# SUSTAINABLE LEADERSHIP

INTEGRATED REPORT
& ACCOUNTS 2012

URALKALI

Uralkali is the leading vertically integrated potash producer, accounting for 20% of the world's production of potash, which is an essential component for the development of all living organisms. The Company controls its entire production chain, from potash ore mining through to the supply of potassium chloride to customers.

Uralkali's production facilities include five mines, six potash plants and one carnallite plant, situated in the towns of Berezniki and Solikamsk, in the Perm region of Russia. The Company has licences for the development of two additional salt fields.

The Company is developing the Verkhnekamskoye potassium and magnesium salt field, the world's second-largest deposit in terms of ore reserves. It employs c.11,800 people in the main production unit.

Uralkali generated US$3.95 billion of revenues and a 71% EBITDA margin for the full year 2012. Uralkali's ordinary shares and Global Depositary Receipts (GDRs) are traded on the Moscow Exchange and LSE, respectively.

## Mission statement

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

## Our vision

- We seek to be one of the leaders of the global potash industry
- We expand our production capacity to satisfy the growing demand for our products
- Our unwavering priorities are: zero accidents and incidents; minimisation of negative environmental impacts; and the high quality of our products
- We work hard to be the most cost-efficient company in the industry
- We follow the principles of clear segregation of responsibility, performance management, and risk minimisation
- We strive to be one of the most attractive employers in the Perm region
- We invest in our people and in developing and promoting highly-performing employees
- We do our best to be an active participant in the development of Berezniki and Solikamsk
- We always work to increase the value of our Company and improve its investment attractiveness
- Our activities are open and transparent for any stakeholder

## Our values

Our activities are guided by the following values:

1. **Safety:** life is priceless
2. **Professionalism and efficiency:** results make our work valuable
3. **Mutual respect and team work**: only through collaboration can we reach set targets
4. **Openness:** we have courage to hear and tell the truth
5. **Initiative and responsibility:** all of us can improve the Company's work
6. **Integrity, decency, excellence and ambition:** we strive to do everything better than others

# About this report

In this year's Report we have moved towards integrated reporting to provide stakeholders with a comprehensive overview of our activities and performance.

For Uralkali, integrated reporting means linking this Report with other available communication channels, to bring together all material information to our stakeholders. A wealth of information is also available on our corporate website. This Integrated Report is designed to give you a coherent and comprehensive picture of Uralkali and to demonstrate our ability to create shared value, now and in the future.

The Report has been prepared in accordance with the Global Reporting Initiative (GRI) G3.1 Sustainability Reporting Guidelines, including the Mining and Metals Sector Supplement. The Report has been awarded a GRI A+ disclosure level.

The Report is supplemented by a GRI table where you can find more information on GRI indicators disclosure.

We have used this symbol throughout the Report to identify when you can access more information on our website: www.uralkali.com

We would appreciate your feedback regarding this Report. Please follow the link below to leave your comments: www.uralkali.com/investors/reporting_and_disclosures/

# Contents

# SUSTAINABLE LEADERSHIP

## – in Costs

We are focused on sustaining our cost leadership going forward through further optimisation across all key cost elements and continuous efficiency improvement.

**Why is it important?**

Cost efficiency has always been our strategic priority to maximise our shareholder value. We intend to sustain this approach.

## – in Export supply

Our global reach and extensive sales network enable us to satisfy our customers' requests in an efficient and timely manner. We seek to be the supplier of choice.

**Why is it important?**

In our fast-changing world it is crucial to be flexible, dynamic and responsive in order to maintain strong long-term relationships with our customers.

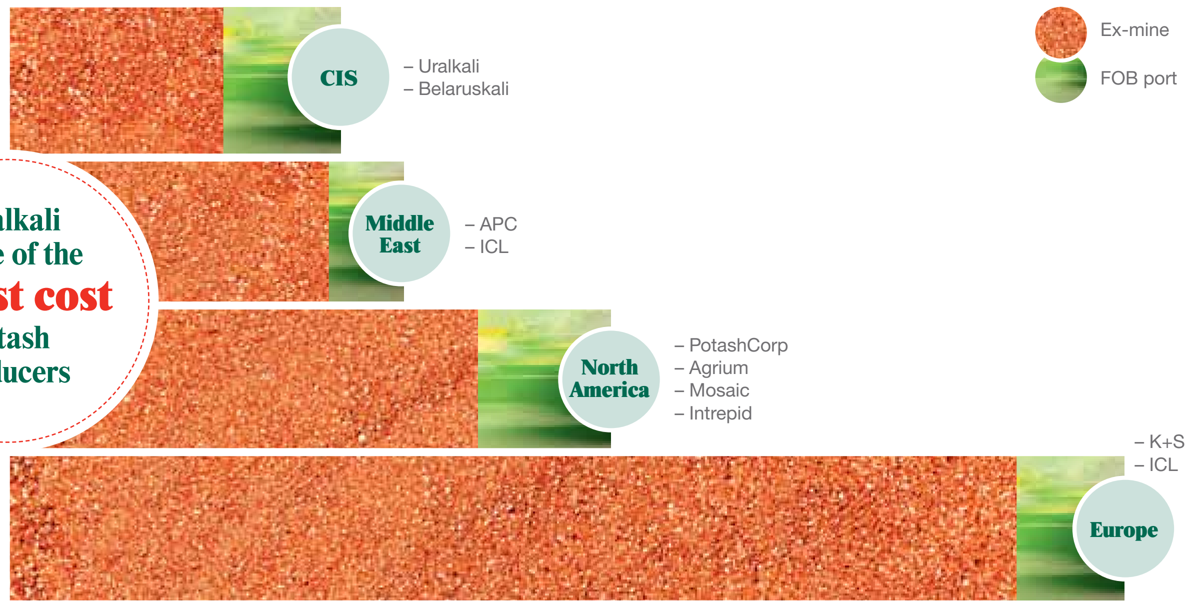
## – in Expansion

We have the ability to modernise and expand our capacity on the most cost-efficient basis in the industry. In 2012, we completed an important project to bring overall capacity to 13 mln t.

**Why is it important?**

Having the capability to produce potash and add capacity, in line with world population growth and decreased arable land, enables us to meet demand for years to come.

## Global cash costs




## Sources of export trade


[1] Through all Uralkali traders. [2] Including Uzbekistan with market share 0.6%. Note: excluding minor potash producers with share of global export supply of less than 1%.

## Capacity expansion schedule


Source: IFA, companies' earnings reports, Fertecon.

# Sustained performance

## Group highlights[1]

### Net revenue[2] (US$ mln)

↓6%

| | |
|---|---|
| 2012 | 3,343 |
| 2011 | 3,568 |
| 2010 | 2,487 |

### Net profit (US$ mln)

↑5%

| | |
|---|---|
| 2012 | 1,597 |
| 2011 | 1,527 |
| 2010 | 929 |

### Sales volume (mln tonnes KCl)

↓12%

| | |
|---|---|
| 2012 | 9.4 |
| 2011 | 10.6 |
| 2010 | 10.0 |

### Earnings per GDR[3] (US$/GDR)

↑23%

| | |
|---|---|
| 2012 | 2.7 |
| 2011 | 2.2 |
| 2010 | 1.3 |

## Key 2012 events

May

**CARDINAL SAFETY RULES**

In 2012, Uralkali launched the "Cardinal Rules", an unprecedented programme for Russian companies. Having analysed the causes of workplace injuries, the Company identified actions that caused 90% of the accidents. Following completion of the analysis, seven key rules for workplace safety were adopted and communicated to all employees.

See page 69 for more information.

June

**INVESTMENT RATINGS**

The Company obtained investment grade credit ratings from three international rating agencies: Fitch, Standard & Poor's, and Moody's. Fitch and Standard & Poor's assigned Uralkali a credit rating of BBB-, while Moody's assigned it a rating of Baa3. All three agencies gave the Company a "stable" outlook.

See page 104 for more information.

June, December

**ELECTION OF THE NEW BOARD OF DIRECTORS**

At the Annual General Meeting Uralkali shareholders elected a new Board of Directors which is chaired by Alexander Voloshin, an independent director. The Board includes three further independent directors: Gordon Sage, Sir Robert Margetts and Paul Ostling, each of whom joined all Board committees.

See page 89 for more information.

[1] Calculated on a pro-forma basis, including financial results of Uralkali and Silvinit starting from 1 January 2010 and 2011 respectively, except for earnings per GDR which is calculated on an IFRS basis.

[2] Net revenue represents adjusted revenue (sales net of freight, railway tariff and transhipment costs).

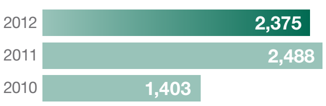
[3] EPS is calculated as net profit divided by the weighted average number of GDRs in issue.

[4] EBITDA is calculated as operating profit plus depreciation and amortisation and does not include mine flooding costs and other one-off expenses, without adjustment on income from reverse of reserve in the amount of US$54.7 mln.

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

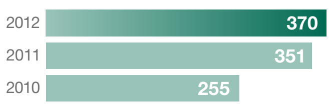
**EBITDA[4] (US$ mln)**

↓5%




**Average export potash price (US$, FCA, per tonne KCl)**

↑5%




**Production (mln tonnes KCl)**

↓16%


**Lost time injury frequency rate[5] (LTIFR)**


June, December

### DIVIDENDS

At the Annual General Meeting in June, the Company resolved to pay dividends for 2011 in the amount of RUB4.00 per share (approximately US$0.61 per GDR). At the Extraordinary General Meeting of shareholders in December 2012, the Company resolved to pay interim dividends in the amount of RUB4.71 per share (approximately US$0.77 per GDR). Thus, the amount of dividends paid was around 50% of Uralkali's net profit.

See page 105 for more information.

September

### INCLUSION OF GDRS IN DAXGLOBAL

Uralkali's Global Depositary Receipts were included in the DAXglobal Agribusiness index, which tracks the performance of the world's leading agricultural companies. Uralkali entered the top five and became the first Russian company in the index.

See page 103 for more information.


November

### BUYBACK PROGRAMME

The Company resumed the programme to buy back its own shares and GDRs. The total amount of the new programme will not exceed US$1.636 billion. The current buyback programme runs from 13 November 2012 to 13 November 2013. As a result of the previous buyback programme, which ran from 6 October 2011 to 6 October 2012, the purchased securities amounted to approximately US$863 million and were subsequently cancelled.

See page 103 for more information.

December

### CAPACITY EXPANSION PROGRAMME

By the end of 2012, the expansion programme of the Bereznikі-4 mine and plant was completed. As of January 2013, the total production capacity of Uralkali is 13 million tonnes of KCl per year. In 2013, the Company continued to implement an ambitious development programme, which has the potential to increase capacity up to 19 million tonnes per year by 2021.

See page 52 for more information.

**Mineral Resource Statement** (as of 1 January 2013)

| All mines | Tonnage (mln tonnes) | $K_2O$[6] (%) | $K_2O$ (mln tonnes) |
|---|---|---|---|
| Measured | 2,489.0 | 19.2 | 478.3 |
| Indicated | 6,065.0 | 18.6 | 1,127.8 |
| **Total measured + indicated** | **8,554.6** | **18.8** | **1,606.1** |
| Inferred | 571.1 | 21.6 | 123.1 |

Source: Uralkali JORC Report as of 1 January 2013, audited by SRK Consulting (UK).

[6] Potassium oxide, 1KCl = $1.61K_2O$.

# A year of good progress

**Alexander Voloshin**
Chairman of the Board of Directors
Independent Director

Dear shareholders,

2012 marked a year of considerable progress for your Company. The management team proved that it can accomplish the most ambitious tasks despite the many challenges posed by ongoing macroeconomic instability, and this gives me great confidence in the positive prospects for your Company and its future success. The Company proved its important position in the global market for potassium chloride (KCl), providing almost 20% of the world's supply of potash fertiliser. Uralkali also made significant progress in the development of its corporate governance structure.

Looking back at the achievements of 2012, I am pleased to report that the Company is an efficient, transparent and responsible player in the global potash market, and I would like to thank the management and employees for the excellent work they have done.

### A significant market player

In mid-2011, Uralkali completed integration with another major potash producer, Silvinit, creating the largest global potash producer by output. In 2012, the Company reaffirmed its reputation as market leader by producing 9.1 million tonnes of KCl.

Last year was a period of continuous development for Uralkali. Amidst challenging market conditions, the Company made great progress in achieving its goals. We continued implementing our large-scale investment programme, which allowed us to increase our total production capacity to 13 million tonnes of KCl per annum. In addition, the Company maintained one of the lowest cost levels and one of the highest profitability rates in the industry.

In order to consolidate its leadership position, the Company continues to follow its sustainable development strategy and deliver further improvement .

### Continued strengthening of corporate governance

Corporate governance issues are of great significance to Uralkali. In December 2012, the Board of Directors approved Uralkali's corporate governance policy, which defined the main principles of our work: efficiency, transparency, responsibility, separation of powers of the corporate bodies and ensuring the rights of all shareholders. By following these principles, we seek to maintain the confidence of our shareholders in the Company's management.

In 2012 we made changes in the composition of Uralkali's Board of Directors, with Alexander Nesis and Pavel Grachev, who had served on the Board since September 2010, leaving their positions. I would like to thank them for their significant contribution to the efficiency of Uralkali and to the quality of corporate governance.

> **I am pleased to report that the Company is an efficient, transparent and responsible player in the global potash market, and I would like to thank the management and employees for the excellent work they have done.**

## Ensuring continuous improvement

Aiming at maintaining the trust of our shareholders and making the Company more attractive for new investors, we try to ensure a proactive and consistent implementation of what we call good corporate practice and sustainable development. It is important for any company, especially for one like Uralkali, to be able to adapt and operate in a changing environment, and to follow what we believe are key principles: efficiency, transparency, accountability and safety. These elements are reflected in our key policies, which were developed jointly by the management and the Board of Directors in 2012, and these principles are what structure our work and determine how we go about achieving our goals. The performance of the Board, which enjoyed great support from its committees, ensures we are continuously serving the interests of our shareholders and producing results of which we can only be proud.

Anton Averin, who served on Uralkali's Board of Directors in 2010-2011, re-joined the Board last year. At the same time, the Board of Directors welcomed a new independent director, Gordon Sage, who held senior positions in the international mining company Rio Tinto for more than 30 years. With Mr Sage's arrival, the share of independent directors on the Board reached almost 45%, reflecting the free float of the Company. The presence of four independent directors on the Board, including myself, will strengthen the protection of shareholders' interests and objective decision-making. Three independent directors joined all Board committees by the end of last year, and this should further increase the efficiency of the committees' work.

The combination of skills, knowledge and experience of the members of the Board of Directors, as well as improvements in the organisation of its work, I believe, have made the current Board well-balanced, effective and representative.

### Focus on shareholder return and stock buyback

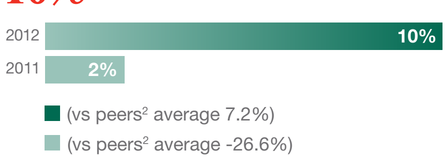
Uralkali has traditionally demonstrated a balanced approach to investing in the development of production facilities and returning surplus funds to shareholders. Last year was no exception. We continued to stick to our dividend policy for a return of at least 50% of the Company's net profit to its shareholders.

In June 2012, the Company's Annual General Meeting of shareholders resolved to pay dividends in respect of 2011, allocating approximately RUB12.4 billion (approximately US$380 million) for these purposes. In December, at the Company's Extraordinary General Meeting of shareholders, it was decided to pay interim dividends from retained earnings for previous years of approximately RUB13.8 billion (approximately US$450 million). Thus, at year-end 2011 and for the first six months of 2012, the amount of dividends paid was around 50% of Uralkali's net profit for the period. For the full year 2012, in addition to interim dividends, the Board of Directors has recommended payment of US$377 million.

In addition, in November 2012, the Company renewed a programme to buy back its own shares and GDRs in order to optimise our financial structure. The total amount of the programme, which was extended for another year, will not exceed an additional US$1.6 billion. I note that, as a result of the share and GDR buyback programme completed in October 2012, the purchased securities amounted to approximately US$0.9 billion. In accordance with best corporate practices, these securities were subsequently cancelled.

**Total shareholder return (TSR, %)**

**10%**




**Earnings per GDR[2] (US$/GDR)**

**↑23%**


[1] Peer group: Mosaic, PotashCorp.

[2] Calculated as net profit divided by the weighted average number of GDRs in issue.

> **“Our goal is to be an efficient mineral developer, caring not only about our performance but also about the people who are affected by our activities.**

### Recognition by the investment community

In 2012, the Company received investment-grade ratings from three international rating agencies: Fitch, Standard & Poor's and Moody's. Fitch and Standard & Poor's assigned Uralkali a BBB- credit rating, while Moody's assigned it a rating of Baa3. All three agencies gave the Company a “stable” outlook.

Appreciation of our financial and operational success confirms that Uralkali is a first-class Russian borrower with a strong industry position, a balanced financial policy and reliable risk management practices. We expect that these ratings will allow us to attract debt financing more effectively and will help to strengthen investor confidence in our Company.

Furthermore, last year, Uralkali's GDRs were included in the DAXglobal Agribusiness index, which reflects the capitalisation of major companies in the agricultural sector and serves as one of the main guides for global investment funds. Uralkali became the first Russian company in the index, entering the top five.

### Expanded approach to social responsibility and sustainable development

We strive to act responsibly towards the people living in Berezniki and Solikamsk – the towns where we operate. The Perm region is rich in natural resources, but our mining operations should not have a negative impact on the environment and local communities. Despite the possibility of new players entering the potash industry in Russia, we are aware of Uralkali's great responsibility as an industry leader.

Our goal is to be an efficient mineral developer, caring not only about our performance, but also about the people who are affected by our activities. Therefore, in 2012, the Company initiated and financed the development of a master plan for the Berezniki-Solikamsk agglomeration, and started its implementation in cooperation with local authorities. The master plan is aimed at improving the quality of life in the region, and we hope it will help to attract new highly-skilled professionals in an increasingly competitive local recruitment market.

