds to expand and upgrade its production facilities. There is a risk that the deadlines or budgets of investment projects may overrun.</td>
<td>In 2013, the Group significantly strengthened its Investment Project Management segment. A new structural unit, Project Office, was established to manage projects. Each project is managed according to the procedure described in the Regulation on Investment Activity. In making investment decisions, we assess the market situation, obtain an expert analysis of technical solutions, estimate project costs, as well as design and select projects that are the most attractive from an economic perspective. As part of its project management efforts, the Project Office started developing a risk analysis and management methodology for investment projects. To prevent any deadline or budget overruns, projects are reviewed at every milestone with assessment criteria adjusted accordingly.</td>
</tr>
</tbody>
</table>

<p>| HR risks | 15 | Trained and highly-skilled employees are essential for the Group’s success. There is a risk that URALCHEM may not maintain an adequate inflow of employees, fail to retain them, or lose skilled employees, which may result in extra time or financial expenditures on new training and, consequently, in lower financial and operational performance of the Group. | URALCHEM makes consistent efforts to attract young specialists and improve their skills to match our specific production requirements, including collaboration with educational establishments offering industry-specific education. We run programmes to attract skilled young specialists, provide mentoring and improve working conditions. Occupational guidance is provided to encourage young people to attend universities or vocational secondary schools or colleges offering industry-specific education; in a number of regions, targeted recruitment programmes are run at educational establishments. Since 2013, we have run a project to improve the production staff’s professional training system and develop professional standards. To ensure a controlled outflow of highly skilled employees reaching retirement age, we run a programme focused on the timely transfer of valuable experience and expertise to successors and young specialists. Since 2013, we have run a programme to retain young employees by involving them in social and educational projects not directly associated with their main jobs. |</p>
<table>
<thead>
<tr>
<th>Risk</th>
<th>Rating</th>
<th>Risk description</th>
<th>Risk mitigation measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR risks (continued)</td>
<td>15</td>
<td></td>
<td>Since 2013, we have also run a succession programme to ensure that key positions are filled. Key positions at risk of being vacated are analysed on an annual basis and candidates receive position-specific training. URALCHEM reviews salaries annually setting them at the levels of leading production companies in the areas where we operate. At the same time, targeted adjustment is made with respect to remuneration of employees holding key positions. These employees' salaries are set at levels above the market average.</td>
</tr>
<tr>
<td>Environmental risks</td>
<td>12</td>
<td>URALCHEM’s activities have a direct impact on the environment in the areas where it operates. The Company is exposed to the risks associated with a potential breach of environmental laws when manufacturing or transporting mineral fertilizers, which may result in additional costs or deterioration of business performance.</td>
<td>The Group closely monitors compliance with statutory requirements relating to environmental and industrial safety, with industrial safety at its production facilities regularly evaluated by experts. To minimise risk we monitor compliance with environmental standards on an ongoing basis. The Company upgrades its equipment and improves production processes, thus minimising the probability that this risk will be realised. All of the Group’s companies have requisite permits and licences to operate hazardous facilities.</td>
</tr>
<tr>
<td>Regulatory and compliance risks</td>
<td>12</td>
<td>There have been significant amendments to Russian competition laws in recent years. URALCHEM Group distinguishes between two risk exposures relating to competition laws – a breach of competition laws by suppliers of strategic raw materials and changes in the competition laws regulating the terms of strategic feedstock supplies.</td>
<td>URALCHEM Group carries out its activities in full compliance with Russian competition laws; it does not engage in any activities restricting competition in the mineral fertilizer market and competes in a fair and transparent manner. To minimise the negative impact from a potential breach of competition laws by suppliers of strategic raw materials, the Group handles complaints and claims to remedy any breaches of competition laws. To minimise any negative impact from potential amendments to competition laws regulating the terms of strategic raw materials supplies, the Group closely monitors all amendments to the existing applicable laws, law-enforcement, and draft laws covering competition-related matters in order to swiftly identify any potential negative implications should such draft laws be enacted.</td>
</tr>
</tbody>
</table>
URALCHEM Group’s corporate governance system is crucial to the Group’s success and performance. We are therefore committed to its continuous improvement. The Group’s corporate governance system is based on Russian law and seeks to comply with international standards in this area. URALCHEM regularly reviews its decision-making procedures with a view to enhancing them, and is committed to continuously improving the performance of all its governing bodies.

URALCHEM UCC, OJSC’s corporate governance system is based on the following principles:

- treating shareholders equally and observing their rights and interests;
- strategic management of the Group’s activities by URALCHEM UCC, OJSC’s Board of Directors;
- maintaining an effective internal control and audit system;
- maintaining a high level of information and financial transparency;
- complying with standards of business conduct.

URALCHEM UCC, OJSC strives to build a vertically-structured corporate governance system for all URALCHEM Group companies that is as transparent as possible and is based on a single efficient decision-making and implementation framework, specifically:

- URALCHEM UCC, OJSC acts as the sole executive body of MFP KCCW, OJSC and Minudobrenia, OJSC, the Group’s most important production assets;
- companies strategically important for the Group’s effective development have the status of ‘priority subsidiaries’ (for more details on priority subsidiaries, see page 69). URALCHEM UCC, OJSC’s Board of Directors takes the most important decisions related to the management of such companies; these decisions are cascaded down to the relevant execution levels in accordance with the corporate procedures set out in URALCHEM UCC, OJSC’s Articles of Association and in the respective Articles of Association of its priority subsidiaries;
- companies that are not in the list of ‘priority subsidiaries’ are managed on a regional and/or functional level and report on their business performance to the CEO of URALCHEM UCC, OJSC.