More information about the role of Uralkali in society can be found in the Sustainability section of this Integrated Report.

Uralkali continues to work towards increasing the Company's long-term value for all interested parties. My fellow Board members and I are committed to supporting and assisting the Uralkali team on the way to achieving its ambitious goals.

**Alexander Voloshin**

Chairman of the Board of Directors

Independent Director

# Sustainable leader in the potash market

**Vladislav Baumgertner**
Chief Executive Officer
Member of the Board of Directors

Dear shareholders,

2012 was an important year in Uralkali's development. It was a great challenge for us to achieve the earlier forecasted synergies of the merger of the Berezniki and Solikamsk enterprises, and to complete unification and optimisation of all business processes. Moreover, it was necessary to demonstrate that the combined company was well set up to face a range of external factors – macroeconomic, political and natural.

Uralkali's financial results highlight that the Company was able to meet the challenges of the past year. 2012 revenues amounted to US$3.95 billion, net income rose to US$1.6 billion and the EBITDA margin remained high at 71%. Production reached 9.1 million tonnes of KCl.

## Market conditions

In 2012, the potash market, unfortunately, developed at a relatively slower pace than was forecast at the start of the year. Instead of the expected 53-55 million tonnes, global potash sales reached only 51 million tonnes. This was primarily a result of the ongoing global macroeconomic crisis.

In India, for example, a sharp devaluation of the rupee and a 10% reduction in subsidies for the purchase of potash in 2012 led to a drastic reduction in potash consumption of 40-45%. As a consequence, in January to March 2012, India suspended orders of the volumes contracted in 2011, which had to be extended until September 2012.

Unusually severe drought in the US and Europe also resulted in a drop in demand in these markets.

2012 saw high volatility of crop prices, causing worry and uncertainty among the majority of agricultural producers. Although crop prices started to grow in the middle of 2012 as a result of the drought, and farmers' profitability increased, there was no upsurge of consumer activity as the main fertiliser application season in most of the countries was over by that time. Despite certain favourable conditions in the soft commodities markets, demand for potassium chloride was unstable. Our consumers, including farmers and distributors, were buying fertilisers "just-in-time" and only in the volumes required for immediate application. As a result of low demand for fertilisers and excessive production capacities, potash prices declined in almost all markets.

We expect that, in 2013, positive dynamics on the soft commodities market, a reduced grain stock-to-use ratio due to last year's drought, and some improvements in macroeconomic conditions will encourage farmers to increase their yields. This should result in significant growth in the potash market this year and a price rebound. In January and February 2013, we reached key agreements with Chinese and Indian consumers on supplies for the current year. We observe a gradual improvement in market participants' mood. Therefore, we believe that 2013 should become a period of potash market recovery, which would lay the foundations for a record performance in 2014.

### Operating indicators

Despite difficult market conditions in 2012, which resulted in a decline in Uralkali's production in Q1 and Q4, the Company's average capacity utilisation for the year was about 80%, and total production exceeded 9.1 million tonnes of potassium chloride. This allowed us to fully meet the demands of our customers and to maintain our share in all key markets.

At the same time, the complete integration of all the business processes of Uralkali and the former Silvinit last year allowed us to achieve the forecasted synergies of US$300 million. This was done by restructuring the production, administrative and logistics processes and unifying the employees of the two companies into one efficient team.

Starting from January 2012, we have consolidated export sales of Uralkali and Silvinit. I am pleased to note that our main trading channels proved able to sell significantly higher potash volumes. We are currently working on the next stage of enhancing our sales structure.

The Company once again demonstrated its leadership in cost management in all areas, mainly thanks to the merger with Silvinit. In 2012, Uralkali completed the optimisation of its maintenance projects. In addition, the Company developed an energy-saving programme and launched its own power generating facilities. In 2013, we are also planning to continue our cost-cutting programmes related to support functions, staff optimisation and other areas.

High capacity utilisation rates and low production costs ensured a stable cash flow for Uralkali in 2012. The Company has traditionally supported its debt burden in the target range of 1,0x-2,0x EBITDA, which enables bank financing in international markets to be attracted on the most favourable terms. At the end of the year, the figure stood at 0.95x EBITDA.

> "We continue to believe in the potash industry's positive medium and long-term prospects. A growing global population, as well as rising demand for food and biofuels, highlights the important position of the agriculture sector and the need to increase yields.

**Potash capacity (mln tonnes KCl)**

**13.0 mln tonnes KCI**


**Achieved synergies**

The merger allowed us to optimise our programme for upgrades and expansion of production capacities. In 2012, Uralkali completed the Berezniki-4 mine and plant expansion, increasing the production capacity of the Company from 11.5 to 13.0 million tonnes of KCl per year starting from 2013. At the same time, we began work on the construction of a new mine at Ust-Yayvinsky block, which will allow us to compensate for depleted reserves and to increase total output.

We continue to believe in the potash industry's positive medium and long-term prospects. A growing global population, as well as rising demand for food and biofuels, highlights the important position of the agriculture sector and the need to increase yields. Balanced and regular fertiliser application is crucial to the efficient development of farming. At the same time, in many countries around the world, potassium chloride is not applied in sufficient quantities, which signifies great potential for an increase in fertiliser consumption. As such, we will continue to implement our strategic capacity expansion programme, as we are confident that our additional production volumes will be in demand.

**Safety and sustainable development are our highest priorities**

In addition to achieving organic growth, Uralkali's key ongoing priorities are demonstrating zero accident and fatality rates, minimising the negative impact on the environment of our operations, and assuring the high quality of our products. Unfortunately, in 2012, one Uralkali worker and two employees of the Company's subsidiaries died at Uralkali production sites. We conducted thorough investigations of the accidents and have taken steps to prevent similar incidents in the future.

Achieving zero deaths at work is one of our key objectives. Uralkali operates a unified system of preventing accidents and reducing the number of injuries. In addition, based on the results of an analysis of the most common safety violations in 2012, we established the Cardinal Safety Rules that must be respected by the Company's employees and by employees of contractors operating at Uralkali's locations.

In 2012, Uralkali published its first Sustainability Report, which gave a detailed account not only of the Company's increased attention to safety issues and caring for the environment, but also of its role in society and details of its corporate governance. Information on our progress in sustainable development is included in this Integrated Report.

As a fertiliser producer, we are aware of our contribution towards the world's sustainable development. The timely and balanced application of nutrients to the soil produces increased yields, thus contributing to resolving the global food security issue. In order to promote the appropriate application of fertilisers, Uralkali participates in a number of Russian and international committees, including the International Fertilizer Industry Association (IFA), the Russian Association of Fertiliser Producers (RAPU), the International Plant Nutrition Institute (IPNI) and the International Potash Institute (IPI). In partnership with leading universities and large distributors, the Company runs projects aimed at increasing crop yields in 12 regions of the world. In 2013, we also launched a scientific and practical pilot project in Russia.

I would like to thank our employees, members of the Board of Directors, investors and partners for their efficient cooperation in 2012. We are confident that 2013 will be a year of market recovery, and one which will see the Company grow for the benefit of all its shareholders and partners.

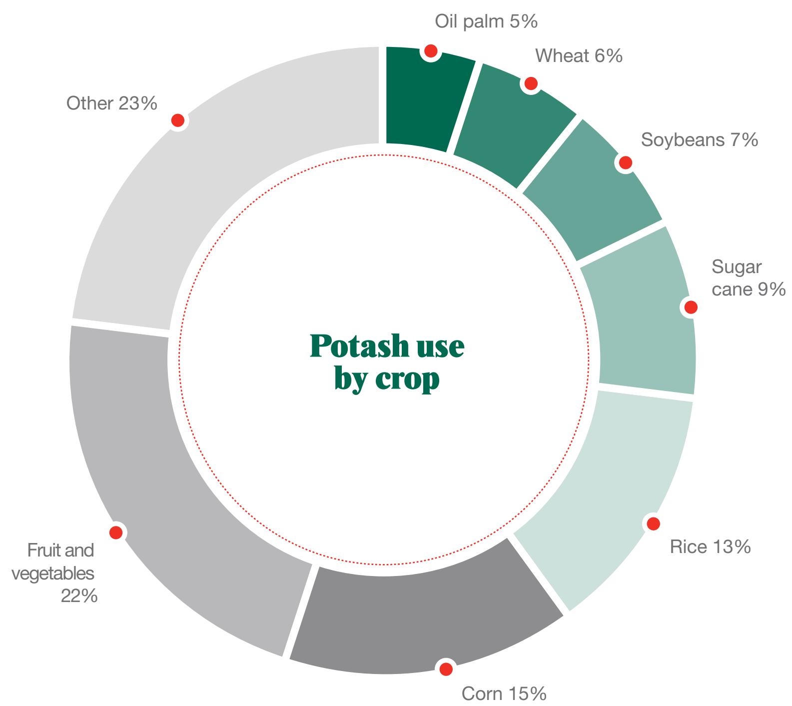
**Vladislav Baumgertner**

Chief Executive Officer

Member of the Board of Directors

# Solution to the global food challenge

**Potash is a vitally important element, necessary for the functioning of all living cells. It is a natural component of soils and, along with phosphorus and nitrogen, an irreplaceable nutrient for plants and agricultural crops. Balanced plant nourishment can only be ensured by regular and timely application of these three main macronutrients.**




Plants need sufficient amounts of potash at every stage of their life-cycle to develop optimally. Potash improves the nutritional value, taste, colour and the structure of crops and increases resistance to disease and drought. In harsh climate conditions it becomes especially valuable in preserving harvest.

Potash fertilisers do not contain toxic heavy metals and, properly used, do not pollute the environment or affect the quality of natural spring water.

There are no natural or artificial substitutes for potash.

Due to a constant decrease in arable land per capita and a growing need for high-quality food, rational use of fertilisers is crucial in providing humankind with a sufficient amount of food.

## Why do plants need potash?

Potash is responsible for crop formation and nutrient accumulation in plants, and participates in many physiological processes:

- growth and propagation;
- substance transport; and
- signal and impulse transmission.

Furthermore, potash has many other benefits to crops, including:

- improving resistance to crop diseases;
- building cellulose;
- reducing water loss;
- assisting in photosynthesis;
- increasing nutrient content including protein and vitamin C;
- reducing wilting; and
- improving drought and frost resistance.

## Benefits to specific crops

1 Potash application increases the starch content of potatoes, rice, wheat, soybeans, sesame and other crops.

2 Potash increases the fat content of sesame, soybeans, rapeseed, sunflowers, peanuts and cotton seeds.

3 Potash increases the starch and vitamin C content of potatoes. In addition, it increases the yield of large and medium-sized tubers and reduces weight loss in tubers after harvesting.


## Educating audiences about potash

As a leader in the production and sale of potash fertilisers, Uralkali is aware of its educational mission to inform a broad range of audiences about the properties of the Company's product. In addition to dedicated programmes for agrochemistry specialists and farmers, the Company has developed a set of initiatives for investors, analysts and journalists.

At the beginning of 2013, Uralkali launched the www.infopotash.com/en website, containing information about how plants and humans use potassium, and about the production and application methods of potash.

At the same time, the Company started to issue the quarterly newsletter "Key Element", which includes a market review, analysis of the practices of potash application in different regions of the world, and news on Uralkali events for farmers.

Moreover, in October 2012 and April 2013, Uralkali organised two seminars for analysts and journalists with the participation of representatives from the International Plant Nutrition Institute (IPNI) and International Fertilizer Industry Association (IFA).

Uralkali's educational programmes cover topics as the benefits of potash, the world potash market, advanced fertiliser techniques, and agronomics.

See more about agronomy programmes on pages 46-47.

4 Potash increases the size of cotton balls, improves fibre quality and increases maturity of cotton fibre.

5 In citrus crops potash provides a thin fruit peel, improves the colour and increases the content of citric and vitamin C.

6 Potash increases the sugar, organic acid and carotene content of fruit and vegetables and extends their shelf life.

# Strong market fundamentals

Despite the challenges that the potash industry faced in 2012, the long-term fundamentals for global potash demand remain strong. Demand for potash is expected to improve steadily in the coming years and to be supported by long-term drivers. Increasing global population, world economic growth, increasing incomes in emerging and developing markets, and growth in world agricultural demand and trade are expected to continue driving potash demand in the future.

## Demand for higher yields

**Growing world population is leading to increased demand for food**

World population growth is projected to continue growing over 2013-2022, rising about 1.0% per year. Population growth rates in developing economies are expected to remain above those in the rest of the world. Thus, the share of global population attributed to developing countries will increase to 82% by 2022, compared to 74% in 1980.

**Rising incomes and populations' prosperity are changing dietary habits towards protein-rich food**

Steady global economic growth will support longer-term gains in world food demand, global agricultural trade, and global agricultural exports. World GDP is projected to increase at an average annual rate of around 3.3% over the next decade. The strongest growth is anticipated in developing countries.

**Growing demand for food and meat is boosting grain consumption resulting in the need for higher yields**

Given commodity prices, technology and competing demands, the feasible scope for area expansion is limited. The FAO[1] predicts that from the 2005-07 base period to 2050, only 10% of the global growth in crop production (21% in developing countries) is expected to come from land expansion, with the remainder coming from higher yields and increased cropping intensity.

**Decreasing arable land per capita needs greater crop yields that require intensive agricultural technologies and balanced utilisation of fertilisers**

The FAO estimates that agricultural production will need to increase by 60% globally (and nearly 77% in developing countries) by 2050 to cope with a larger, more urban and wealthier population.

**Expanding demand for renewable energy results in increased demand for biofuels that stimulate crop production and use of potash fertilisers**

Increasing amounts of agricultural feedstocks are being used in the production of liquid biofuels. World ethanol production has doubled since 2005, while biodiesel production has increased five-fold. The production of bio-ethanol and biodiesel are projected to show the highest growth rates, at 4.8-5% over the next ten years. World ethanol and biodiesel production are both projected to almost double to reach some 180 billion litres and 41 billion litres, respectively, by 2021.

## Challenging supply

**High-quality and economically minable deposits of potash are located in several countries.** According to the US Geological Survey, more than 70% of reserves are located in Canada and Russia, and as a result, this is where the majority of new projects are proposed.

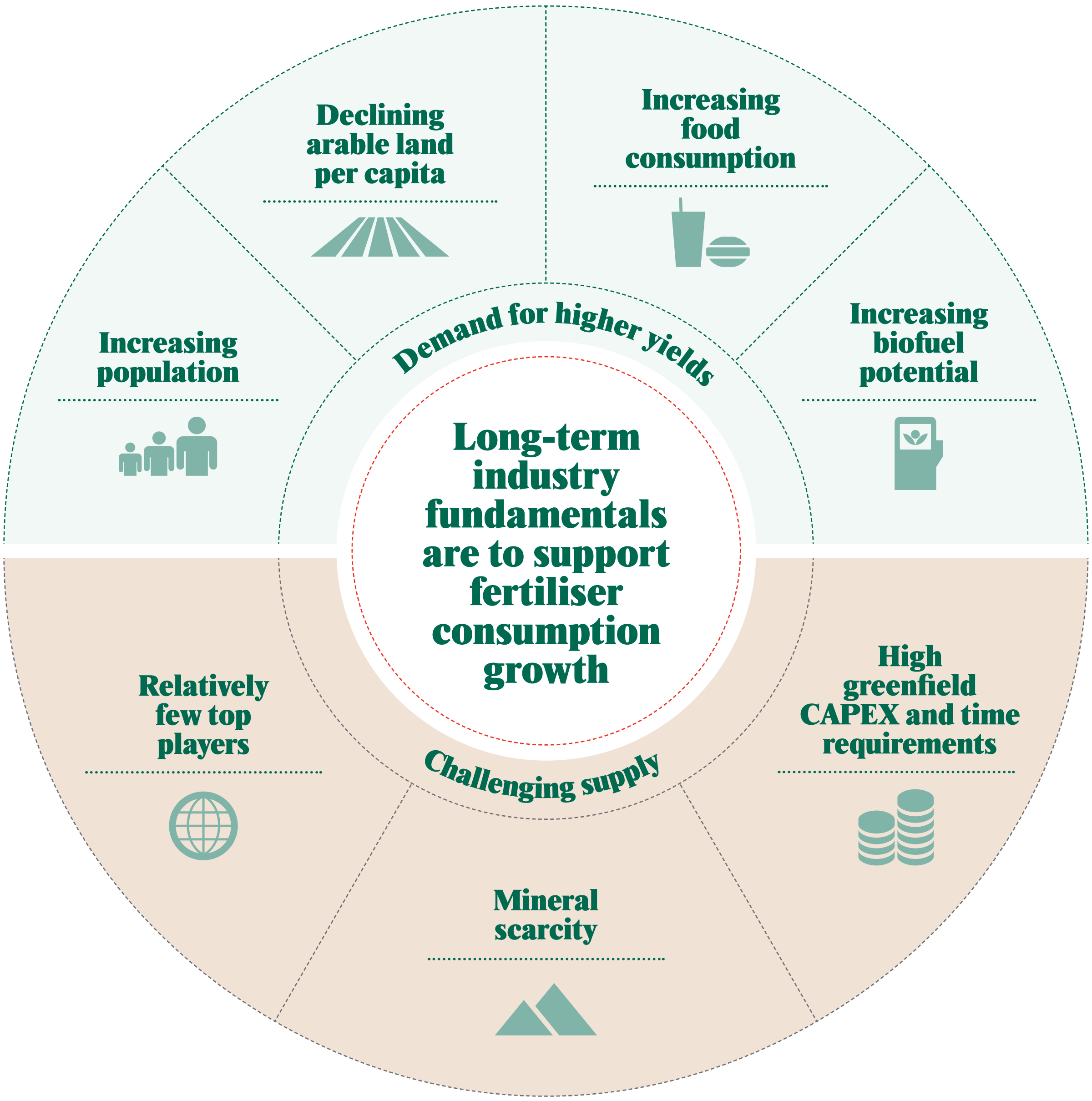
**Potash is produced only in 14 countries**[2] (incl. new players in Laos and Uzbekistan) with Canada and Russia playing a significant role in global production.

**Building a new potash facility requires substantial financial investment and time.**

The timeline for first production and any positive cash flow is at least seven years, with subsequent lengthy ramp-up after construction completion. On the investment side, industry participants believe that the cost of a new potash mine is around US$4,000[3] per tonne of KCl for an average new-comer in the potash industry.

The limited availability of quality mineable ore bodies around the world, and high capital requirements to develop new mines, create significant challenges for new potash producers.

[1] Food and Agriculture Organization of the United Nations.
[2] US Geological Survey, January 2013.
[3] Industry estimates, Uralkali.




Uralkali capitalises on long-term potash market fundamentals by executing a clear strategy — strengthening its business in the most significant developing markets. Uralkali, through its export traders, has leading access to the fast-growing Brazilian and Asian markets, which accounted for approximately 74% of Uralkali's export sales volumes in 2012. On the other hand, we continue to implement our strategic capacity expansion to be able to provide our customers with high-quality product in the years ahead.

# Creating value through vertical integration

**Uralkali is a vertically integrated potash producer with control over its entire production chain: from potash ore mining through to the supply of potash to customers. We adhere to the strictest guidelines for safety at each of these stages while also minimising the environmental impact of our operations.**

## Production

### Mining

Ore extraction in Uralkali takes place underground at a depth of 300-450 metres. Specialised mining combines are used for tunnel drilling. The extracted ore is transported by conveyor belts to shafts through which it is then hoisted to the surface.

### Crushing

In the crushing section of the flotation plant ore is crushed using rod mills and screens into smaller particles of the size required for further enrichment.

Chemical enrichment is based on the varying joint solubility of potassium chloride (KCl) and sodium chloride (NaCl) in water at different temperatures.

### Chemical enrichment

### Flotation

The method is based on the varying floatability of sylvine and halite minerals in the saturated aqueous solution of KCl and NaCl in the presence of reagents.

## Sustainable leadership through our business model

### Compliance with regulations

In 2012, we reported no instances of our products' non-compliance with state regulations on safety requirements and impact on health, and had no material penalties for deficiencies of our goods and services related to quality, customers' safety requirements, marketing or advertising.

### Material stewardship

Our production is strictly in line with national regulations. For each product, Uralkali has developed safety passports that describe the product's key elements and safe usage requirements, as well as emergency prevention and response measures. The safety passports were prepared in line with recommendations set by the EU regulations.

### Customer satisfaction

The success of our business relies heavily on understanding the needs of customers in our key markets. We conduct customer satisfaction surveys each year, which address commercial, quality, delivery, packaging and other aspects of our relationships with buyers. The survey results are studied carefully in order to further improve the Company's customer relationships.

Applied directly to soil or used for compound fertilisers and industrial needs. Shipped mainly to Russia, China and Europe.

WHITE POTASH

Applied directly to soil. Shipped mainly to India and Southeast Asia.

PINK POTASH

## Compaction

To make granular potash, powder potash is heated, compressed and then crushed into granules.

GRANULAR POTASH

Applied directly to soil or mixed with nitrogen and phosphate fertilisers. Exported mainly to Brazil, the USA and China.

Uralkali sales geography covers over **40** countries

## Logistics

**BALTIC BULK TERMINAL**
Max transhipment capacity of 6.2 mln tonnes per year

**OWN ROLLING STOCK**
8,000 mineral railcars

**WAREHOUSE FACILITIES**
Total capacity of 640,000 tonnes

## Sales

Uralkali's sales geography covers over 40 countries. Our major markets are China, India, Southeast Asia, Russia, the USA, Europe and Brazil. The Company supplies directly to its customers in Russia. On the export market Uralkali sells its products through traders: Belarusian Potash Company (BPC) and Uralkali Trading SA.

## Feeding the world

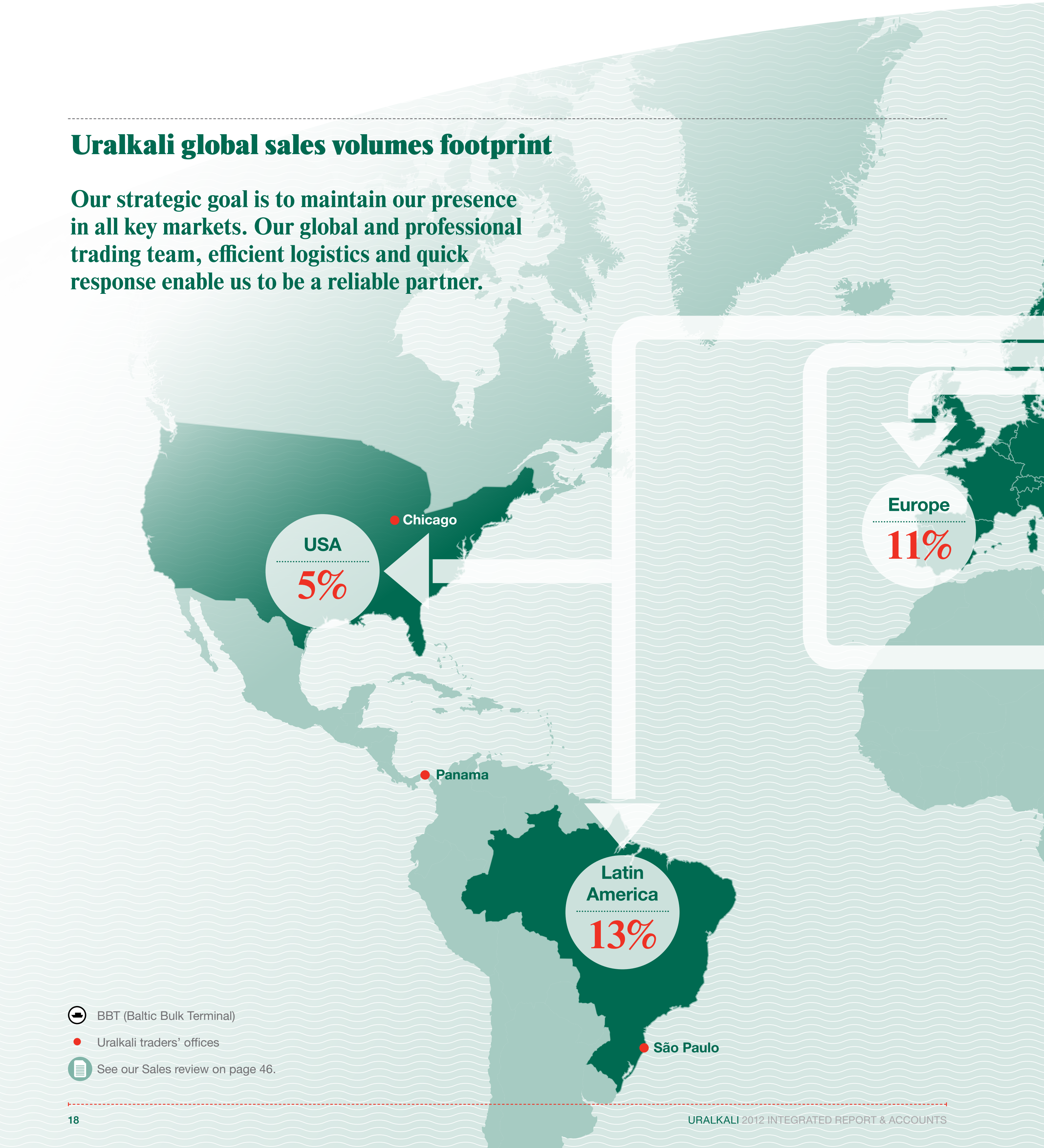
The most significant outcome of our operations is potash's vital role in feeding the world's growing population. Potash is one of the irreplaceable nutrients for plants and crops, ensuring growth, propagation and other essential biochemical processes in living plant cells.

See pages 68-83 for more details of the impact of our operations.

# Comprehensive sales geography

## Uralkali global sales volumes footprint

**Our strategic goal is to maintain our presence in all key markets. Our global and professional trading team, efficient logistics and quick response enable us to be a reliable partner.**



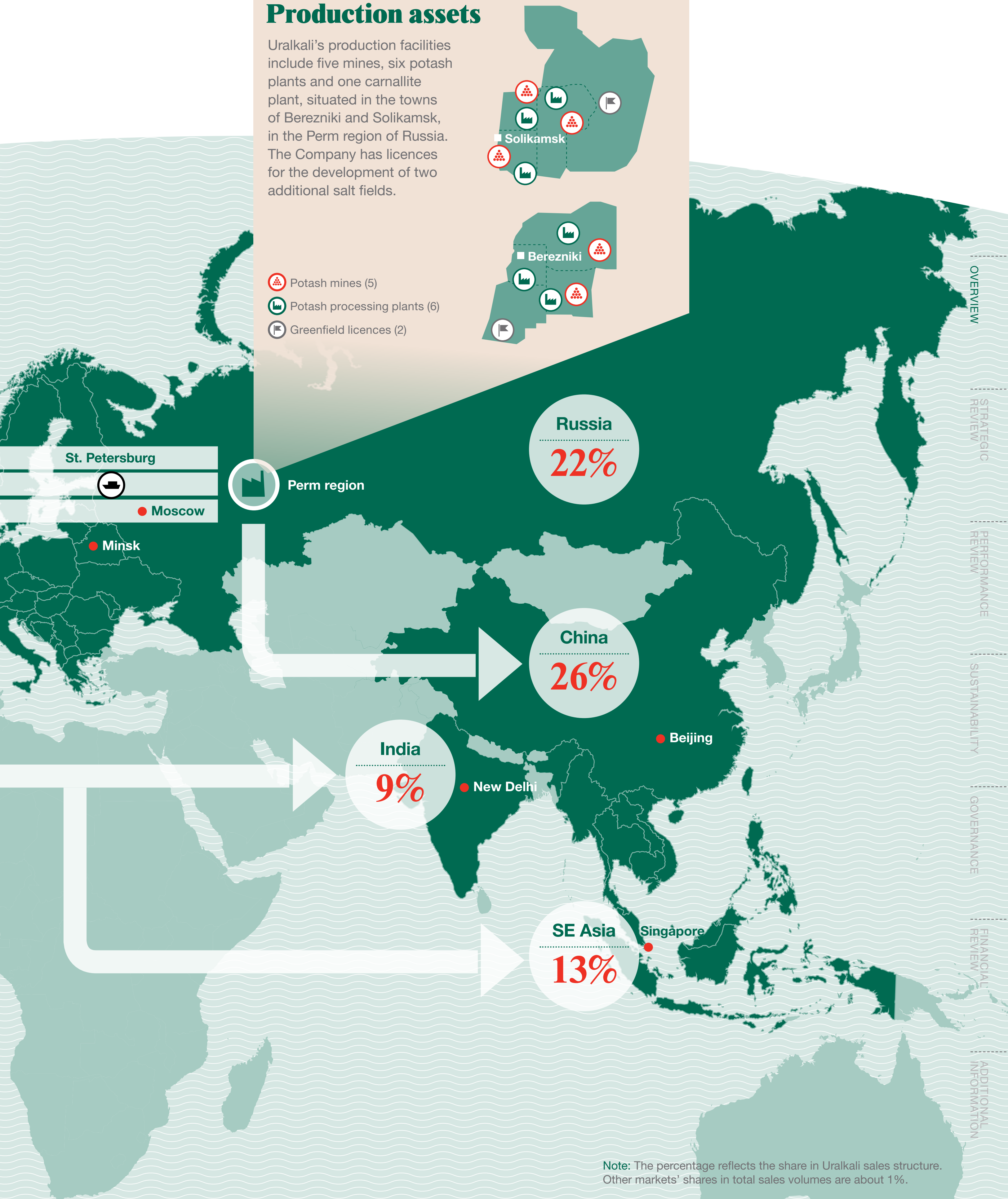

BBT (Baltic Bulk Terminal)

Uralkali traders' offices

See our Sales review on page 46.

# Production assets

Uralkali's production facilities include five mines, six potash plants and one carnallite plant, situated in the towns of Berezniki and Solikamsk, in the Perm region of Russia. The Company has licences for the development of two additional salt fields.




Note: The percentage reflects the share in Uralkali sales structure. Other markets' shares in total sales volumes are about 1%.

## Stakeholder engagement

An overview of how we engage with our stakeholders and why it is important in shaping our business activities.

p 22

## Strategy

Our Group strategy, our priorities and progress made during 2012.

p 23

## KPIs

The key performance indicators which measure the progress on strategy.

p 34

## Risk management

How we manage risk and internal control and the principal risks which could affect the delivery of our strategy.

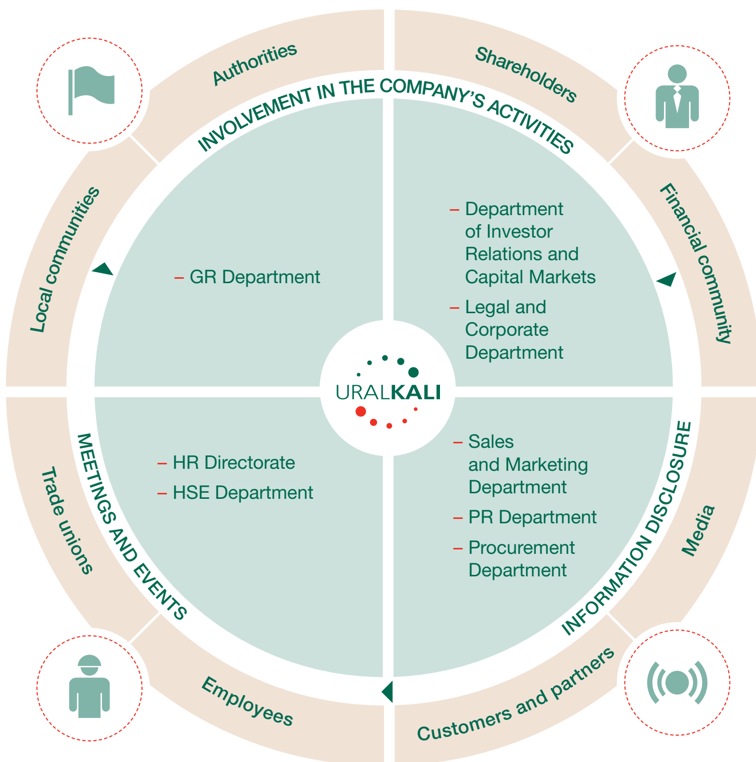
p 38

# STRATEGIC REVIEW


Introduction of Governance KPIs
Stakeholder engagement analysis

# Engaging with our stakeholders

**Uralkali's stakeholders shape the context of its activities and have a considerable influence on the Company's financial results and shareholder returns. Therefore, stakeholder engagement represents not only a key element of Uralkali's business operations but also an effective means of responding quickly to changes in the Company's operating environment and, hence, an important element of its sustainable development.**




Uralkali's management has identified and analysed certain key stakeholder groups. In 2012, the Company continued to develop a systematic approach to stakeholder relations, including identifying priorities and formalising mechanisms of cooperation with key stakeholder groups. In particular, the Company identified mechanisms and forms of cooperation for each stakeholder group, as set out in the chart above. Regular transparent reporting is an important aspect of Uralkali's stakeholder approach.

Uralkali engages with stakeholders at various levels, including information disclosure, meetings and consultations, and involving stakeholders in the Company's activities. At each level, the Company keeps stakeholders' needs and expectations at the forefront of its thinking. When engaging with stakeholders, Uralkali aims to establish effective mechanisms of cooperation, while at the same time taking into account stakeholders' rights and expectations, as well as its own priorities and capabilities.

Uralkali's stakeholder engagement is based on its own internal policies and standards, including the Code of Corporate Culture, agreements between Uralkali and its stakeholders, and legal requirements.

Uralkali has identified key topics, areas and principles of cooperation with each key stakeholder group, as set out in the Table inside this folder.

A detailed overview of how we engage with our key stakeholders can be found on pages 66-67.

## Stakeholder engagement

| Shareholders | Financial community | Employees | Trade unions | Customers and partners | Media | Local communities | Authorities |
|---|---|---|---|---|---|---|---|
| **INFORMATION** | | | | | | | |
| Publication of information on the Company's activities on its corporate website in respective sections | | | | | | | |
| Presentations, webcasts and conference calls between management and financial community | | HR Policy and Health and Safety Policy | | Publication of prices for customers and publication of regular market bulletin on the website | Press releases on material issues and key events | Publications in local media | Information disclosure and reporting |
| Website publication of relevant AGM documents | Management's presentations at industry and regional conferences | The system of internal communications and feedback | Reports on execution of the provisions of the Collective Bargaining Agreement and health and safety agreements | Procurement standards and information on the Company's tenders and procurement plans | Interviews with management | Public consultations | |
| **MEETINGS AND CONSULTATIONS** | | | | | | | |
| Meetings between management and financial community, including road shows and industry conferences | | Regular meetings between management and employees | Regular face-to-face meetings with management | Meetings with customers, including industry conferences, round tables and workshops | Media trips and press conferences | Maintaining contacts with NGOs | Dialogue with government authorities on legislative and regulatory issues |
| Investor and analyst days, including site visits | | Consideration of and feedback on 'hotline' messages | Meetings with employees (trade union members) | Meetings with (potential) suppliers and business partners | Relationship building events for media | Meetings with representatives of local communities | Development of partnership agreements |
| | | | Collecting written opinions on material social issues | | | | Participation in workshops and expert panels |
| **INVOLVEMENT IN THE COMPANY'S ACTIVITIES** | | | | | | | |
| General meeting of shareholders | Perception studies among financial community | Ensuring safety in the workplace | Development of the Collective Bargaining Agreement | Master classes and practical training in mineral fertiliser use | Perception studies among target media | Economic, environmental and social initiatives | Implementation of joint projects |
| | | Implementation of social programmes and financial incentive programmes | | Carrying out customer surveys | | Implementation of CSR projects and local community development programmes | Local community development planning |
| | | Carrying out employee satisfaction and employee engagement surveys | | Conclusion of supply contracts for products and services and monitoring performance of requirements for counterparties | | | |

See pages 66-67 for further information on our stakeholder engagement.