The Group’s corporate governance system is governed by its incorporation and internal documents, available on our website at: http://www.uralchem.ru/rus/to_shareholders_and_investors/information_disclosure/

URALCHEM UCC, OJSC’s Code of Corporate Conduct has been in force since its approval in 2008. It is based on statutory requirements and the recommendations of the Federal Commission for the Securities Market (Directive No. 421.r of 04 April 2002). Day-to-day operations of URALCHEM UCC, OJSC are therefore based on corporate governance rules and principles that comply with global standards and best corporate governance practices in order to ensure successful business performance, grow the Company’s capitalisation and protect the lawful interests and rights of its shareholders. For more details on URALCHEM UCC, OJSC’s compliance with its Code of Corporate Conduct, see page 80.

Governing bodies
The governing bodies of URALCHEM UCC, OJSC are as follows:

- the General Meeting of Shareholders;
- the Board of Directors;
- the Chief Executive Officer (sole executive body).

The General Meeting of Shareholders
The General Meeting of Shareholders of URALCHEM UCC, OJSC is the supreme governing body. The annual General Meeting of Shareholders is held at least once a year between 01 March and 30 June. The extraordinary General Meeting of Shareholders is convened by a resolution of the Board of Directors passed at the Board’s own initiative or at the request of the Revision Commission, Auditor or any shareholder (shareholders) owning at least 10% of voting shares in URALCHEM UCC, OJSC. The procedure for calling and holding the General Meeting of Shareholders is set out in the Articles of Association and Regulations on the General Meeting of Shareholders of URALCHEM UCC, OJSC, available on our website at: http://www.uralchem.ru/rus/to_shareholders_and_investors/information_disclosure/uralchem/333/

In 2013, one annual and two extraordinary General Meetings of Shareholders were held, passing resolutions on the following matters:

- amendments to the Articles of Association;
- approval of the annual report and annual accounts for 2012;
- announcement of dividends for 2012 and for the 9M 2013;
- election of the Board of Directors;
- election of the Revision Commission;
- approval of the Auditor;
- approval of major transactions.
Voting at the General Meeting of Shareholders is held on a ‘one share, one vote’ basis except for the cumulative vote to elect members of the Board of Directors.

The Board of Directors
The Board of Directors is responsible for the overall management of URALCHEM UCC, OJSC with the exception of matters reserved for its General Meeting of Shareholders. The authority of URALCHEM UCC, OJSC’s Board of Directors is broader than the statutory authority stipulated by applicable laws. The reason is that this body’s main purpose is to provide strategic management and establish single principles to ensure effective performance across the Group. The Board of Directors is involved in decision-making on more important matters related to URALCHEM UCC, OJSC’s priority subsidiaries, which are as follows:

- MFP KCCW, OJSC; Minudobrenia, OJSC; and Voskresensk Mineral Fertilizers, OJSC (products);
- URALCHEM-TRANS LLC (transport and logistics);
- Trading House URALCHEM, LLC and SIA URALCHEM Trading (product sales in domestic and foreign markets);
- URALCHEM FREIGHT LIMITED, HAVENPORT INVESTMENTS LIMITED (holding of interests in other companies); for details see page 75.

Activities of the Board of Directors are governed by the Federal Law on Joint Stock Companies, the Articles of Association and the Regulations on the Board of Directors.

The members of the Board of Directors are elected by a cumulative vote of the General Meeting of Shareholders for the period until the next annual General Meeting of Shareholders. Since the beginning of 2013, the Board of Directors consisted of the following members elected at the annual General Meeting of Shareholders on 29 June 2012:

- Dmitry A. Mazepin
- Dmitry V. Osipov
- Yulia E. Orlovskaya
- Dmitry V. Konyaev
- Mikhail V. Genkin
- Dimitry V. Tatyanin
- Sophie J-L Vergnas Sokolov
- Petr V. Krupnov

The annual General Meeting of Shareholders elected the following Board of Directors of URALCHEM UCC, OJSC on 28 June 2013:

- Dmitry A. Mazepin
- Dmitry V. Osipov
- Yulia E. Orlovskaya
- Dmitry V. Konyaev
- Mikhail V. Genkin
- Dimitry V. Tatyanin
- Andrey S. Pakhomkenkov
- Petr V. Krupnov

Dmitry V. Osipov resigned from the Board of Directors of URALCHEM UCC, OJSC following the Board’s re-election at the extraordinary General Meeting of Shareholders on 23 December 2013. As of 31 December 2013, the board consisted of seven members, including one independent director, as follows:

- Dmitry A. Mazepin
- Yulia E. Orlovskaya
- Dmitry V. Konyaev
- Mikhail V. Genkin
- Dimitry V. Tatyanin
- Andrey S. Pakhomkenkov
- Petr V. Krupnov

URALCHEM UCC, OJSC makes every effort to maximise the performance of its Board of Directors. For this purpose the Board of Directors plans and evaluates the efficiency of its activities.

The procedure for convening and holding meetings of the Board of Directors is determined by the Company’s Articles of Association and Regulations on URALCHEM UCC, OJSC’s Board of Directors. The process of preparing and holding meetings of the Board of Directors is designed to ensure that its members are granted timely access to full information required to take well-informed decisions.
Composition of URALCHEM UCC, OJSC’s Board of Directors as of 31 December 2013

**Dmitry A. Mazepin**
Chairman of the Board of Directors, Non-Executive Director

Year of birth: 1968.
Member of the Board of Directors: since 2007. 
Mr. Mazepin has been the Chairman of the Board of Directors since 2007. Earlier, in 2005-2007, he served as CEO of Konstruktivnoye Byuro LLC. Prior to that, in 2002-2003, he was President of AK Sibur. Beginning in the mid-1990s, Mr. Mazepin held senior management positions in a number of government agencies and large companies, including Tyumen oil company, Nizhnepetrovskneftegaz, Kuzbassugol Coal company and the Russian Federal Property Fund. Mr. Mazepin also acts as Chairman of the Board of Directors of URALCHEM HOLDING P.L.C. and HaloPolymer, OJSC, as well as the Director of CI-CHEMICAL INVEST LIMITED.

Mr. Mazepin graduated from Minsk Suvorov Military School and MGIMO (Moscow State Institute of International Relations) with a degree in international relations of Oriental countries. He later graduated from the Saint Petersburg Institute of Economics and Administration with a degree in company management. He has taken postgraduate courses with JSC VNIIneft oil industry research institute. Mr. Mazepin holds a PhD in Economics.

He does not have any ownership interest or ordinary shares in URALCHEM UCC, OJSC, and he did not complete any share transactions in URALCHEM UCC, OJSC in 2013.

**Dmitry V. Konyaev**
Executive Director

Member of the Board of Directors: since 2007.
Mr. Konyaev has been a member of the Board of Directors since 2007, and a member of its Strategy and Investment Committee, Nomination Committee and Remuneration Committee since 2011. Currently, he is the Chief Executive Officer of URALCHEM UCC, OJSC. In 2010–2011, was the Commercial Director of URALCHEM UCC, OJSC, and earlier, in 2007–2010, he held a similar position with HC URALCHEM, LLC. Prior to that, starting in 1998, he held a number of senior executive positions with major production and trading companies, including Sederrot International AB, Mineral Trading, UralKali Trading SA (Singapore). Mr. Konyaev is a member of the Board of Directors of MFP KCCW, OJSC; Voskresensk Mineral Fertilizers, OJSC, and Minudobrenia, OJSC and is the Chairman of the Board at SIA Riga Fertilizer Terminal.

Mr. Konyaev graduated from Lomonosov Moscow State University, and he holds an MBA in Marketing from California State University Hayward.

He does not have any ownership interest or ordinary shares in URALCHEM UCC, OJSC, and he did not complete any share transactions in URALCHEM UCC, OJSC in 2013.

**Dimitry V. Tatyanin**
Deputy Chairman of the Board of Directors, Executive Director

Member of the Board of Directors: since 2007.
Mr. Tatyanin has been a member of the Board of Directors since 2007 and a member of its Remuneration Committee since 2011. Currently, he is the Chief Executive Officer of URALCHEM UCC, OJSC. Before joining URALCHEM UCC, OJSC, he held senior executive positions with the legal departments of major companies, including Infstrakh, KredoBank, Alfa-Eco and AK Sibur. Mr. Tatyanin is also a member of the Board of Directors of Voskresensk Mineral Fertilizers, OJSC and HaloPolymer, OJSC, and since 2012, he has been Chairman of the Board of Directors of Minudobrenia, OJSC.

Mr. Tatyanin graduated from the Department of Law at Voronezh State University. He holds an EMBA from the Institute of Business Studies (IBS–Moscow) at the Russian Presidential Academy of National Economy and Public Administration.

He does not have any ownership interest or ordinary shares in URALCHEM UCC, OJSC, and he did not complete any share transactions in URALCHEM UCC, OJSC in 2013.
Mikhail V. Genkin  
Executive Director  
Member of the Board of Directors: since 2007.  
Mr Genkin has been a member of the Board of Directors since 2007, and a member of its Strategy and Investment Committee and Nomination Committee since 2011. Currently, he is Director for Business Development of URALCHEM UCC, OJSC.  
Before that, he held a number of executive positions with chemical companies, including National Gas Company and Sibur, OJSC. Mr Genkin is also a member of the Board of Directors of Voskresensk Mineral Fertilizers, OJSC; Halo Polymer, OJSC; MFP KCCW, OJSC, and Minudobrenia, OJSC.  
Mr Genkin graduated from the Radiophysics Department at Gorky State University named after N.I. Lobachevsky.  
He does not have any ownership interest or ordinary shares in URALCHEM UCC, OJSC, and he did not complete any share transactions in URALCHEM UCC, OJSC in 2013.

Yulia E. Orlovskaya  
Non-Executive Director  
Member of the Board of Directors: since 2009.  
Ms Orlovskaya has been a member of the Board of Directors since 2009, and has been Chairwoman of its Audit Committee and Remuneration Committee, and a member of its Strategy and Investment Committee since 2011. Currently, she is Adviser to the Chairman of the Board of Directors of URALCHEM UCC, OJSC. In 2008–2009, she was marketing director with GE Money Bank. In 2005–2008, she was the marketing director of Sladko Confectionery Association, OJSC. Before that, she held executive positions with the marketing units of the Coca-Cola Company and Kraft Foods.  
Ms Orlovskaya graduated from the International Economic Relations Department at MGIMO (Moscow State Institute of International Relations).  
She does not have any ownership interest or ordinary shares in URALCHEM UCC, OJSC, and she did not complete any share transactions in URALCHEM UCC, OJSC in 2013.

Andrey S. Pakhomenkov  
Executive Director  
Member of the Board of Directors: since 2013.  
Mr Pakhomenkov has been a member of the Board of Directors and its Strategy and Investment Committee since 2013. Currently, he is Chief Financial Officer of URALCHEM UCC, OJSC. In 2008–2009, he was Director of the Treasury Department with HC URALCHEM, LLC. In 2007–2008, he was head of the Treasury and Currency Control Department with Wimm-Bill-Dann Beverages, OJSC. Mr Pakhomenkov is a member of the Board of Directors of Minudobrenia, OJSC and Voskresensk Mineral Fertilizers, OJSC.  
Mr Pakhomenkov graduated from the LKSM Novopolotsk Technical Institute.  
He does not have any ownership interest or ordinary shares in URALCHEM UCC, OJSC, and he did not complete any share transactions in URALCHEM UCC, OJSC in 2013.