In summer 2012, Uralkali held its traditional “Corporate Olympics”. The contests involved the participation of over 2,500 employees.

The major goal of Uralkali’s Corporate Olympics is to promote healthy lifestyles and strengthen the health of its employees. According to the employee satisfaction survey which was held in the spring of 2012, 60% of employees are satisfied with the Company’s activities aimed at supporting healthy lifestyles.

In 2012, the Company initiated and financed the development of a master plan for the Berezniki-Solikamsk agglomeration, and started its implementation in cooperation with local authorities. The master plan will serve as the basis for defining a multi-faceted development programme for these cities, which will include proposed infrastructure solutions, a list of proposed locations for social facilities, proposals for housing construction, and measures aimed at maintaining and improving the surrounding environment.

In 2012, the Company conducted its annual Capital Markets Day in Perm, which was attended by over 30 investors and analysts. The participants visited the Company’s mine, plants located in Berezniki and Solikamsk, and also its greenfield development site.

In 2012, Uralkali continued to conduct its agronomy workshops aimed at studying the importance of nutrient management, and specifically potash application, and promoting balanced fertilisation. The workshops were organised in our key markets, such as Brazil, India, China, Eastern Europe and South East Asia with the participation of foreign professionals and world-class experts.

# Delivering our strategy

**Vertically integrated business model**

**Focus on shareholder value, corporate governance and sustainable development**

## Our strengths

- A leading potash producer
- Capacity for disciplined growth to maintain and develop leading market position
- Global sales reach with strong presence in key markets
- Cost efficiencies through vertical integration and operational advantages
- Strong cash flow generation
- Dynamic and experienced management and Board focused on corporate governance, transparency and risk mitigation

URALKALI

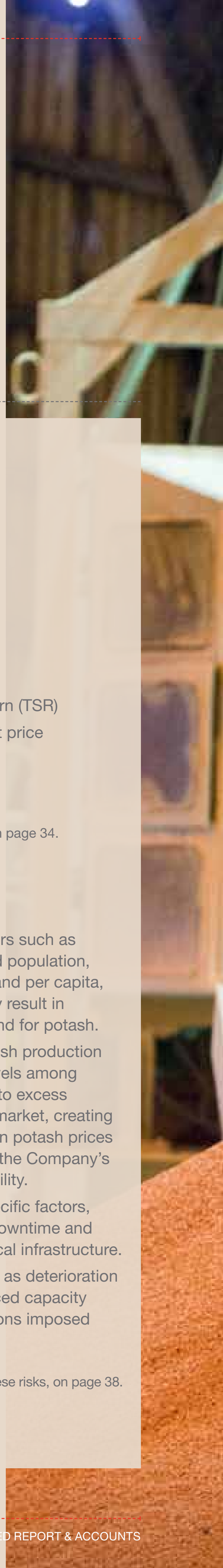
## Our strategy

1. Strengthening pure-potash focus and industry leadership
2. Meeting the world's growing demand for food through capacity expansion
3. Maintaining a robust capital structure
4. Maximising our efficiency and competitive cost position
5. Caring about our people and communities
6. Promoting environmental safety
7. Adhering to best corporate governance standards

Please open flap for more about our stakeholder engagement activities.

See pages 24-37 for progress on our strategy.

# Strengthening pure-potash focus and industry leadership



**We aspire to strengthen our position in the global potash industry, supporting sustainable improvements to global food supply.**

## Priorities

- To remain one of the leading potash producers globally, by production, capacity, cost position and export market share.
- To maximise our integration through the value chain.
- To ensure optimal and sustainable pricing over the medium term by paying special attention to the economics of ultimate customers through regular thematic surveys on the profitability of farmers and the associated value-in-use of the Company's products.

## Progress

- In 2012, Uralkali continued to outperform its peers in terms of total shareholder return. In our view that was largely due to our pure-potash strategy and strong industry fundamentals.
- The Company achieved an increase in average selling export price compared to 2011.
- High EBITDA margin was achieved due to high potash prices and efficient cost control.
- Uralkali traditionally generates strong cash flow due to the strong fundamentals of the potash industry.

## KPIs

- Total shareholder return (TSR)
- Average selling export price
- EBITDA margin
- Operating cash flow

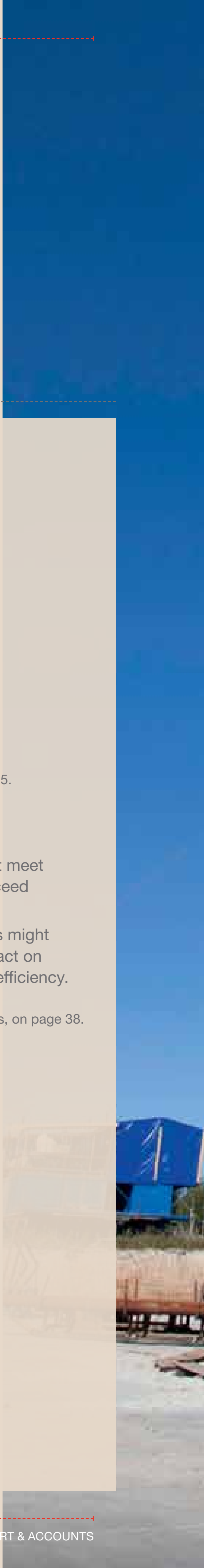
See our KPIs section on page 34.

## Risks

- Macroeconomic factors such as dynamics of the world population, availability of arable land per capita, and others which may result in reduced global demand for potash.
- Excessive global potash production and high inventory levels among consumers may lead to excess potash supply in the market, creating downward pressure on potash prices and consequently on the Company's revenues and profitability.
- Internal company-specific factors, such as emergency downtime and deterioration of physical infrastructure.
- External factors, such as deterioration of ore quality or reduced capacity resulting from conditions imposed by regulatory bodies.

See how we mitigate these risks, on page 38.

# Meeting the world's growing demand for food through capacity expansion



**We are focused on meeting the world's growing demand for food. We seek to take advantage of our solid resource base by selectively expanding production capacity.**

## Priorities

- To meet the increasing demand for food and proteins, which is supportive of strong growth of fertiliser demand in the long term.
- To gain full benefits of long-term market development by implementing a strategic investment programme, with the potential for expansion of Uralkali's annual production capacity to 19 million tonnes of potash by 2021.
- To maintain the US$5.8 billion expansion programme announced in October 2011 (expected to be one of the most cost-effective expansions in the global potash industry) with estimated capex for brownfield projects of US$420 per tonne and greenfield development opportunities of US$750 per tonne.

## Progress

- In 2012, the Company continued to implement its previously announced expansion programme and achieved a 1.5 million tonne increase in capacity with completion of the Berezniki-4 project. As of the end of 2012 Uralkali's capacity totalled 13 million tonnes of KCl per year.
- Our expansion CAPEX in 2012 met the budget, proving our expansion programme to be amongst the most cost-effective in the potash industry.

## KPIs

- Achieved capacity
- Expansion CAPEX

See our KPIs section on page 35.

## Risks

- Investment projects may not meet the projected timeline or exceed planned costs.
- Technological improvements might not have the envisaged impact on the Company's operational efficiency.

See how we mitigate these risks, on page 38.

# Maintaining a robust capital structure

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

### Priorities

- To pursue our long-term strategic investment programme, whilst retaining a robust capital structure and maximising total shareholder return.
- To implement a balanced approach to investing in organic growth and returning excess liquidity to shareholders required for shareholder value creation over the long term.
- To maintain net debt in a range of 1.0x-2.0x LTM EBITDA[1], and a dividend policy of paying not less than 50% of net IFRS profits.
- To proceed with the resumed share buyback programme of up to an additional US$1.6 billion, effective until 13 November 2013, reflecting our ongoing commitment to shareholder value creation.

### Progress

- In 2012 we continued to pay generous dividends, distributing not less than 50% of net IFRS profit in accordance with our dividend policy.
- On the other hand, while investing in growth and returning capital to our shareholders, we maintained our leverage ratio at the lower end of 1.0-2.0 net debt/LTM EBITDA range, ensuring our financial flexibility is retained.

### KPIs

- Dividend payout
- Net debt/LTM EBITDA

See our KPIs section on page 35.

### Risks

- Inflation and currency fluctuations influence the Company's profits.

See how we mitigate these risks on page 38.

[1] Last twelve months' EBITDA.

# Maximising our efficiency and competitive cost position

## We seek to be the most cost-efficient potash producer.

### Priorities

- To sustain the Company's privileged competitive position going forward through further cost-efficiency improvement actions, including continuous optimisation and automation of the business processes.
- To continue using transparent and efficient procurement systems for materials and services.
- To continue delivering synergies resulting from the merger with Silvinit that will further increase our cost efficiency.

### Progress

- Sustaining cost leadership was challenging in 2012 due to lower production volumes and increased the weight of fixed costs in cash COGS per tonne (US$62 in 2012 against US$55 in 2011). We still managed to perform well versus our industry peers and maintain our leading position.
- We strive to optimise our costs, including maintenance CAPEX, which totalled US$218 million in 2012. We plan to maintain approximately the same level in the coming years.
- Increasing output per capita is among our key targets and we made steady progress in this field during 2012. We plan to continue this work going forward.

### KPIs

- Cash COGS per tonne
- Sustenance CAPEX
- Output per capita (production personnel)

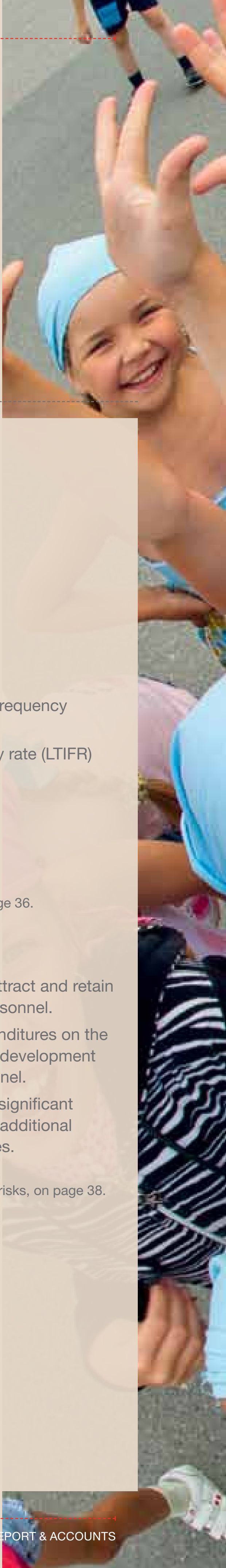
See our KPIs section on pages 35-36.

### Risks

- The loss of strategically important contractors and suppliers.
- Substantial changes in the cost of goods and services.
- Potential suppliers and contractors' default.

See how we mitigate these risks, on page 38.

# Caring about our people and communities



**We aim to be the employer of choice among the CIS mining industry. We are committed to the highest levels of health and safety and to conducting our operations in partnership with local communities.**

## Priorities

- To maintain our position as one of the most attractive employers in our region, and to create a job environment which will allow us to attract, develop and retain our people.
- To continually improve our health and safety performance in order to create the safest possible working conditions for our staff.
- To reward personnel through an efficient motivation system with competitive salaries and an optimal social package.
- To maintain a highly-qualified management team with a well-established industry track record.
- To provide a better quality of life for our people and local communities through our social projects, contribute to regional social and economic development and ensure the sustainability of our operations.

## Progress

- In 2012, the Cardinal Rules were introduced within the Company in order to decrease the number of accidents. We intend to further enhance the Cardinal Rules, as well as the procedure for their application. From 1 January 2013, all the Group's subsidiaries and associated companies introduced their own Cardinal Rules, which covered specific aspects of their operations, such as transport safety.
- We continued to allocate funds to supporting sport activities, charity and social infrastructure. As part of this work in 2012, Uralkali provided financial support to a major project to develop a master plan for the Berezniki-Solikamsk region.
- To maintain our employer of choice position, Uralkali offers a competitive benefits package and wages level. In 2012, average annual wages per employee in the main production unit increased by 16% in ruble equivalent.

## KPIs

- Work-related fatal injury frequency rate (FIFR)
- Lost time injury frequency rate (LTIFR)
- Social investments
- Voluntary labour turnover
- Average annual wages (production personnel)

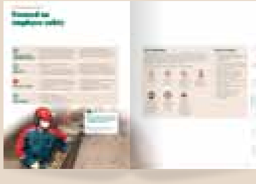
See our KPIs section on page 36.

## Risks

- Risk of being unable to attract and retain motivated and skilled personnel.
- Additional time and expenditures on the training and professional development of the Company's personnel.
- Berezniki-1 flooding had significant impact and may result in additional costs, losses and liabilities.

See how we mitigate these risks, on page 38.

Health & safety page 68



People page 76

Communities page 80

For more information on health & safety, people and communities see the Sustainability section of the Report from page 68.

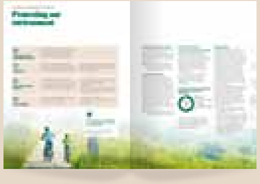
# Promoting environmental safety

## We take significant steps to minimise the environmental impact of our operations. We participate actively in the development of the cities and local communities in which we operate.

### Priorities

- To adhere to sustainable development principles in our operations.
- To preserve environmental integrity and implement production operations in full compliance with the requirements of environmental legislation.
- To continue working on minimising our impact and improving the environmental protection of air, water and land.
- To continue investing in environmental projects.
- To compile and implement environmental action plans on an annual basis in a bid to ensure the optimal consumption of water and increase its reuse, to minimise the environmental impact of our operations.

Environmental protection
pages 72.



For more information on environmental protection see the Sustainability section of the Report from page 64.

### Progress

- In 2012 we reduced water consumption for production needs as a result of optimisation.
- In order to reduce energy consumption and maintain an optimal ratio between procured and internally generated electricity, Uralkali completed the construction of gas turbine units at the Berezniki-4 and Solikamsk-1 mines in 2012.
- In 2012, we continued to invest in environmental protection measures. The total volume of investments totalled US$41.5 million in 2012.

### KPIs

- Total water consumption for production needs
- Energy consumption
- Environmental investments

See our KPIs section on pages 36-37.

### Risks

- The interpretation of environmental, health and safety and other regulations and guidelines may not always be clear and may lead to issues associated with regulatory compliance.
- Compliance with these regulations may result in additional costs and obligations for the Company.
- Potential flooding, fires and other accidents, which may lead to accidental losses and an overall decrease in the Company's efficiency.

See how we mitigate these risks, on page 38.

# Adhering to best corporate governance standards


**We are guided by the principles of openness, transparency and risk minimisation for all stakeholders and are committed to continuous improvement in our corporate governance practices.**

## Priorities

- To follow the principles of social responsibility and acknowledge how important it is to respect the interests of all our stakeholders.
- To be reliable in conducting our operations, and transparent in our dialogue with all stakeholders.
- To meet these expectations by consistently implementing the strategy of sustainable development.
- To increase shareholder value and make the Company more attractive to investors, guided by the best global standards and complying with legal and other requirements.
- To achieve an optimal balance of professional knowledge and skills within the Board of Directors, as well as a balance among executive, non-executive and independent directors.

## Progress

- In order to measure and monitor our progress in 2012 we developed KPIs for corporate governance.
- The Board approved key policies (corporate governance and corporate social responsibility), which stipulate basic principles of our activities in these areas.
- The Company held its first road shows with independent directors in London and New York.
- Following the election of a fourth independent director, the number of independent members of the Board now matches the structure of the Company's share capital, with around 47% of the shares in free float.
- The Board has the same number of independent and non-executive directors. The Board is fully represented by professionals who have all necessary skills and expertise to ensure further development of the Company.

## KPIs

- Committees work effectively and consider all substantial matters prior to Board meetings.
- The Company complies with applicable rules and best practice.
- The Company's governance and transparency are not cited by the rating agencies or regulators in any negative decision about the Company.

See our KPIs section on page 37.

## Risks

- Changes in legislation and withdrawal or restriction of licences by regulatory bodies may adversely affect the business of the Company.
- Administrative reviews by Russian regulatory bodies may impose additional obligations, expenses and restrictions on the Company.
- Anti-monopoly claims and lawsuits may lead to additional costs for the Company.

See how we mitigate these risks, on page 38.

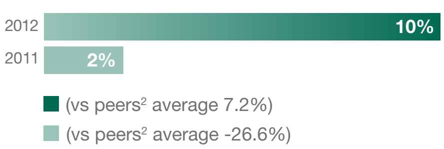
# Progress on our strategy[1]

## In challenging market conditions we managed to achieve solid results in 2012. We strive to manage our operations, sales and financials in an efficient and responsible manner.

## Strengthening pure-potash focus and industry leadership

### Total shareholder return (TSR, %)

**10%**




**Relevance to the strategy**
TSR measures Uralkali pure-potash strategy performance and creation of shareholder value. We also monitor relative TSR performance against other global potash/fertiliser companies.

**Measurement**
TSR calculation reflects shareholder wealth generation through share price appreciation and dividends paid over the reporting period.

**Performance overview**
In 2012, Uralkali continued to outperform its peers as a result of share price growth and generous dividend policy. We believe that our higher than peer group level of TSR is, in part, a result of Uralkali's pure-potash strategy which provides support for the effectiveness of this strategic approach.

### Average selling export price FCA (US$)

**$370 per tonne**


**Relevance to the strategy**
Average selling export price trends measure the success of our strategic approach to the market.

**Measurement**
Export revenue/export volume of goods sold.

**Performance overview**
The Company was able to achieve higher market prices, reflecting an increase in our average export price in 2012 to US$370 per tonne.

### EBITDA margin (%)

**71%**


**Relevance to the strategy**
EBITDA margin demonstrates both our pricing success and our cost efficiency, as well as the advantages of being a pure-potash producer, and reflects the attractive fundamentals of our business.

**Measurement**
Adjusted EBITDA/Net sales

Adjusted EBITDA = EBITDA plus mine flooding expenses and other one-off expenses without adjustment on the income from reverse of reserve in the amount of US$54.7 mln.

Net sales = Sales less railway tariff, freight and transhipment

**Performance overview**
Strong EBITDA margin was achieved due to high potash prices and continued focus on cost control.

### Operating cash flow (US$)

**$1,752 mln**


**Relevance to the strategy**
Operating cash flow demonstrates how our potash business is cash generative.

**Measurement**
Net cost generated from operating activities.

**Performance overview**
In 2012 Uralkali continued to generate significant cash flow in view of strong fundamentals of the potash industry.

[1] All indicators are calculated on a pro-forma basis. Exception is data for social investment, voluntary labour, turnover and average annual wages on IFRS basis.

[2] Peer group: Mosaic, PotashCorp.

## Meeting the world's growing demand for food through capacity expansion

### Achieved capacity (mln tonnes KCl)

**13.0 mln tonnes KCl**


**Relevance to the strategy**
Achieved capacity demonstrates the progress of our strategic investment programme and reflects the maximum achievable production level.

**Measurement**
The maximum production that could be achieved in the calendar year taking into account projected stoppages for planned repair and maintenance.

**Performance overview**
By the end of 2012 Uralkali had successfully increased its production capacity by 1.5 mln tonnes of KCl reaching 13 mln tonnes annually, meeting our target as part of the broader previously announced expansion programme.

### Expansion CAPEX (US$)

**$208 mln**


**Relevance to the strategy**
Expansion CAPEX reflects how efficiently we bring new potash capacity on line.

**Measurement**
Capital expenditures attributable to the expansion programme.

**Performance overview**
Uralkali expansion CAPEX spent in 2012 met the budget and validated the cost efficiency of our broader expansion programme; for example, the average cost of recently added 1.5 mln tonnes of potash capacity at Berezniki-4 came to US$430 per tonne of KCl.

## Maintaining a robust capital structure

### Dividend payout (%)

**50%**


**Relevance to the strategy**
Dividend payout reflects our balanced approach to investing in organic growth and returning excess liquidity to shareholders.

**Measurement**
Dividends for financial year 2012/net profit.

**Performance overview**
According to our dividend policy not less than 50% of our net IFRS profit is to be designated for the payment of dividends.

### Net debt/LTM EBITDA

**0.95x**


**Relevance to the strategy**
Net debt/LTM EBITDA measures how robust our capital structure is and how we manage our balance sheet.

**Measurement**
Net debt = debt less cash (incl. bank loans only).

LTM EBITDA = Last 12 months' EBITDA.

**Performance overview**
Despite investment in growth and return of capital to shareholders via dividends and buyback we maintained our leverage ratio at the lower end of our target range which ensures we retain financial flexibility.

## Maximising our efficiency and competitive cost position

### Cash COGS per tonne (US$)

**$62 per tonne**


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

**Measurement**
COGS per tonne less depreciation and amortisation.

**Performance overview**
Notwithstanding the increase driven by decline in potash production in 2012 our cash COGS per tonne was confirmed as among the lowest in the industry on a relative basis and we plan to sustain this leadership going forward.

### Sustenance CAPEX (US$)

**$218 mln**


**Relevance to the strategy**
Sustenance CAPEX measures how efficiently we can sustain our assets post commissioning.

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

**Performance overview**
We spent US$218 mln on maintenance works in 2012 and plan to maintain expenditure at approximately this level going forward.

## Maximising our efficiency and competitive cost position (continued)

### Output per capita (tonnes per person)

**1,175 tonnes per person**


Relevance to the strategy
Output per capita (production personnel) measures manpower productivity and how efficiently we can produce our product.

Measurement
Potash output for 2012/average production personnel headcount.

Performance overview
During 2012 we made steady progress and plan to continue this work going forward through further headcount optimisation and automation of production processes.

## Caring about our people and communities

### Work-related fatal injury frequency rate (FIFR)

**0.017**


Relevance to the strategy
FIFR is the core indicator of responsible health and safety management. It is central to our focus on operational excellence.

Measurement
FIFR is calculated based on the number of fatalities per 200,000[1] hours worked.

Performance overview
We regret to report that three employees tragically died at the Group's facilities in 2012. All the incidents were investigated, and measures were taken to prevent such accidents in the future.

### Lost time injury frequency rate (LTIFR)

**0.17**


Relevance to the strategy
LTIFR reflects work-related injury frequency. The rate helps us to measure the efficiency of our health and safety initiatives and controls across our operations.

Measurement
LTIFR is calculated based on the number of lost time injuries per 200,000[1] hours worked.

Performance overview
Uralkali is actively committed to ensuring safety in the workplace, and is further improving health and safety programmes. Adopting the Cardinal Rules in 2012 enabled us to reduce the number of such cases.

### Social investments (US$)

**$29.1 mln**


Relevance to the strategy
Social investments demonstrate the Company's important role in the community in which we operate.

Measurement
Total amount of social expenditures including charity, support of infrastructure and sport.

Performance overview
We pay close attention to the socio-economic environment in the region where we operate, allocating funds to supporting sport activities, charity and social infrastructure.

### Voluntary labour turnover

**12.1%**


Relevance to the strategy
Labour turnover represents the ability to retain our people which is key to the Company's Employer of Choice strategy.

Measurement
Turnover is the number of permanent employee resignations as a percentage of total employees (excl. compulsory redundancies and transference to another employer).

Performance overview
Labour turnover increased year on year as a result of headcount optimisation.

### Average annual wages (US$)

**$14,262**


Relevance to the strategy
Average annual wages per employee in the main production unit measures how competitive we are in the market in relation to attraction and retention of best people.

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

Performance overview
In 2012 average annual wages per employee in the main production unit increased by 10% in US$ (by 16% in ruble equivalent). To maintain its Employer of Choice position Uralkali offers a competitive benefits package and wage level.

## Promoting environmental safety

### Total water consumption for production needs ($m^3$/tonne)

**1.16 $m^3$/tonne**


Relevance to the strategy
Water scarcity is a common issue for the industry, and it is vital for the Company to manage its consumption responsibly.

Measurement
Amount of water consumed per tonne of production from surface sources.

Performance overview
As a result of optimisation, water consumption decreased in 2012.

[1]The factor 200,000 is derived from 50 working weeks at 40 hours per 100 employees.

## Promoting environmental safety (continued)

### Energy consumption (kWh/tonne)

**155kWh/tonne**


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

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

Performance overview
Unit energy consumption increased compared to 2011 due to lower production volumes.

### Environmental investments (US$)

**$41.5 mln**


Relevance to the strategy
Environmental investments reflect how seriously we take care of the ecosystems' recovery and their protection.

Measurement
The sum of the costs associated with waste management, emissions capturing and restoration of disturbed lands, training of staff in terms of environmental management, etc.

Performance overview
In 2012, Uralkali continued to invest in environmental protection, including air, water and land. We also invested in installation of new cleaning equipment.

## Adhering to best corporate governance standards

### Committees work effectively and consider all substantial matters prior to the Board meetings

**20 committee meetings of were held and more than 80 agenda items were considered.**

Relevance to the strategy
The Board provides overall management of the Company's activities and makes strategically important decisions. Most of the matters falling under the competence of the Board require a thorough preliminary discussion by its committees, where experts can develop their recommendations for the Board.

Measurement
Overwhelming majority of all Board agenda items (other than corporate procedural matters) have been, prior to being considered by the Board, considered in a substantive manner by the Board committee which has the relevant mandate for each such agenda item.

Performance overview
The Board followed committees' recommendations 100% of the time.

### The Company complies with applicable rules and best practices

**The Board approved key policies related to the most important areas of the Company's activities.**

Relevance to the strategy
Our shareholders and other stakeholders expect Uralkali, as a large public company, to adhere to a responsible approach to our operations that would respect the stakeholders' interests. That is why we not only ensure the Company's compliance with mandatory requirements, but are also engaged in a process of continuous improvement of our policies and procedures and regularly introduce new standards and monitor applicable mandatory requirements.

Measurement
The policies, procedures, processes, practices and standards of the Company, its operations, its Board, and its committees, reflect the best applicable governance, transparency, ethical and disclosure standards and practices that are mandated by the laws, rules, regulations and guidelines of those jurisdictions in which the Company's shares are registered and/or where it operates, as soon as possible from the time of the Company becoming aware of such mandates.

Performance overview
In 2012, we approved the Health, Safety and Environment Policy, the Corporate Governance Policy, the Corporate Social Responsibility Policy, and the Risk Management and Internal Control Policy.

### The Company's governance and transparency are not cited by the rating agencies or regulators in any negative decision about the Company

**No defects in the Company's governance, transparency, disclosure or ethical standards, practices or procedures were cited by any rating agency, or regulator with jurisdiction over the Company's securities as a reason or rationale for a change in the Company's rating, or as a reason for an adverse decision with respect to the Company.**

Relevance to the strategy
The fact that Uralkali has a rating implies that we have undergone a thorough audit of various areas of activity, and the results of this assessment are taken into account when making investment decisions. Our goal is to increase the shareholder value of the Company in the long run and improve shareholder attractiveness. That is why supporting the current ratings is important for us.

Measurement
No defects in the Company's governance, transparency, disclosure or ethical standards, practices or procedures were cited by any rating agency, or regulator with jurisdiction over the Company's securities as a reason or rationale for a change in the Company's rating, or as a reason for an adverse decision with respect to the Company.

Performance overview
In 2012, Fitch and Standard & Poor's gave Uralkali a BBB- rating, while Moody's gave us Baa3. All three agencies gave a "stable" forecast, which means that Uralkali is a high-class Russian borrower with a prominent position in the industry, a balanced financial policy, a robust risk management system, and a strong commitment to corporate governance standards.

# Constantly evolving

**Paul Ostling**
Audit Committee Chairman

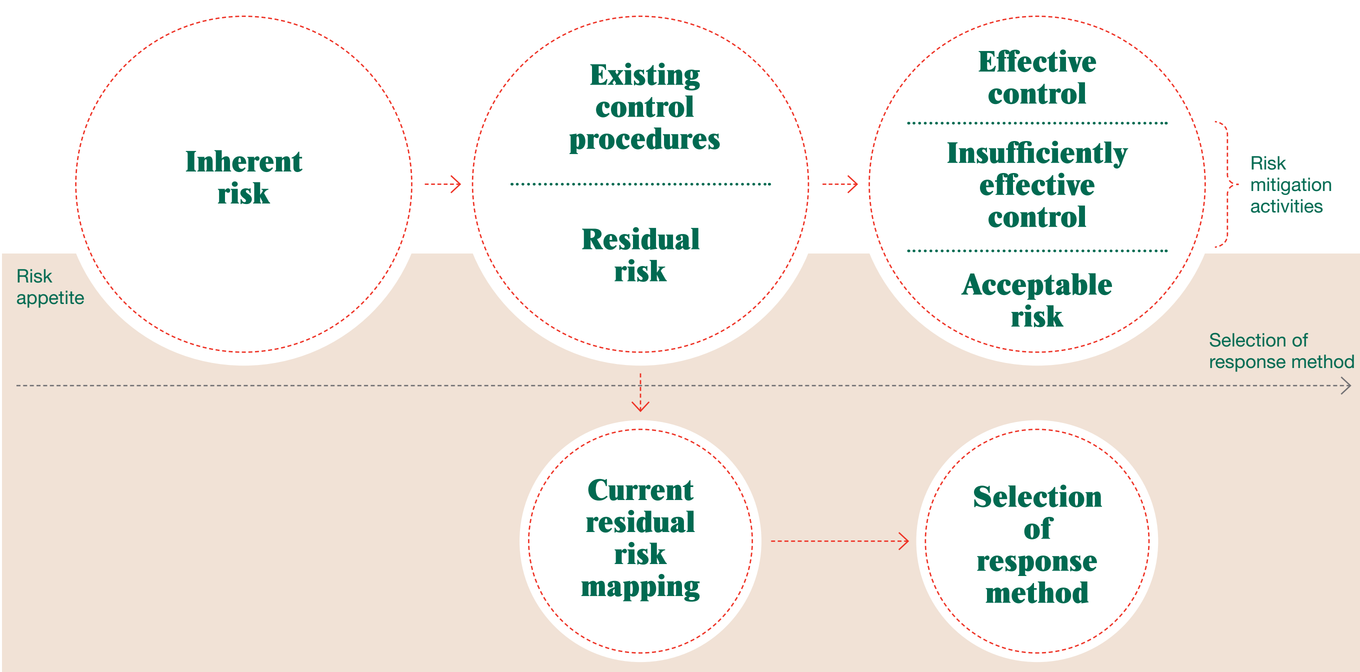
> “In September 2012, the Company adopted a Risk Management and Internal Control Policy for the purpose of establishing the principles of the risk and internal control management system, and the development of a coordinated system of internal response activities.

The formation of an effective risk and internal control management system is one of the most important objectives of the Company’s development.

The main goal of this activity is the timely identification of events that could adversely affect the achievement of the Company’s objectives, and the implementation of appropriate response measures through a balanced allocation of powers and responsibilities to decision-makers.

In September 2012, the Company adopted a Risk Management and Internal Control Policy for the purpose of establishing the principles of the risk and internal control management system, and the development of a coordinated system of internal response activities.

## Approach to risk management



Throughout the year, the Company continued its work in the field of risk management, based on the Integrated Risk Management Framework (COSO ERM[1]). As part of the further development and enhancement of the risk and internal control management system, the Company improved its risk monitoring methodology by defining risk levels and introducing a progress assessment for each risk factor.

Given the significant opportunities and challenges we face in our markets, the continuous development of the risk and internal control management system is essential for the early detection and assessment of risks. For this purpose, in 2012, the Company established a Risk and Internal Control Committee under the supervision of the Chief Executive Officer, which addresses changes in Uralkali's risk map, evidence of key risk indicators, and risk mitigation measures. This allows the Company's management to react to emerging or intensifying risks in a timely manner, and to develop appropriate mitigation measures.

### Key risk factors

This section describes only those key risk factors (in addition to the risks inherent to the jurisdictions in which Uralkali operates) which are likely to significantly affect Uralkali's business, financial position and operational performance. All estimates and forecasts presented in this Annual Report should be assessed taking into account the risk factors described in this section.

The Integrated Report does not present an exhaustive account of all risks that could impact the Company's operations[2]. Uralkali will make further disclosures of relevant information on an ongoing basis as required by Russian legislation and the Disclosure and Transparency Rules of the UK Listing Authority.

Our approach to risk management is based on our current understanding of risk exposure and risk tolerance, as well as the dynamics of changes in our risks over time.

## Risk management progress

### Achievements in 2012:

- Developed detailed risk factors for each risk from the risk map
- Prioritised risk factors based on risk level
- Developed risk mitigation measures for priority risk factors where required
- Determined key risk indicators for each risk
- Developed a procedure for ongoing risk level monitoring

### Plans for 2013:

- Implement the procedure for ongoing risk level monitoring
- Formalise the existing system of internal control
- Implement annual testing of key control procedures
- Implement anti-corruption measures and compliance procedures
- Continue to integrate the Company's risk management processes and formalise the practice of formulating, implementing and monitoring action plans for risk management in key risk areas

[1] Integrated Risk Management Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

[2] Other risks that Uralkali is currently not aware of, or believes to be immaterial, could become material in future and may also have a severe adverse effect on Uralkali's business, financial condition and operational results.