Petr V. Krupnov  
Independent Director  
Member of the Board of Directors: since 2011.  
Mr Krupnov has been a member of the Board of Directors since 2011. In 2013, he was elected Chairman of the Strategy and Investment Committee and Nomination Committee. He is also a member of the Audit Committee. In 2012–2013, he was head of the Ufa Branch of United Petrochemical Company, OJSC. In 2010, he was Adviser to the President of SIBUR, LLC. In 2003–2010, he was Chief Executive Officer of Sibur-Neftekhim, OJSC. In 2002–2003, he was head of Sibur-Tyumen, OJSC. For ten years before that, he held a number of executive positions with PA Polymir, a Belarussian company.  
Mr Krupnov graduated from the LKSM Novopolotsk Technical Institute.  
He does not have any ownership interest or ordinary shares in URALCHEM UCC, OJSC, and he did not complete any share transactions in URALCHEM UCC, OJSC in 2013.
The Chairman of the Board of Directors
The Board Chairman is responsible for organising the activities of the Board of Directors. In this role, he relies on the principles of constructive, open business communication and professionalism. The Board Chairman takes decisions to convene meetings of the Board of Directors and decides on their formats, chairing such meetings and arranging for minutes to be kept. The Board Chairman also oversees implementation of the Board’s resolutions and resolves other matters. The Chairman of the Board of Directors is elected by majority vote of its members.

Since 2007, Dmitry A. Mazepin has been the Chairman of URALCHEM UCC, OJSC’s Board of Directors (for his brief biography see page 70).

Activities of the Board of Directors in 2013
The Board of Directors is actively involved in addressing the more important tasks facing URALCHEM Group. These include those related to its development strategy and investment activity, risk management, internal control and audit, and management of its priority subsidiaries. In 2013, the Board of Directors held 83 meetings, 13 of which were physical meetings and 70 of which were virtual meetings. The key matters considered by the Board of Directors include:

- Approval of the URALCHEM UCC, OJSC’s Business Plan and oversight of its implementation.
- Approval of investment projects and oversight of their implementation.
- Approval of transactions of URALCHEM UCC, OJSC when required by its Articles of Association.
- Approval of URALCHEM UCC, OJSC’s participation or termination of participation in other entities.
- Approval of significant internal documents.

During the reporting period, the Board of Directors also adopted a set of corporate resolutions to ensure URALCHEM Group’s sustainable development and effective alignment of its business strategy. The Board of Directors is also responsible for systemic oversight of the Group’s development activities and the implementation of its strategy, tasks and objectives by its management.

In 2014, the Board of Directors will continue its efforts to develop the most efficient corporate governance and risk management frameworks possible to facilitate quick and well-informed decisions on significant matters related to implementing URALCHEM Group’s development strategy.

Committees of the Board of Directors
URALCHEM UCC, OJSC’s Board of Directors has a number of Committees performing advisory, deliberative or control functions. The main purpose of the Committees is to conduct a preliminary review of matters that fall under the authority of the Board of Directors and provide it with advice and conclusions on matters that fall under their authority.

In 2013, the following four Committees of URALCHEM UCC, OJSC’s Board of Directors were active:

- Audit Committee;
- Strategy and Investment Committee;
- Nomination Committee;
- Remuneration Committee.

During the reporting period, the Committees of the Board of Directors held 66 meetings, including four meetings of the Nomination Committee, 18 meetings of the Remuneration Committee, 30 meetings of the Strategy and Investment Committee and 14 meetings of the Audit Committee. The Committees conduct an annual review and evaluation of their performance. Reports on the Committees’ activities are discussed and approved at physical meetings of the Board of Directors and included in the Board of Directors’ annual general reports on its activities.

All four Committees are chaired by Non-Executive Members of the Board of Directors, which allows the Committees to perform the tasks within their areas of authority as efficiently as possible. This also ensures compliance with the best corporate governance practices.

Audit Committee
The Audit Committee’s main purpose is to provide regular monitoring and ensure the greatest possible transparency of financial and business activities, including core business processes related to cash flows.

The Committee’s authority covers matters related to internal and external audit, control of financial and business activities, drafting of financial reports and monitoring of the internal control system. The Audit Committee relies on the Regulations for the Audit Committee approved by URALCHEM UCC, OJSC’s Board of Directors on 15 June 2011. In selecting the members of the Audit Committee, the primary focus is on ensuring their independence. The Committee therefore includes no executive members of the Board of Directors to ensure its compliance with the best corporate governance practices and efficient performance.
Membership of the Committee as of 31 December 2013:

- Yulia E. Orlovskaya, Chairwoman of the Committee, Non-Executive Director;
- Petr V. Krupnov, Independent Director.

**Strategy and Investment Committee**

The Strategy and Investment Committee’s main purpose is to ensure the effective performance of the Board of Directors in its decision-making on strategy and investment management.

The Committee’s tasks include drafting and providing the Board of Directors with recommendations on identifying business priorities, strategic objectives and key principles of strategic development, improving the Company’s investment appeal and investment activity, and making well-informed decisions.

The Committee relies on the Regulations for the Strategy and Investment Committee of URALCHEM UCC, OJSC, the current version of which was approved on 06 February 2012.

Membership of the Committee as of 31 December 2013:

- Petr V. Krupnov, Chairman of the Committee, Independent Director;
- Dmitry V. Konyaev, Executive Director;
- Yulia E. Orlovskaya, Non-Executive Director;
- Andrey S. Pakhomenkov, Executive Director;
- Mikhail V. Genkin, Executive Director.

**Nomination Committee**

The Nomination Committee’s main purpose is to ensure the effective performance of the Board of Directors in its decision-making on nominations for offices classified as ‘top management positions’.

The Committee reviews and approves candidates for the positions of CEO, heads of key business units and branches of URALCHEM UCC, OJSC, and its priority subsidiaries. It also resolves other matters related to the Company’s succession strategy.

The Committee relies on the Regulations for the Nomination Committee of URALCHEM UCC, OJSC’s Board of Directors, the current version of which was approved on 06 February 2012.

Membership of the Committee as of 31 December 2013:

- Petr V. Krupnov, Chairman of the Committee, Independent Director;
- Dmitry V. Konyaev, Executive Director;
- Mikhail V. Genkin, Executive Director.

**Remuneration Committee**

The Remuneration Committee’s main purpose is to ensure the effective performance of the Board of Directors in making decisions on managing the remuneration and compensation system, as well as on bonus schemes used by URALCHEM UCC, OJSC and its priority subsidiaries for members of its Board of Directors and the top managers of URALCHEM UCC, OJSC’s priority subsidiaries.

The Committee relies on the Regulations for the Remuneration Committee of URALCHEM UCC, OJSC’s Board of Directors, the current version of which was approved on 06 February 2012.

Membership of the Committee as of 31 December 2013:

- Yulia E. Orlovskaya, Chairwoman of the Committee, Non-Executive Director;
- Dmitry V. Tatyatin, Executive Director;
- Dmitry V. Konyaev, Executive Director.

**Remuneration of Board Members and the CEO**

In 2013, the total amount of remuneration and compensation of expenses paid to the CEO and members of URALCHEM UCC, OJSC’s Board of Directors was RUB 230,780,500.

**The Chief Executive Officer**

The Chief Executive Officer, the sole executive body of URALCHEM UCC, OJSC, is elected by its Board of Directors for three years and manages its day-to-day activities. Since 25 January 2011, Dmitry V. Konyaev has been the Chief Executive Officer of URALCHEM UCC, OJSC (for his brief biography see page 70).

In January 2014, Dmitry V. Konyaev was elected Chief Executive Officer of URALCHEM UCC, OJSC for an additional three-year term.
CORPORATE GOVERNANCE
continued

Audit and control
Internal control
URALCHEM Group’s system of internal control over its financial and business activities is designed to improve the performance of the Group’s enterprises, ensure reliable reporting and receipt of credible information regarding the Group, and compliance with applicable laws, incorporation documents and internal documents of URALCHEM Group companies.

The Revision Commission, made up of three members, oversees URALCHEM UCC, OJSC’s financial and business activities. The following members of the Revision Commission were elected at the General Meeting of Shareholders on 28 June 2013:

Mariya A. Kuzmina, Chairwoman;
Andrey V. Ermizin;
Yulia V. Bulantseva.

The Revision Commission audits (reviews) financial and business activities of URALCHEM UCC, OJSC at its own initiative, under resolutions of the General Meeting of Shareholders or the Board of Directors or at the request of a shareholder (shareholders) possessing at least 10% of the voting shares.

In 2013, no remuneration for participation in the Revision Commission’s activities was paid to its members.

In 2013, in addition to the Revision Commission, the following bodies performed internal control functions with respect to financial and business activities within URALCHEM Group:

– URALCHEM UCC, OJSC’s Board of Directors and its Audit Committee;
– the Chief Executive Officer of URALCHEM UCC, OJSC;
– the branch directors of URALCHEM UCC, OJSC;
– the Internal Audit and Control Department of URALCHEM UCC, OJSC;
– the sole executive bodies of subsidiaries and affiliates of URALCHEM UCC, OJSC;
– the Revision Commissions of subsidiaries and affiliates of URALCHEM UCC, OJSC.

Activities of internal control bodies of URALCHEM Group companies are governed by their incorporation documents and other internal documents.

The internal control bodies are designed to assist in solving key tasks related to the implementation of URALCHEM Group’s development strategy, improving its profitability and competitiveness, maintaining its stable financial and business condition, as well as exercising the rights and protecting the lawful interests of shareholders of URALCHEM UCC, OJSC and the shareholders or members of its subsidiaries, affiliates and controlled companies.

External Auditor
The External Auditor performs annual audits of URALCHEM Group’s financial and business activities. Deloitte & Touche CIS, CJSC audited the individual RAS financial (accounting) reports and consolidated IFRS financial reports of URALCHEM UCC, OJSC for 2013.
The structure of URALCHEM Group’s core assets as of 31 December 2013.*

* The chart shows only the Group’s significant subsidiaries and investments and stakes in them.
SHAREHOLDER AND INVESTOR INFORMATION
continued

The authorised capital of URALCHEM UCC, OJSC is RUB 2,000,000,000 (two billion roubles). URALCHEM UCC, OJSC issued 500,000,000 (five hundred million) ordinary registered uncertified shares with a par value of RUB 4 (four roubles) each.

The shareholders of URALCHEM UCC, OJSC are as follows:

- URALCHEM HOLDING P.L.C. with 99.9999998% of the authorised capital;
- Private Company Limited CI-CHEMICAL INVEST LIMITED with 0.0000002% in the authorised capital.

Dividend distributions
On 28 June 2013, the General Meeting of Shareholders resolved to pay out dividends for 2012 for a total amount of RUB 1.6 billion, or RUB 3.2 per ordinary share, excluding interim dividends paid on ordinary registered uncertified shares of URALCHEM UCC, OJSC for the first quarter of 2012 in the total amount of RUB 2.5 billion, or RUB 5 per ordinary share, and for the nine months of 2012 in the total amount of RUB 4.2 billion, or RUB 8.4 per ordinary share.

URALCHEM UCC, OJSC has paid out the dividends in full.

On 23 December 2013, the General Meeting of Shareholders resolved to pay out dividends for the nine months of 2013 in the total amount of RUB 3.475 billion, or RUB 6.95 per ordinary share. URALCHEM UCC, OJSC paid out the dividends in full in February 2014.

Dividend policy
The procedures for making decisions on dividend payments and calculation of dividend amounts are governed by applicable laws, the Articles of Association and the Regulations on the Dividend Policy of URALCHEM UCC, OJSC. When advising the General Meeting of Shareholders on the dividend amount and distribution procedure, the Board of Directors seeks an optimal balance between the effective development of URALCHEM UCC, OJSC and the exercise of shareholders’ right to receive a share in the Company’s net income in the form of dividends.

Dividends are distributed from URALCHEM UCC, OJSC’s net income as per RAS accounts. Dividends may be paid out from retained earnings brought forward from previous years. The General Meeting of Shareholders of URALCHEM UCC, OJSC decides on dividend payments based on advice from its Board of Directors. Dividend amounts may not exceed the amounts recommended by the Board of Directors.