# Principal risks

| Risk | Description | Risk level based on importance of risk | Change in 2012 | Reason(s) for risk change | Risk mitigation measures |
|---|---|---|---|---|---|
| **Strategic Risks** | | | | | |
| **Investment activity** | The cost of expanding production capacities and increasing production efficiency, as well as other investment costs, form a significant portion of Uralkali's expenditure budget. There is a risk that investment projects could pass their projected deadlines or exceed planned costs, or that it may prove impossible to achieve the envisaged technological improvements. | | ↓ | Amid falling demand for potash, the level of damage from the delayed launch of new projects is reduced. | Investment decisions are taken on the basis of a sensitivity analysis for various market scenarios. The Company seeks to choose the most cost-effective projects and to determine the most favourable timeframe for their implementation.<br>The Company adheres to project management principles in the implementation of projects.<br>The Company does not proceed with its main investments until project analysis is completed and the project timeframe and costs are specified and considered feasible. |
| **Operational Risks** | | | | | |
| **Employees** | Uralkali's operations are dependent on the availability of professional and highly-qualified employees in the labour market. Uralkali may be unable to attract and retain motivated, skilled people and, in such circumstances, may incur additional time and expense in the training and professional development of the Company's personnel. All these factors may adversely affect the Company's ability to meet its business objectives. | | ↔ | The risk of a shortage of skilled personnel has increased as competitors have started production in areas where the Company is located.<br>However, in light of falling demand for potash, the severity of this risk is substantially neutralised. | The Company has implemented measures directed at the improvement of the quality of HR management, the creation of a transparent staff recruitment process, improved access to the most capable and talented employees available in the labour market, and the efficient evaluation of the capabilities and performance of personnel. |
| **Production capacity and output** | Uralkali's potash production may be diminished by various internal factors, such as emergency downtime or deterioration of physical infrastructure, and external factors, such as deterioration of ore quality or reduced capacity resulting from conditions imposed by regulatory bodies. | | ← | Amid falling demand for potash, the risk is reduced. | The Company applies a risk mitigation strategy in relation to these risks by using preventive controls to reveal potential threats to business sustainability. |

← probability of the risk occurring has decreased

→ probability of the risk occurring has increased

↔ probability of the risk occurring has not changed

↑ impact of the occurred risk has increased

↓ impact of the occurred risk has decreased

↕ impact of the occurred risk has not changed

low risk

medium risk

high risk

| Risk | Description | Risk level based on importance of risk | Change in 2012 | Reason(s) for risk change | Risk mitigation measures |
|---|---|---|---|---|---|
| **Suppliers and contractors** | Uralkali's suppliers include key contractors that are of strategic importance for the Company's operations.<br>The loss of such contractors, substantial changes in the cost of their goods and services, and the risk of default may adversely affect the Company's performance. | | ↓ | Amid falling demand for potash, the risk is reduced. | The Company reduces such risks by extending the number of suppliers and seeking to use the resulting increase in competition to its advantage. Where possible, Uralkali attempts to avoid purchasing from only one supplier. If this is unavoidable, it seeks to promote competition and make prior assessment of the impact of failure of deliveries. The Company assesses on a continuing basis default risks with major business partners and suppliers and uses a similar approach for service procurement. |
| **Financial Risks** | | | | | |
| **Inflation and currency fluctuations** | Inflationary pressures and currency fluctuations resulting in higher production costs due to the increased cost of materials, resources and services (for example, freight services) may cause a reduction in the Company's net profit. | | ↔ | The inflation rate remains at the level of previous periods. | The Company seeks to mitigate risks arising from changes in inflation rates and currency fluctuations by using a risk hedging mechanism.<br>Uralkali also takes measures to maintain its strong creditworthiness position. |
| **Mining and Environmental Risks** | | | | | |
| **Natural and mining hazards** | Uralkali's mining and production operations are subject to hazards and risks associated with exploration, mining and processing of mineral resources, including potential flooding, fires and other accidents, which may lead to accidental losses and an overall decrease in the Company's efficiency. | | ↔ | Given the unpredictability of natural factors in mining, the Company, guided by the conservative approach to risk assessment, has not changed its risk level assessment. | The Company has developed and complies with its mine development plan, including environmental protection measures.<br>The Company performs a regular examination and audit of its mining risk mitigation activities.<br>The Company has also developed a new methodology to assess mining risks. |
| **Risks related to Berezniki-1 flooding** | The flooding of Uralkali's Berezniki-1 mine, which took place in October 2006, had a significant impact on Uralkali's potash reserves and may result in additional costs, losses and liabilities. | | → | The Company pursues a policy of social responsibility and, guided by the conservative approach to risk assessment, believes that the risk increases over time. | The Company continues to cooperate with the authorities in a constructive and socially responsible manner in order to address issues arising from this incident. |

| Risk | Description | Risk level based on importance of risk | Change in 2012 | Reason(s) for risk change | Risk mitigation measures |
|---|---|---|---|---|---|
| **Health, safety and environment** | Uralkali's operations and property are subject to various complex environmental, health and safety and other regulations and guidelines, the interpretation of which may not always be clear.<br>Compliance with these regulations may result in additional costs and obligations for Uralkali. | | ← | Throughout the year the Company implemented comprehensive risk mitigation programmes. | The Company is committed to ensuring the safety of its workforce and possesses a strong track record in occupational health and safety and environmental protection. The key objective of the Company's safety programme is to operate its business without industrial accidents. The Company has developed a set of safety standards, carries out regular training in safety practices for its personnel and arranges activities for the health improvement of its employees. |

## Marketing Risks

| | | | | | |
|---|---|---|---|---|---|
| **Decrease in potash demand** | Macroeconomic factors, which include changes in the world population, availability of arable land per capita, reduced levels of income and complications in fund raising amongst potash customers, may result in reduced global demand for potash. | | ↔ | Against the backdrop of global recession, buying activity is falling, but efforts to increase the accuracy of forecasts allow the Company to avoid excessive inventory and exploit existing market opportunities. | The Company's top management is developing a strategy on potash promotion and actively supports agricultural producers, updates farmers' profitability calculators in all key distribution regions, and carries out monitoring in all key markets.<br>The Company evaluates the future demand for its products and seeks to balance production levels with anticipated demand. Accurate forecasts help the Company to avoid excessive inventories and benefit from changes in global potash demand. |
| **Potash price reduction** | Excessive global potash production and high inventory levels among consumers may lead to excess potash supply in the market, which could cause a decline in potash demand and create downward pressures on potash prices. As a result, this may reduce revenues and, consequently, the Company's profitability. | | ↔ | | |

← probability of the risk occurring has decreased

→ probability of the risk occurring has increased

↔ probability of the risk occurring has not changed

↑ impact of the occurred risk has increased

↓ impact of the occurred risk has decreased

↕ impact of the occurred risk has not changed

low risk

medium risk

high risk

| Risk | Description | Risk level based on importance of risk | Change in 2012 | Reason(s) for risk change | Risk mitigation measures |
|---|---|---|---|---|---|
| **Legislative and Legal Risks** | | | | | |
| **Licensing activity** | Uralkali's activities depend on the continuing validity of its licences and compliance with their terms. Changes in legislation and withdrawal or restriction of licences by regulatory bodies may adversely affect the business of the Company. | | ↔ | The law change concerning subsoil use and licensing of mining activities creates additional challenges for the Company in obtaining/renewal of appropriate licences | The Company has developed a schedule to record the key dates and conditions for obtaining new licences and maintaining existing ones. Internal controls have been implemented to monitor the schedule dates and respond to any deviations on a timely basis. |
| **Russia as emerging market** | Uralkali is registered and operates in Russia, an emerging market, as a result of which Uralkali is subject to greater risks than in more developed markets, including legal, economic and political risks, particularly fast-changing legislation and law enforcement practice.<br>Uralkali's operations are subject to various reviews by the Russian tax authorities, the federal service on occupational and mining safety (Rostekhnadzor) and other regulatory bodies. Based on the results of these reviews, additional obligations, expenses and restrictions may be imposed on Uralkali (for example, if the authorities form a different opinion in the assessment and interpretation of relevant legislation). | | ↔ | The Company's activities are subject to various reviews by government bodies. The Company has developed a number of inter-related measures to comply with the requirements of inspection bodies. | Sustainable growth of the Company depends on its ability to comply with requirements of applicable laws and observe appropriate standards, rules and regulations and guidelines. The Company has developed a number of inter-related activities to seek to ensure compliance with the requirements of auditing authorities. The Company also closely monitors emerging legal and legislative precedents, particularly with regard to auditing authorities, and reviews and adjusts its activities accordingly. |
| **Anti-monopoly law** | Uralkali is subject to anti-monopoly legislation in Russia and other countries where it has its operations. Anti-monopoly claims and lawsuits may lead to additional costs for the Company. | | ↔ | The Company operates in a number of jurisdictions, which may lead to claims concerning violation of the laws of these jurisdictions | The Company is currently developing internal controls for the creation of a legal compliance system, including compliance with the anti-monopoly law. |

# PERFORMANCE REVIEW

## Sales review

A review of domestic and international markets and Uralkali's sales for the year.

p 46

## Operating review

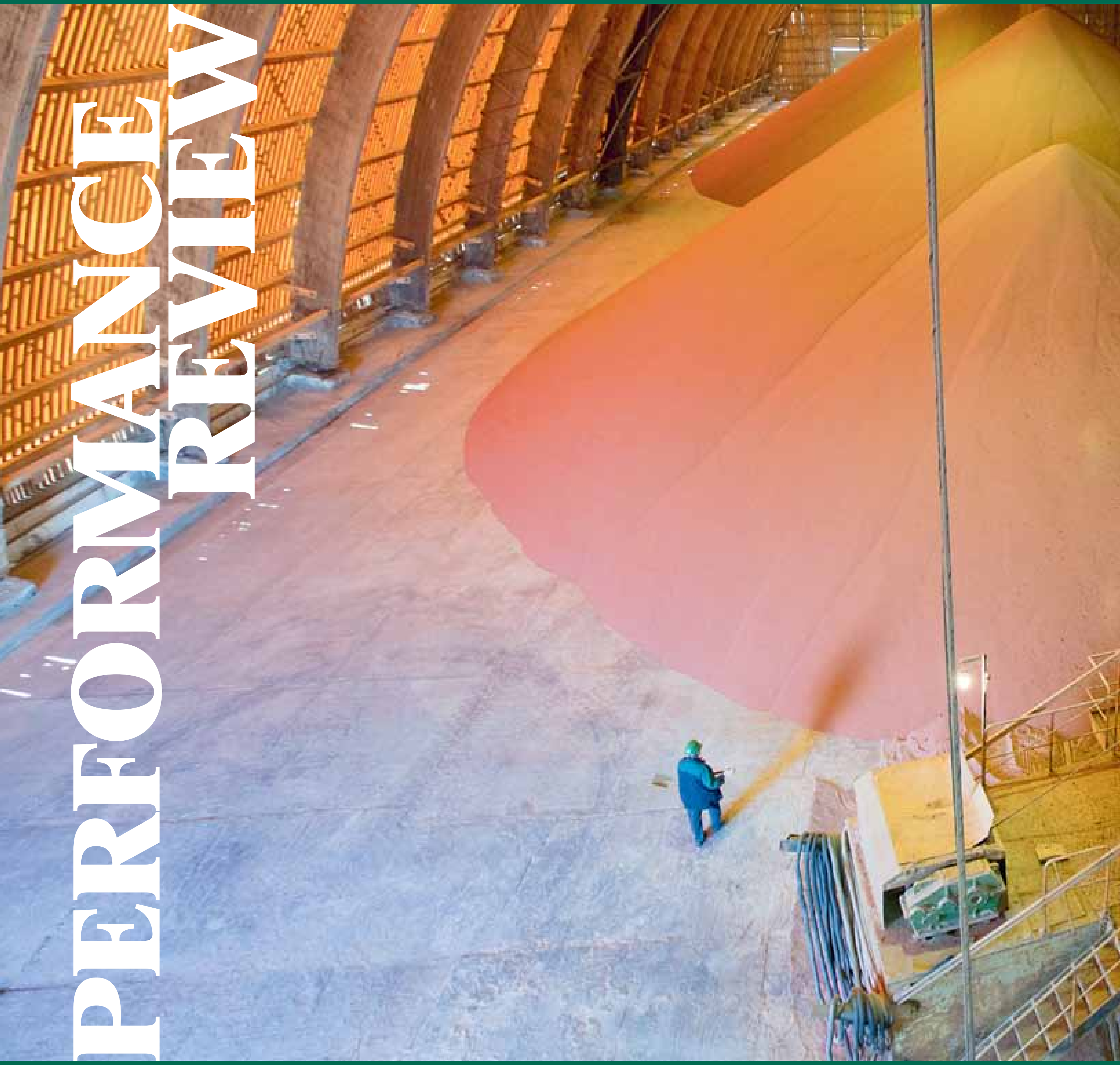
Progress on our expansion programme and other investment projects.

p 52

## MD&A

Detailed analysis of our financial performance, including costs structure and CAPEX.

p 58



**13.0**
mln tonnes

achieved capacity

**9.1**
mln tonnes

potash production

# Addressing market challenges

## Export market

### 2012 global potash market highlights

A number of factors had an impact on the potash market in 2012, including higher inventory levels that challenged the potash market over the first quarter, unfavourable weather conditions in several regions of the world, and continued macroeconomic volatility throughout the year. The potash industry went through a really challenging time as China and India, which alone have accounted for more than a quarter of world potash demand in the past few years, did not sign new contracts for the purchase of potash in the second half of 2012. Demand in all spot markets was under pressure, largely due to buyer concerns about further price erosion.

In Q1 2012, producers had to curtail production, as the weak market conditions of the previous quarter persisted. Latin America was the only region with growing demand. India continued to put a lot of pressure on the market, as the Indian government approved proposals to cut fertiliser subsidies for 2012-2013, effective April 2012. Total subsidy outgoings for phosphate and potash fertilisers were reduced by more than 20%. The cut in potash subsidy was 10%. 2012 witnessed the lowest import volumes to India since 2003, due to lower subsidy levels, higher retail prices, and the weakness of the Indian rupee against the US dollar.

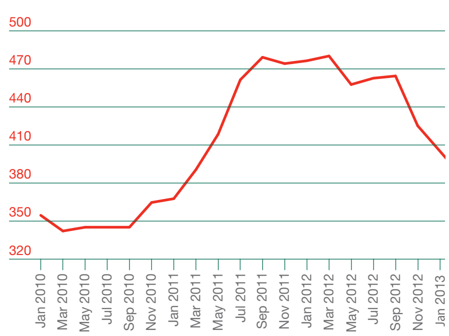
Chinese contracts for H1 2012 were not settled until March 2012, with pricing being rolled over at US$470/t CFR from the H2 2011 contacts.

In Q2 2012, global potash shipments picked up as clarity regarding China incentivised buyers in spot markets to step into the market.

During Q2-Q3 2012, Brazil continued to demonstrate very strong potash demand supported by high crop prices.

Record crop price levels due to drought in major regions in the summer should have encouraged farmers to buy more fertilisers in Q3-Q4, leading to an increase in global sales, but this proved difficult to achieve in light of the challenging conditions in the Indian market, the absence of Chinese contracts for H2 2012, and macroeconomic uncertainty.

**Average monthly spot prices for standard KCl, FSU FOB (US$/t)**




Source: FMB, Fertecon.

## International agronomy programmes

For many countries, providing the population with food is the most important task of the state. In India, Southeast Asia and China the agricultural sector not only provides employment but also contributes significantly to the country's GDP. It is important to involve experts with knowledge of the local language, culture and traditions. We successfully combine this principle with the best international practices and agronomy expertise, inviting foreign professionals and world-class experts to participate in our workshops.

## China

In the northern provinces of China, apples are grown for export. Several of these provinces account for almost 80% of the country's apple exports. In 2012, work continued in three provinces at experimental land plots, where local agronomy experts, with the help of IPNI specialists, are currently studying the impact of different types of potash (potassium chloride and potassium sulphate) on the quality of the fruit. The study is proving to be effective and representative.

## Brazil

In some parts of Brazil the local soils are believed to be rich in potassium and, therefore, its application is not required. Our agronomy specialists and consultants, together with IPNI, experts study the effect of the "potash holiday" (i.e. absence of potash application) on key crops. The experiment will last for several years, but the first results showed a decrease in the yield on demo plots where potash was not applied. Another project held in cooperation with IPI has been studying the effects of balanced fertilisation. The results of these studies will be presented at workshops and exhibitions. The Company plans to engage in a consultant training programme for cooperators and agricultural producers throughout Brazil, organised by ASBRAER[1].


## India

In 2013, in Bhagalpur, India a banana growers' workshop was organised by our agronomists, featuring IPI specialists. The experts addressed major issues related to banana cultivation, including the importance of nutrient management, and specifically potash application, to improve yield and quality. Over 100 participants, including scientists of Bihar Agriculture University, principals of associated UG colleges and progressive banana growers of Bihar state took part in this workshop.

## Southeast Asia, Bangladesh

The agronomy programme in Bangladesh is a government project, backed by the Ministry of Agriculture. The programme is supervised by BPC agronomists, and covers key agricultural crops: cereals (rice and corn) and vegetables (tomato, cabbage, aubergine and watermelon). Many farmers have only an elementary education, so our specialists create demo plots in village fields to demonstrate the benefits of a balanced application of fertilisers; these fields become the centres of practical knowledge for the community. In 2011-2012 the Company's specialists distributed over 800,000 educational leaflets and held workshops for 2,500 fertiliser dealers. In addition to achieving the economic objective – increasing the yield of key agricultural crops as a result of balanced fertilisation – the programme also demonstrates the Company's commitment to its mission.

## Southeast Asia, Vietnam

In Vietnam, agronomy projects are generally focused on issuing recommendations on balanced fertilisation in the cultivation of rice. Around 1.5 million educational leaflets were distributed with the help of wholesalers. In 2012, the Company, in cooperation with the IPI, continued its three-year project launched in 2011 in several provinces and aimed at development of optimal cultivation conditions for rubber trees.

## Eastern Europe, Poland

Poland has regional information centres in each voivodeship, which arrange field day workshops to attract local farmers, wholesalers and trading companies. As part of the field days, agronomists from BPC company create demo plots. These demo plots are used to develop recommendations for the direct application of potash to potassium-responsive crops – sugar beet, corn and potato.

[1] The Brazilian Association of State Agencies for Technical Support and Consumer Education.

Potash deliveries ground to a halt by mid-September as demand in Brazil, India and China was met. Customers refrained from committing to new quantities because China and India delayed the signing of new contracts. In order to maintain the market balance, Uralkali announced production curtailments for December 2012-Q1 2013. Low levels of potash purchases worldwide caused prices to decline in Q4 2012.

Global potash demand is estimated to have declined from 57 million tonnes in 2011 to 51 million tonnes in 2012.

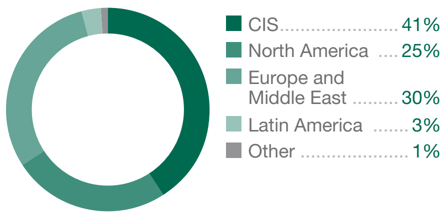
At the start of 2013, the market stabilised and, after the new Chinese and Indian contracts had been signed, the demand situation improved substantially.

### Export sales

Uralkali has a global presence, selling its products through its traders to more than 40 countries. Historically, exports account for the majority of Uralkali's output. In 2012, the Company exported approximately 78% of its sales volumes to international markets.

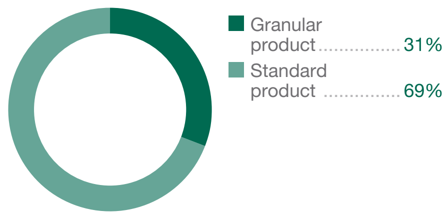
Deliveries to fast-growing markets, such as China, India, Brazil and Southeast Asia, accounted for 74% of Uralkali's international sales volumes in 2012. The Company's products are also sold to mature markets in Europe, the Middle East and the USA.

### Sources of export potash trade in 2012[1]

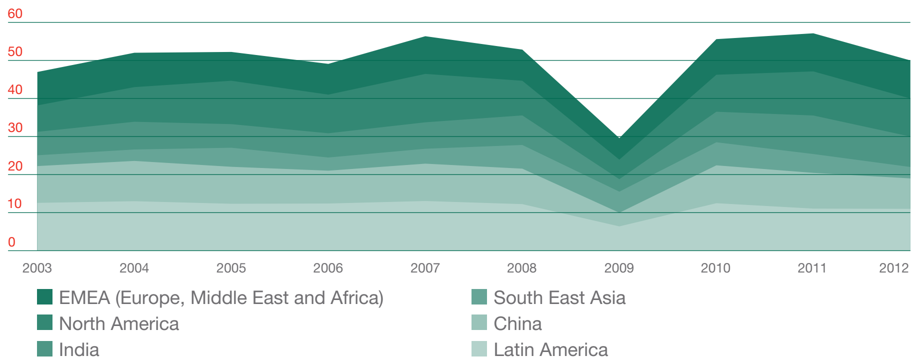



[1] Excluding countries with market share of less than 1%.

### Uralkali's export sales by type of product 2012




### Global potash sales volumes (mln metric tonnes)




Source: IFA, Uralkali estimates.

# Domestic market

### Agricultural sector of the Russian Federation

Russian agriculture's biggest challenge in the medium term is to supply the domestic market entirely with home-grown food by increasing the production of major crops[1]. Optimisation of the structure of crop-growing areas and the expansion of acreage of individual crops should contribute to meeting this goal. The use of balanced mineral fertilisation, including the implementation of evidence-based recommendations for the application of mineral fertilisers, can lead to a significant improvement in the crop yield.

Russia is already strengthening its market position as an exporter of grain, sugar and sunflower oil. During the first nine months of 2012, according to the Federal Customs Service of Russia, exports of sunflower oil increased by almost seven times to 1.2 million tonnes, compared to the same period of the previous year. According to preliminary results for 2012, rice exports reached an historic high of 334 thousand tonnes, which, considering the total export level of about 1.2 million tonnes, is more than double the volume of shipments in 2011.

In 2013, the format of state support for agricultural producers is changing, which will have a direct effect on the margins of crop producers. This has already made many manufacturers consider improvements to the technology they use to produce crops. For example, sugar beet yield is directly linked to the sugar content of the roots, which is determined by the accurate dosage and correct application of potash.

The Russian government recognises that investment in modernisation is necessary for long-term improvements in the agricultural sector. Investment, and the rapid development of scientific and professional education, as well as the spread of up-to-date knowledge and agronomic expertise among agricultural producers, are required to achieve improvements in the efficiency of agricultural production.

**www.fertilizer.org**

IFA is a global organisation, representing the global fertiliser industry on issues related to promotion of plant nutrients, improvement of the operating environment of the member companies and the collection of industry information.

**www.ipni.net**

IPNI is a global organisation with initiatives addressing the world's growing need for food, fuel, fibre and feed. The mission of IPNI is to develop and promote scientific information about the responsible management of plant nutrition for the benefit of the human family.

**www.ipipotash.org**

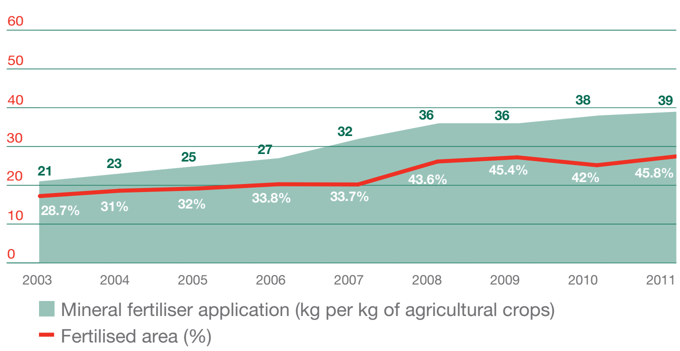
IPI is a non-profit organisation, which develops and promotes balanced fertilisation for the production of higher yields and more nutritious food. IPI works closely with researchers, government offices, extension and agribusiness.

**www.rapu-fertilizer.ru**

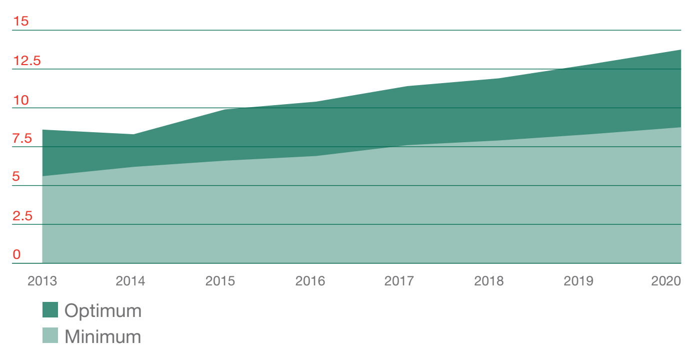
RAPU is a Russian association, established by the major local fertiliser producers. With the aim of developing Russian fertiliser industry, the association coordinates and assists its members in business development and interaction with international and local fertiliser producers and consumers.

[1] Doctrine of food security of the Russian Federation (approved by the Edict of the President of the Russian Federation No. 120 of 30 January 2010).

### Mineral fertiliser application in Russia's agricultural sector




### Demand of Russia's crop farming for mineral fertilisers until 2020




Source: Minselkhoz RF, 2012.

### Pilot project: Improvement of crop yields and promotion of balanced fertiliser application

**Partners:** International Plant Nutrition Institute (IPNI), D.N. Pryanishnikov All Russian Institute of Agricultural Chemistry

**Location:** Belgorod, Voronezh, Lipetsk and Rostov regions

**Duration:** Three years

**Crops:** Sugar beet, corn, rape, soybean

**Future plans:** Expansion of the project's geography and portfolio of cultures

In 2012, the Company invited Russian and international experts in the field of agricultural chemistry and soil science to run a pilot scientific and research project aimed at improving the yield of specific key crops and promoting the balanced application of fertiliser.

Modern agricultural production methods in the Russian market have seen a change in the dosage and ratio of applied mineral fertilisers, with a relative fall in the amount of phosphate and potash fertiliser, and an increase in the nitrogen component. Given the loss of potash from the soil through harvesting, and the incomplete return of the element into the soil, the risk of depletion of potash available for plants in the soil increases as soil fertility decreases. This was observed in a number of regions. One of the objectives of this study is the optimisation of potash application using efficient intensive technologies.

The project's guidelines developed during the study can be used by large farms and agricultural holdings which use up-to-date technologies in the cultivation of potash-responsive crops and also by farmers who have difficulties in determining the availability of potash in the soil. The results of the research are expected to be presented in scientific and professional journals and at industry forums.

The Company encourages the sharing of the latest agricultural knowledge with professionals and agricultural producers, and promotes the balanced application of mineral fertilisers during key industry events.

### Industrial and agronomic expertise

Recognition as an industry leader implies a high level of professionalism and social responsibility. Apart from producing high-quality products, it is also essential to introduce leading scientific expertise into the daily practices of farmers and consumers, in order to ensure the optimum yield of cultivated crops. To that end, Uralkali is a member of several Russian and international associations, such as the International Fertilizer Industry Association (IFA) and the Russian Association of Fertilizer Producers (RAPU).

Uralkali is the only Russian fertiliser producer to be a member of scientific committees of highly-regarded international organisations involved in applied research in the field of agricultural chemistry. These include the International Plant Nutrition Institute (IPNI) and International Potash Institute (IPI).

### Domestic potash sales in 2012

In the Russian domestic market, potash is mainly used as a raw material for the production of compound and mixed fertilisers, and other chemical products. It is also used as a component for the production of drilling fluids by oil companies and as a single-component fertiliser for direct application to the soil. In small quantities, potash is used in the non-ferrous metallurgy and food industries.

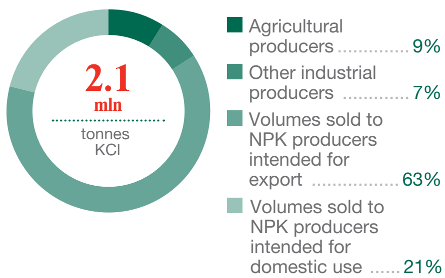
In 2012, potash deliveries to the Russian market amounted to 2.1 million tonnes, representing an 11% year-on-year increase[1].

### Uralkali domestic sales dynamics (mln tonnes KCl)

**2.1 mln tonnes KCl**


[1] 2011 figures include volumes of the former 'Silvinit' from 1 January 2011.

## Potash supplies to the Russian producers in 2012




Uralkali works with several consumer groups in the domestic market. The Company's marketing policy aims to provide all consumers with equal access to its products. In November 2010, the Federal Antimonopoly Service of Russia (FAS) approved regulations stipulating that, starting from 2011, the potash price for Russian manufacturers of compound fertiliser would be set based on the average weighted export price of potash in a market with a minimum price, net of transportation and other logistical costs (the "minimum export price"). The recommendations of FAS on ensuring equal access to potash purchases, which are valid from 1 January 2013 to 31 December 2017, maintain the principle of establishing potash prices for Russian producers of compound fertilisers on the basis of the minimum export price.

The Russian mineral fertiliser market is dominated by compound (NPK) fertilisers, which may contain potash. In promoting balanced fertiliser application, Uralkali has developed a programme to encourage the purchase of potash by NPK producers which sell their products in the domestic market. In 2011 and 2012, Russian NPK producers were able to purchase potash intended as a component of compound fertilisers for the Russian market at the same favourable conditions as Russian farmers, as Uralkali compensated them for the difference between the selling and preferential price by paying a special premium on these volumes. To stimulate domestic sales, NPK producers could also receive an additional discount of US$27 (in rubles). In 2012, according to data from NPK producers, 428,600 tonnes of KCl were sold as part of compound fertilisers to the Russian market. For the specified volume, in 2012, Uralkali paid a premium of RUB$1,796 million to producers of compound fertilisers.

The Company delivers potash directly or through operators to a number of agricultural regions of the country, including Krasnodar, Lipetsk, Belgorod, Oryol and Voronezh. In 2012, regional supplies increased by 12.9%year-on-year to 189,700 tonnes.

To support the Russian agro-industrial sector, and in line with the recommendations of the Russian government, in 2012 Uralkali maintained low-level potash prices for domestic agricultural producers compared to export prices.

2012 saw the continued growth in consumption of potash and other fertilisers in Russian agricultural production. As part of the Russian government's programme of agricultural development, and in line with the regulation of markets for agricultural products, raw materials and food for 2008-2012, federal and regional budgets partially reimbursed cost purchase of mineral fertilisers.

Industry is another key customer group for Uralkali. Oil and chemical plants, and nuclear energy companies, purchase potash for specific manufacturing processes. In 2012, supplies to these customers amounted to 137,300 tonnes. When determining prices for this group of consumers, Uralkali also applies a formula based on the minimum export price, net of transportation costs.

## Price for agricultural producers, US$/t (FCA, excluding VAT, no packaging)

| | 2012 | |
|---|---|---|
| 2011 | H1 | H2 |
| 145 | 153 | 151 |

## Other products

| | Sales in 2012 | Key customers |
|---|---|---|
| Enriched carnallite | 322,100 tonnes | Solikamsk Magnesium Plant OJSC and VSMPO-AVISMA Corporation OJSC (magnesium production) |
| Technical salt | 951,000 tonnes | Petroleum, chemical, power, road industry and communal enterprises |
| Sodium chloride solution | 2.89 mln m$^3$ | Berezniki Soda Plant OJSC |

These by-products account for a minor share of Uralkali's gross revenues (approximately 2% in 2012).

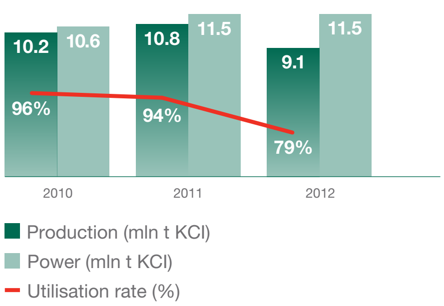
# Expanding our capacity

### Output in 2012

In 2012, Uralkali operated five mines and seven processing plants, including a carnallite plant. The Company's production capacity increased by 1.5 million tonnes following completion of the Berezniki-4 expansion, and reached 13 million tonnes of KCl per year at the beginning of 2013. In 2012, the Company produced 9.1 million tonnes of KCl. This represented approximately 20% of global output – the largest share among the world's potash producers.

### Output dynamics[1]

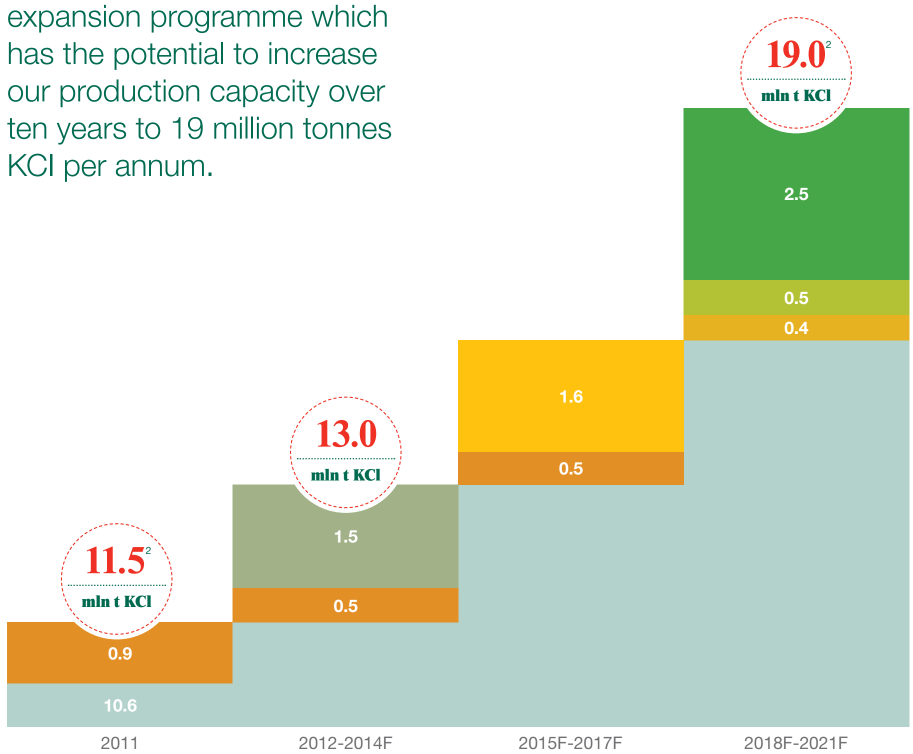
**9.1 mln t KCl**




[1] The figures for 2010 and 2011 include data for Silvinit from 1 January 2010 and 1 January 2011 respectively.

## Main investment projects

In line with our strategy growth, we have an ambitious expansion programme which has the potential to increase our production capacity over ten years to 19 million tonnes KCl per annum.




| Investment | US$1.2 billion | US$2.3 billion | US$1.9 billion |
|---|---|---|---|

| Project name | Project capacity (mln t KCl) | Capex (US$ per tonne) | Commissioning/ Full capacity date |
|---|---|---|---|
| Debottlenecking | 1.9 | 192 | 2011/2017 |
| Solikamsk-3 expansion: | | | |
| – phase 1 | 0.3 | 393 | 2015/2015 |
| – phase 2 | 1.7 | 536 | 2016/2019 |
| Berezniki-4 expansion | 1.5 | 430 | 2012/2012 |
| Ust-Yayvinsky field | 2.8[1] | 583 | 2020/2025 |
| Polovodovsky field | 2.5 | 943 | 2021/TBC |

[1] Including 0.5 mln tonnes of additional capacity and 2.3 million tonnes of new capacity that will substitute the depleting capacity of Berezniki-2 mine.
[2] Capacity is given as of the year-end.

### Debottlenecking

In 2012, Uralkali began implementing measures to increase the output of production units and eliminate bottlenecks.

The measures provided for an increase in the extraction ratio of the commercial component, potash, from sylvinite ore, as well as a 15-25% increase in loads on existing technological sections of plants. The project involves the modernisation of existing equipment, including mills, vacuum filters, flotation machines, and thickeners. In 2012, at Solikamsk-3, three of six sections were upgraded, with the remaining sections scheduled to be modernised in 2013. Activities to optimise other production facilities are also underway. These measures will result in an increase in the Company's annual potash production capacity by 1.0 million tonnes by the end of 2017. The overall investment in the project in 2012 amounted to US$9 million.

**Capacity**

**1.0 million tonnes**

**The amount invested from the start of the project to date**

**US$11 million**

**Total investment**


Amount invested by end of 2012 ...... 6%

### Berezniki-4

Uralkali had already completed the replacement of winders in shaft No. 1 and shaft No. 2 of Berezniki-4 before 2012. A new line was launched at the processing plant, and reconstruction of the existing line was completed in September 2012. The lines can operate independently of each other, allowing for repairs without shutting down production. After completion of the pilot operation, the plant reached its annual capacity of 3 million tonnes of KCl. In 2013, the installation of equipment which will ensure continuous operation of the plant will be carried out. In 2012, the Company spent US$85 million on the project.

In 2012, as part of the construction of energy generating units, Uralkali completed the connection of an on-site power station to the external electricity network. A boiler room and three of the four gas turbine plants were launched. The project is scheduled for completion in 2013 when the fourth gas turbine plant will be brought into operation. Steam production will amount to 360 tonnes per hour, and power generation will reach 300 million kWh per year. This will cover around 20% of the Company's energy needs.