Dividend tax
URALCHEM UCC, OJSC acts as a tax agent when it distributes earnings to shareholders according to their holdings. URALCHEM UCC, OJSC calculates, withholds and pays into the budget taxes on the incomes of shareholders receiving dividends. Therefore, dividend amounts payable to shareholders are decreased by such tax amounts.

The rate of the dividend income tax is determined by the status of the person entitled to dividends: a 9% rate applies to individuals and legal entities that are Russian residents, while a rate of 15% applies to non-residents. When tax amounts to be withheld from incomes of non-residents of the Russian Federation are calculated, the presence or absence of double taxation agreements or treaties with relevant foreign countries is taken into account.

Related-party and major transactions
In 2013, URALCHEM UCC, OJSC concluded a number of transactions classified as related-party transactions under the Federal Law on Joint Stock Companies. The transactions are listed in Appendix 1 on page 77. Under the Federal Law on Joint Stock Companies, approval of such transactions falls under the authority of the General Meeting of Shareholders or the Board of Directors depending on the amount of the transaction in question, the parties to it, the number of related parties and other regulatory requirements.

All related-party transactions of URALCHEM UCC, OJSC were approved by its Board of Directors to prevent conflicts of interest arising from their conclusion.

See Appendix 2 on page 78 for a list of transactions URALCHEM UCC, OJSC concluded in 2013 and classified as major transactions according to the Federal Law on Joint Stock Companies.
# APPENDIX 1

## Related-party transactions

<table>
<thead>
<tr>
<th>№</th>
<th>Material terms and conditions</th>
<th>Approval by the Company’s Board of Directors</th>
<th>Related party</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Related related-party transactions between Sberbank of Russia and URALCHEM UCC, OJSC: A Suretyship Agreement between URALCHEM UCC, OJSC and Sberbank of Russia to a Loan Agreement and a Direct Debit Agreement to bank account agreements. The Suretyship Agreement price includes the total loan amount (RUB 1,500,000) and accrued interest on the loan used, penalties, fines, forfeits, and any other charges provided for by the Loan Agreement. The Surety’s liabilities under the Suretyship Agreement are capped at RUB 3,000,000.</td>
<td>Minutes No. 94 dated 15 February 2013. Dmitry V. Osipov, Member of the Board of Directors and a beneficiary of the transactions.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Related related-party transactions between Sberbank of Russia and URALCHEM UCC, OJSC: A Suretyship Agreement between URALCHEM UCC, OJSC and Sberbank of Russia to a Loan Agreement and a Direct Debit Agreement to bank account agreements. The Suretyship Agreement price includes the total loan amount (RUB 3,500,000) and accrued interest on the loan used, penalties, fines, forfeits, and any other charges provided for by the Loan Agreement. The Surety’s liabilities under the Suretyship Agreement are capped at RUB 5,000,000.</td>
<td>Minutes No. 104 dated 08 April 2013. Dmitry V. Osipov, Member of the Board of Directors and a beneficiary of the transactions.</td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX 2

Major transactions

<table>
<thead>
<tr>
<th>№</th>
<th>Material terms and conditions</th>
<th>Approval by the Company’s authoritative governing body</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A Master Deposit Transaction Agreement between ROSBANK Joint-Stock Commercial Bank and URALCHEM UCC, OJSC. The major transaction price shall be the aggregate of the prices (in rouble equivalent) of the deposit transactions executed under it, calculated using the following formula: the deposit amount plus the interest accrued on the term deposit. The transaction price is capped at RUB 25,578,037,730.</td>
<td>Minutes No. 99 of the Board of Directors’ meeting dated 13 March 2013.</td>
</tr>
<tr>
<td>2</td>
<td>A Master Agreement on the General Terms of Foreign Exchange Transactions between ROSBANK Joint-Stock Commercial Bank and URALCHEM UCC, OJSC. The major transaction price shall be the aggregate of the prices (in rouble equivalent) of the foreign exchange transactions executed under it, calculated using the following formula: the amount of the currency sold or purchased times the conversion rate. The transaction price is capped at RUB 25,578,037,730.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Related transactions that constitute a major transaction: two Master Agreements on the General Terms of Cash Conversion Transactions between Sberbank of Russia and URALCHEM UCC, OJSC. The price of the related transaction constituting a major transaction shall be the aggregate of the prices (in rouble equivalent) of the foreign exchange transactions executed under it, calculated using the following formula: the amount of the currency sold or purchased times the conversion rate. The price of each related transaction constituting a major transaction is capped at RUB 12,789,018,865.</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>A Master Agreement on Term Financial Market Transactions that are Related Transactions Constituting a Major Transaction between HSBC Bank (RR) (Limited Liability Company) and URALCHEM UCC, OJSC. The transaction price is capped at RUB 23,959,124,280.</td>
<td>Minutes No. 109 of the Board of Directors’ meeting dated 15 May 2013.</td>
</tr>
<tr>
<td>5</td>
<td>A Master Agreement on the General Terms and Principles of Non-Cash Foreign Currency Sale and Purchase Transactions that are Related Transactions Constituting a Major Transaction between Alfa-Bank, OJSC and URALCHEM UCC, OJSC. The transaction price is capped at RUB 23,959,124,280.</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>A Master Agreement on Term Financial Market Transactions that are Related Transactions Constituting a Major Transaction between ING BANK (EURASIA) ZAO (Closed Joint Stock Company) and URALCHEM UCC, OJSC. The transaction price is capped at RUB 23,959,124,280.</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>A Master Agreement on Term Financial Market Transactions that are Related Transactions Constituting a Major Transaction between Sberbank of Russia and URALCHEM UCC, OJSC. The transaction price is capped at RUB 23,959,124,280.</td>
<td></td>
</tr>
<tr>
<td>№</td>
<td>Material terms and conditions</td>
<td>Approval by the Company’s authoritative governing body</td>
</tr>
<tr>
<td>---</td>
<td>-----------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>8</td>
<td>An Agreement on the Sale and Purchase of Ordinary Registered Uncertified Shares in Minudobrenia, OJSC between URALCHEM UCC, OJSC and URALCHEM FREIGHT LIMITED. The transaction price is US$397,000,000.</td>
<td>Minutes No. 117 of the Board of Directors’ meeting dated 07 June 2013.</td>
</tr>
<tr>
<td></td>
<td>1) An Incorporated Guarantee Loan Agreement between URALCHEM UCC, OJSC and MFP KCCW, OJSC (the ‘Borrowers/Beneficiaries’), VTB Capital Plc (the ‘Original Lender’), VTB Capital Plc (the ‘Loan Agent’), VTB Capital Plc (the ‘Documentary Agent’), Voskresensk Mineral Fertilizers, OJSC; URALCHEM Trading House, LLC; Minudobrenia, OJSC; URALCHEM HOLDING PL.C., and SIA URALCHEM Trading (the ‘Guarantors’). The transaction price: the loan transaction amount shall be the amount of the Borrowers’ obligations under the Loan Agreement, including the amounts payable by the Borrowers to the Lenders under the Loan Agreement, i.e., the principal capped at US$4,500,000,000, the interest, and other charges, fees and payments specified in the Loan Agreement. The estimated transaction cash value is at least US$6,141,286,632.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2) An Agreement on the Sale and Purchase of Securities between URALCHEM UCC, OJSC (the ‘Buyer’) and BEAM Services Inc, COSMOPRO TRADING LIMITED, Becounioco Holdings Limited, FENGUARD LTD, and WADENO INVESTMENTS LIMITED (the ‘Sellers’), under which the Buyer shall purchase securities (ordinary registered uncertified shares in OJSC Uralkali and global depositary receipts of OJSC Uralkali) not exceeding 20% in OJSC Uralkali’s authorised capital. The transaction price is US$3,799,436,915.13.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3) A Share Pledge Agreement for OJSC Uralkali’s shares between URALCHEM UCC, OJSC (the ‘Pledger’) and VTB CAPITAL PLC (the ‘Pledgee’), under which the Pledger transfers ordinary registered uncertified shares in OJSC Uralkali purchased by it to the Pledgee as the original pledge to secure the performance of URALCHEM UCC, OJSC’s obligations under the Loan Agreement.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4) A Pledge Agreement for OJSC Uralkali’s Global Depositary Receipts between URALCHEM UCC, OJSC (the ‘Pledgee’) and VTB CAPITAL PLC (the ‘Pledger’), under which the Pledger transfers OJSC Uralkali’s global depositary receipts purchased by it to the Pledgee as the original pledge to secure the performance of URALCHEM UCC, OJSC’s obligations under the Loan Agreement.</td>
<td></td>
</tr>
</tbody>
</table>
## Compliance with Corporate Code of Conduct

In 2013, URALCHEM UCC, OJSC corporate policy was based on the corporate governance code as follows:

<table>
<thead>
<tr>
<th>№</th>
<th>Corporate governance code provision</th>
<th>Compliance yes/no</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>2</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>3</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>4</td>
<td>The Company’s internal documents establish the procedure for registering participants to attend general shareholders meetings.</td>
<td>YES</td>
</tr>
<tr>
<td>5</td>
<td>The Company’s Articles of Association authorize the board of directors to approve the Company’s financial and business plan each year.</td>
<td>YES</td>
</tr>
<tr>
<td>6</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>7</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>8</td>
<td>The Company’s board of directors includes at least one independent director who meets the eligibility criteria of the Corporate Governance Code.</td>
<td>YES</td>
</tr>
<tr>
<td>9</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>10</td>
<td>None of the Company’s directors is a member, chief executive officer (manager), member of governing bodies or employee of the Company’s competitors.</td>
<td>YES</td>
</tr>
<tr>
<td>11</td>
<td>The Company’s Articles of Association provide for cumulative voting for elections to the board of directors.</td>
<td>YES</td>
</tr>
<tr>
<td>12</td>
<td>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 the directors of the same.</td>
<td>YES</td>
</tr>
<tr>
<td>№</td>
<td>Corporate governance code provision</td>
<td>Compliance yes/no</td>
</tr>
<tr>
<td>----</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>13</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>14</td>
<td>The Company’s board of directors shall meet at least once every six weeks in the year covered by the annual report.</td>
<td>YES</td>
</tr>
<tr>
<td>15</td>
<td>The Company’s bylaws set the procedure for holding board of directors meetings.</td>
<td>YES</td>
</tr>
<tr>
<td>16</td>
<td>The Company’s internal documents include a provision requiring the board of directors to approve any transaction if it is worth more than 10% of the Company’s assets except transactions made in the ordinary course of business.</td>
<td>YES</td>
</tr>
<tr>
<td>17</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>18</td>
<td>The board of directors has a strategy and investment committee.</td>
<td>YES</td>
</tr>
<tr>
<td>19</td>
<td>The board of directors has an audit committee which recommends the Company’s auditor to the board of directors and cooperates with the revision commission.</td>
<td>YES</td>
</tr>
<tr>
<td>20</td>
<td>Audit committee should consist only of independent and non-executive directors.</td>
<td>YES</td>
</tr>
<tr>
<td>21</td>
<td>The board of directors has a nomination committee and a remuneration committee. The purpose of the committees is to determine the criteria for selection of candidates to the board of directors and the development of the Company’s remuneration policy.</td>
<td>YES</td>
</tr>
<tr>
<td>22</td>
<td>Remuneration committee is chaired by independent director.</td>
<td>YES</td>
</tr>
<tr>
<td>23</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>24</td>
<td>The Company’s board of directors has approved by laws setting the procedure for forming its committees and regulating their proceedings.</td>
<td>YES</td>
</tr>
<tr>
<td>25</td>
<td>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.</td>
<td>YES</td>
</tr>
</tbody>
</table>
## Compliance with Corporate Code of Conduct

<table>
<thead>
<tr>
<th>№</th>
<th>Corporate governance code provision</th>
<th>Compliance yes/no</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>27</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>28</td>
<td>The Company’s executive bodies report to the board of directors on a monthly basis.</td>
<td>YES</td>
</tr>
<tr>
<td>29</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>30</td>
<td>The Company’s Articles of Association or internal documents establish a procedure for appointing/electing the corporate secretary and outline his/her job duties.</td>
<td>YES</td>
</tr>
<tr>
<td>31</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>32</td>
<td>The Company’s board of directors has approved a regulation describing the Company’s disclosure rules and procedures (Provisions for Information Disclosure).</td>
<td>YES</td>
</tr>
<tr>
<td>33</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>34</td>
<td>The Company has a website and also a webpage provided by one of distributors of information on the securities market, where Company information is regularly disclosed.</td>
<td>YES</td>
</tr>
<tr>
<td>№</td>
<td>Corporate governance code provision</td>
<td>Compliance yes/no</td>
</tr>
<tr>
<td>----</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>35</td>
<td>The Company’s board of directors has approved a regulation on sensitive information regarding the Company’s business, shares and other securities and transactions there with 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.</td>
<td>YES</td>
</tr>
<tr>
<td>36</td>
<td>The Company’s board of directors has adopted internal financial and business controls.</td>
<td>YES</td>
</tr>
<tr>
<td>37</td>
<td>The Company has a department supervising compliance with internal control procedures (internal control or audit department).</td>
<td>YES</td>
</tr>
<tr>
<td>38</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>39</td>
<td>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.</td>
<td>YES</td>
</tr>
<tr>
<td>40</td>
<td>Internal documents of the Company stipulate the deadlines for providing documents and materials to the control and audit service for assessment of the financial and business operations. Internal documents also stipulate responsibility of the Company’s executives and employees for failure to provide these documents within deadlines.</td>
<td>YES</td>
</tr>
<tr>
<td>41</td>
<td>The Company’s board of directors has issued guidelines for determining recommendations on dividends (dividend policy provisions).</td>
<td>YES</td>
</tr>
<tr>
<td>42</td>
<td>Dividend policy provisions establish the procedure for determining the minimum percentage of the Company’s net profit to be distributed as dividends.</td>
<td>YES</td>
</tr>
<tr>
<td>43</td>
<td>The Company discloses its dividend policy and any amendments to this policy on its website and also on its webpage provided by one of distributors of information on the securities market.</td>
<td>YES</td>
</tr>
</tbody>
</table>
## APPENDIX 4

### Terms and abbreviations

List of basic terms and abbreviations used in the annual report of URALCHEM UCC, OJSC, unless otherwise specified in the text of the Annual Report.

<table>
<thead>
<tr>
<th>Terms/abbreviations</th>
<th>Definition of a term or registered name</th>
</tr>
</thead>
<tbody>
<tr>
<td>URALCHEM UCC, OJSC; United Chemical Company</td>
<td>Open Joint Stock Company United Chemical Company Uralchem; Uralchem, OJSC</td>
</tr>
<tr>
<td>URALCHEM, OJSC</td>
<td></td>
</tr>
<tr>
<td>URALCHEM; URALCHEM Group; the Group; the Company</td>
<td>Uralchem, OJSC and its subsidiaries, affiliates and companies under its management</td>
</tr>
<tr>
<td>Voskresensk Mineral Fertilizers, OJSC; Voskresensk Mineral Fertilizers; VMF</td>
<td>OJSC ‘Voskresensk Mineral Fertilizers’</td>
</tr>
<tr>
<td>Murashi depot</td>
<td>Branch of ‘URALCHEM-TRANS’, LLC – rail car repair depot Murashi</td>
</tr>
<tr>
<td>MFP KCCW OJSC; MFP KCCW; MFP</td>
<td>Kirovo-Chepetsky Khimichesky Kombinat, Open Joint Stock Company; KCCW, OJSC</td>
</tr>
<tr>
<td>Minudobrenia OJSC; Minudobrenia; PMU</td>
<td>Public Joint Stock Company ‘Minudobrenia’</td>
</tr>
<tr>
<td>URALCHEM Trading House LLC; URALCHEM Trading House; URALCHEM TH</td>
<td>Trading house URALCHEM, LLC</td>
</tr>
<tr>
<td>URALCHEM-TRANS LLC; URALCHEM-TRANS</td>
<td>‘URALCHEM-TRANS’, LLC</td>
</tr>
<tr>
<td>Azot Branch of URALCHEM UCC, OJSC; Azot Branch</td>
<td>Azot Branch of Uralchem, OJSC in Berezniki</td>
</tr>
<tr>
<td>KCCW Branch</td>
<td>KCCW Branch of Uralchem, OJSC in Kirovo-Chepetsk</td>
</tr>
<tr>
<td>USC Branch; United Service Centre; USC</td>
<td>USC Branch of Uralchem, OJSC</td>
</tr>
<tr>
<td>PMU Branch</td>
<td>PMU Branch of Uralchem, OJSC in Perm</td>
</tr>
<tr>
<td>Riga fertilizer terminal</td>
<td>SIA ‘Riga fertilizer terminal’ (Latvia)</td>
</tr>
<tr>
<td>URALCHEM TRADING DO BRASIL</td>
<td>URALCHEM TRADING DO BRASIL LTDA. (Brazil)</td>
</tr>
</tbody>
</table>
EFFICIENCY AS A GROWTH DRIVER

Despite a difficult market environment, URALCHEM delivered a solid financial and operating performance in 2013. Our success was due to the hard work and professionalism of employees, as well as to a resilient and flexible business model which ensures strong performance in any market conditions.

We have maintained our leadership among Russia’s nitrogen fertilizer producers. Continuous improvements in production efficiency supported by a stable financial position give us confidence in our ability to deliver long-term business and value growth for URALCHEM Group.
EFFICIENCY AS A GROWTH DRIVER