**Capacity**

**1.5 million tonnes**

**Amount invested from the start of the project to date**

**US$703 million**

**Total investment**


Amount invested by end of 2012 .... 96%

## Main investment projects

### Solikamsk-3

The first phase of the Solikamsk-3 expansion project in 2012 involved the installation of equipment for the inspection and re-entry of shaft No. 4, and the development of design documentation. Total investment in the first phase of the project in 2012 amounted to US$1.3 million.

In 2012, the Company approved preliminary design documentation for the second phase, aimed at capacity expansion of the Solikamsk-3 mine and plant to 4.8 million tonnes of KCl per year. Investment in the second phase of the project in 2012 amounted to US$1.2 million.

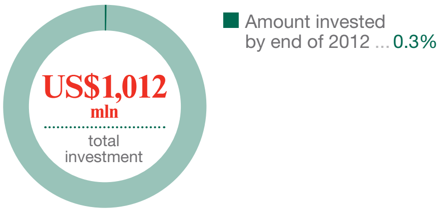
**Capacity**

**2.0 million tonnes**

**Amount invested from the start of the project to date**

**US$3 million**

**Total investment**




### Ust-Yayvinsky project

In 2012, the Company began shaft sinking at the Ust-Yayvinsky mine construction site. The drilling of holes and casing on skip shaft No. 1 were performed by two drilling machines, with 20 of 50 wells drilled by the end of the year. A drill site for the third well rig was prepared. For shaft No. 2, a drill site was constructed and two well rigs were brought in. Drilling started in March 2013. In 2012, work on the temporary provision of water and electricity to key buildings was completed. In addition, work on the construction of the freeze plant and compressor station is

underway. In 2012, the power supply to the temporary VL-110 power substation (110/6 kV) was completed. The main work for the planning of the vertical section of the site and road construction was completed. Investment in the project in 2012 totalled US$72 million. Ore production at the Ust-Yayvinsky mine is scheduled to start by 2020.

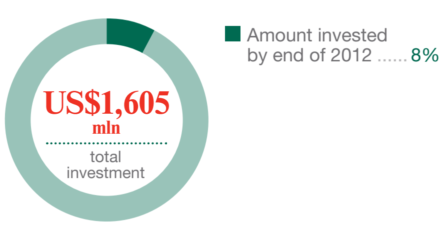
**Capacity**

**2.8 million tonnes**

**Amount invested from the start of the project to date**

**US$130 million**

**Total investment**




### Polovodovsky project

In 2012, as part of the development of the Polovodovsky block project, the Company contracted an agency to develop design documentation. In 2012, a contractor for the design of shaft sinking was selected. Work on land allocation, forest clearance and preparation of the site for drilling test and shaft wells is underway. Total investment in the project in 2012 amounted to US$5 million.

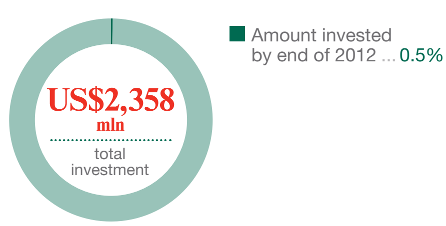
**Capacity**

**2.5 million tonnes**

**Amount invested from the start of the project to date**

**US$11 million**

**Total investment**



## Other projects

### Berezniki-2

Capacity expansion measures at the winding complex in the Berezniki-2 mine resulted in the replacement of skip winding machines in shaft No. 1 and shaft No. 2. Siemag manufactured the mechanical sections of the new winding machines, and Siemens supplied the electrical drive systems. Installation of the new equipment allowed the capacity of the skip winding machines at Berezniki-2 to increase from 22 to 25 tonnes of ore per hour.

In 2012, the winding machines were put into commercial operation.

In July 2012, Uralkali completed the reconstruction of the concrete lining and the reinforcement of shaft No. 3. In the process of the shaft operation, the lining had deformed and the concrete had been partially destroyed due to rock pressure. The overall cost of reconstruction of the shaft amounted to US$4.5 million.

**Invested in 2012**

**US$3 million**

### Berezniki-3

In February 2012, Uralkali completed the reconstruction of three production lines at the granulation unit of the Berezniki-3 processing plant, thus increasing the unit's capacity from 0.9 million to 1.25 million tonnes of potash per year. As part of the unit's reconstruction, the equipment was replaced with more efficient machinery, and the load-bearing structures of the building were reinforced. A second treatment line by Binder was also installed. The line enables the conversion of the entire volume of potash produced at the plant into the Eurogran grade granular product which is well-known for its high quality. The overall cost of the project totals US$48 million.

**Invested in 2012**

**US$3 million**

**Solikamsk-1**

In 2012, the Company continued the reconstruction of its carnallite plant. Work on the installation of a land run-off storage facility and the construction of new administration and living quarters was completed. The installation of pipe racks, power grids, a water pipeline and sewerage is ongoing. The installation of equipment in the section of adjustable vacuum crystallisation began. A temporary final product transportation scheme was launched. All activities are aimed at increasing the capacity of the plant producing enriched carnallite to 400,000 tonnes per year. The main work should be completed in the third quarter of 2014.

**Invested in 2012**

**US$13.0 million**

**Solikamsk-2**

The Company is in the process of upgrading its granulation processing lines, in order to increase the supply of competitive high-quality granular potash to the world market. The project will result in an increase in the production capacity of granular potash at Solikamsk-2 from 1.06 to 1.55 million tonnes per year.

In 2012, installation of the main equipment for the fourth granulation line was completed. The work included the replacement of eight disc screens running on the line by a single disc screen manufactured by Rhewum; replacement of three presses by one press maufactured by Koppern; and an installation of new pocket, belt and scraper conveyors and elevators at the granulation unit of the Solikamsk-2 plant. The project was completed in March 2013. The development of project documentation for the reconstruction of processing lines 1, 2 and 3 started in July 2012. The replacement of the main equipment for the third processing line is scheduled for 2014. Reconstruction of two other lines will be completed in the next two years.

**Invested in 2012**

**US$8.4 million**

# Continuing synergies across the Group

2012 was a challenging year.

Compared to 2011 pro-forma data[1] Uralkali's consolidated results were as follows:

- Sales volumes were down 12% year-on-year;
- Group revenues declined to $3.95 billion in 2012 from $4.2 billion in 2011, representing a 6% decline compared to prior year;
- The average export price was 5% higher in 2012 on a FCA basis (in US$).

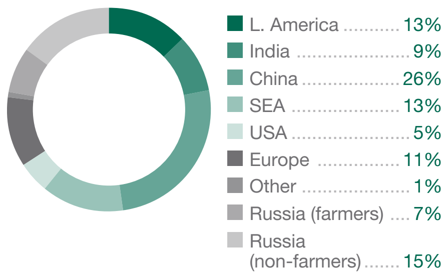
The Group has taken a series of actions in optimisation of cost and continues to benefit from synergies in production, sales and delivery and administrative costs after the merger with Silvinit in 2011. The synergies partially offset the increase in costs.

## 1. Gross sales

The Company sales volumes in 2012 were 9% above the prior year in accordance with IFRS. The average export price (in US$) for Uralkali products was 4% higher than in 2011 with revenues increasing in 2012 to $3.95 billion, up 13% on the previous year.

Non-potash sales (primarily sodium chloride (NaCl) solution and carnallite processing services) of $0.1 billion accounted for 3% of gross revenues.

**2012 Uralkali sales structure (IFRS)**




## 2. Transportation

### 2.1. Freight

Average freight rates expressed in US dollars in 2012 were 8% lower than in 2011 per tonne of product shipped by sea, on a CFR basis.

In 2012 the situation continued to be favourable to the shipping market. The main factors that influenced the decline of freight rates in 2012 were: record commencement of operation of new ships in all segments and increased scrapping of old ships; complex and uncertain economic conditions in Europe; decline of growth rates in China and India to the lowest rates for more than a decade. Uralkali's policy resulted in a hedging of sea shipping costs using long-term freight contracts, which was another reason for declining freight rates. In 2012 approximately 30% of sea deliveries were carried out using freight contracts on more than six-month terms.

The Company also incurred expenses on river and barge freight in 2012 which were less significant compared to sea freight.

**Effective freight rates (IFRS, US$ per tonne)**


### 2.2 Railway tariffs

The Company carries out direct deliveries by rail to customers in northern China, Europe and the CIS. Railway tariffs for all destinations are regulated by the State. In 2012 the State increased the tariffs to St. Petersburg by 7%, and to China by 16% from both Grodekovo and Zabaikalsk. The increase in railway tariffs was consistent with the inflation rate, except for some areas in which there was a unification of tariff rates. The weighted average railway tariff[2] to St. Petersburg was 5% higher in 2012 than in 2011 (resulting in the same amount of expense in US dollars equivalent) and to China 17% higher (resulting in an effective increase of 9% in US dollars equivalent).

**SPb railway tariff (IFRS, US$ per tonne)**


**China railway tariff (IFRS, US$ per tonne)**


[1] Uralkali financial results include Silvinit results starting from 1 January 2011.

[2] The weighted average tariff takes into account the volume of shipments of the Company's direction in the context of railway crossings.

## 3. Net sales

Net sales are defined as the gross revenues for the period net of certain distribution costs – freight costs, railway tariffs and transhipment costs.

Net sales increased in 2012 by 13% to $3.34 billion compared with 2011 in accordance with IFRS.

The growth was achieved by increased sales to Brazil and China on favourable terms with extended payable period for realised product, which led to a growth in working capital.

## 4. Total expenses: Potash sales

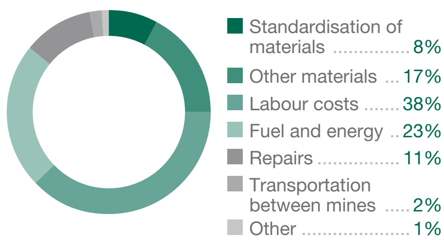
Total expenses of potash sales[3] increased to $213 per tonne in 2012 in comparison with $200 per tonne in 2011. The increase in costs was primarily due to amortisation of mining licences acquired in a business combination. Mining licences were evaluated at fair value as at the date of the combination and amortised on a unit of production method. Total potash sales costs in the domestic market amounted to $131 per tonne[4].

## 5. Cash cost of goods sold[5]

The cash cost of products sold in 2012 was $62 per tonne.

The cash cost of goods sold (COGS) increased compared to the prior year due to inflation and decline in sales volumes which resulted in an increase in fixed share of COGS per unit sold.

### Cash COGS structure 2012 (IFRS)




### Cash cost of sales per tonne (IFRS, US$)


### 5.1 Labour

In 2012 the Company carried out measures to unify and improve the organisational structure and application of best practice. As a result of this process of production optimisation the Company reduced production and administration staff by about 1,800.

In 2012 the Company made the transition to a unified system of wages and salaries in order to align these with the market level. As a result, the average monthly salary was increased by 16% in 2011. The average monthly salary at the main production unit increased to c.US$1,190 compared to c.US$1,080 in 2011.

During 2012 about 11,800 people were employed at Uralkali's main production unit. The staff employed in service divisions (mainly involved in repairs, construction, motor freight and IT services) account for the difference between the headcount of the Group and the headcount of the main production unit.

### Headcount of main production unit, employees (IFRS, as at year end)


### Headcount of Uralkali Group, employees (IFRS, as at year end)


[3] Total expenses of potash sales are calculated according to IFRS and include sales, distribution, general and administrative, and other operating expenses and taxes other than income tax for potash sales (See Note 8 to the Consolidated Financial Statement for the year ending 31 December 2012).

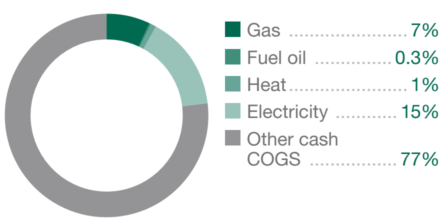
[4] Total expenses of potash sales on the domestic market are calculated according to IFRS and include sales, distribution, general and administrative, and other operating expenses and taxes other than income tax for potash sales (See Note 8 to the Consolidated Financial Statement for the year ending 31 December 2012).

[5] Cash cost of goods sold equals the cost of goods sold less depreciation and amortisation.

### 5.2 Fuel and Energy

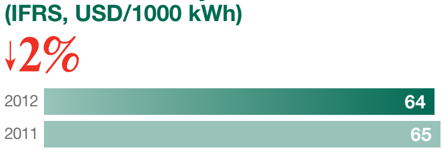
Potash production is an energy-intensive process. For the most part, fuel and energy-related costs are variable and are set in roubles. In 2011, the state regulation of tariffs was cancelled. Energy consumed by Uralkali was either purchased on the open market, or produced by the Company (electricity).

**Fuel and energy cost 2012 (IFRS)**




**Gas tariff (IFRS, USD/1000 m³)**


**Effective electricity tariff (IFRS, USD/1000 kWh)**




As a result, the effective tariff on gas increased by 8% in 2012 (2% in US dollars equivalent) to $95 per thousand cubic meters. The effective tariff on electricity in 2012 rose by 5% (decreased by 2% in US dollars equivalent) to $64 per thousand kWh. To minimise the negative effect of the growth in tariffs, the Company has created its own power generation facilities (see paragraph 7).

### 5.3 Other Cash Costs

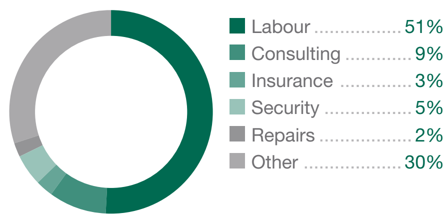
Other cash costs include variable costs (such as production materials and transportation between mines) and fixed costs (such as costs related to outsourced repairs and maintenance and materials for repairs and utilities). More than 90% of these costs are in roubles.

## 6. General and Administrative Expenses

Personnel costs account for more than half (51%) of general and administrative costs. Compared to the Pro-forma data for 2011, administrative cash costs[1] decreased by 2% in 2012. The decline was due to decrease of consultancy and legal services, which were significant in 2011 due to merger with OSJC Silvinit.

Projects on optimisation of production processes and staff reduction were the significant factors in influencing general and administrative expenses.

**General and administrative costs 2012 (IFRS)**




## 7. Cost Reduction Programmes

### Power Generation Programme

During recent years, the Company is implemented a programme to create its own power generation facilities. By the end of 2011 Uralkali had reached the final stage of this programme, with construction of four electricity generation turbines at Berezniki-4 completed. In 2012, the project completed arrangements for technological connection of the station to the external grid with putting into usage of the boiler room and three of the four gas turbines. The project is planned for completion in 2013, with the launch of the last gas turbine.

Utilising generation facilities in full capacity will cover significant part of the Company' electricity needs by its own production. In 2012, the share of electricity produced by the facilities was insignificant in the total amount of electricity consumed.

[1] Cash general and administrative expenses equals to general and administrative expenses less depreciation and amortisation.

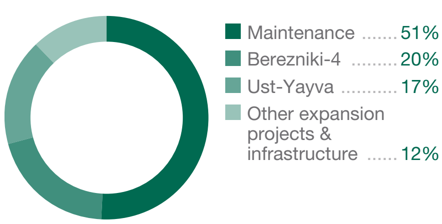
## 8. EBITDA

In 2012 adjusted EBITDA[2] increased by 13% to $2.4 billion in comparison with 2011 in accordance with IFRS. Adjusted EBITDA margin[3] amounted to 71% in 2012 and remained unchanged since 2011.

## 9. CAPEX

Total CAPEX for 2012 amounted to $426[4] million compared to $402[4] million in 2011. The main projects included: increasing production at Berezniki-4 achieving project capacity of 3 mln tonnes per year increase in capacity of underground complex; construction of the shaft for the Ust-Yayvinsky mine; infrastructure development; reconstruction of granular department at Berezniki-3 and Solikamsk-2; reconstruction of carnallite plant; implementation of projects on the increase in load of production sections and removal of the "bottlenecks"; design of Polovodovsky mine; development of project documentation for the project "Expansion Solikamsk-3".

### 2012 Uralkali CAPEX structure (IFRS)



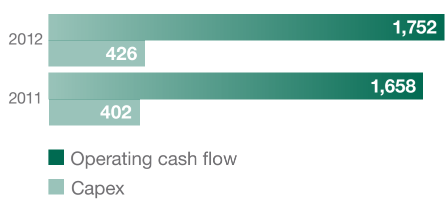

## 10. Cash flow

Due to increased prices and strengthening of the US dollar net cash generated from operating activities in 2012 increased by approximately 6% from 2011 to $1.8 billion.

As at 31 December 2012 Uralkali had net debt of $2.3 billion. Its cash balance amounted to $1.7 billion, with bank debt at $3.9 billion.

During 2011 and 2012 the Company has used financial instruments (cross-currency interest rate swaps) to optimise the value of the loan portfolio and the conversion of Rouble-denominated loans into dollars. The effective interest rate at the end of 2012 amounted to about 3.6%.

### Operating cash flow vs. Capex (US$m)




[2] Adjusted EBITDA represents operating profit plus depreciation and amortisation. Adjusted EBITDA does not reflect the impact of finance income and expenses, mine flooding costs and other one-off expenses.

[3] Adjusted EBITDA margin is calculated as adjusted EBITDA divided by Net Sales.

[4] CAPEX for the period includes additions to property, plant and equipment for the period, adjusted for the changes in balances of letters of credit and prepayments for acquisition of PPE.

# SUSTAINABILITY

### Chairman of the CSR Committee statement

A statement from Sir Robert Margetts on Uralkali's commitment to sustainable development.

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### Stakeholder engagement: principles and mechanisms

Detailed information on Uralkali's stakeholders and the mechanisms of engagement.

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### Health & safety

Our approach to employee health and safety and our performance for the year.

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### Environmental protection

Our approach to environmental protection and our performance for the year.

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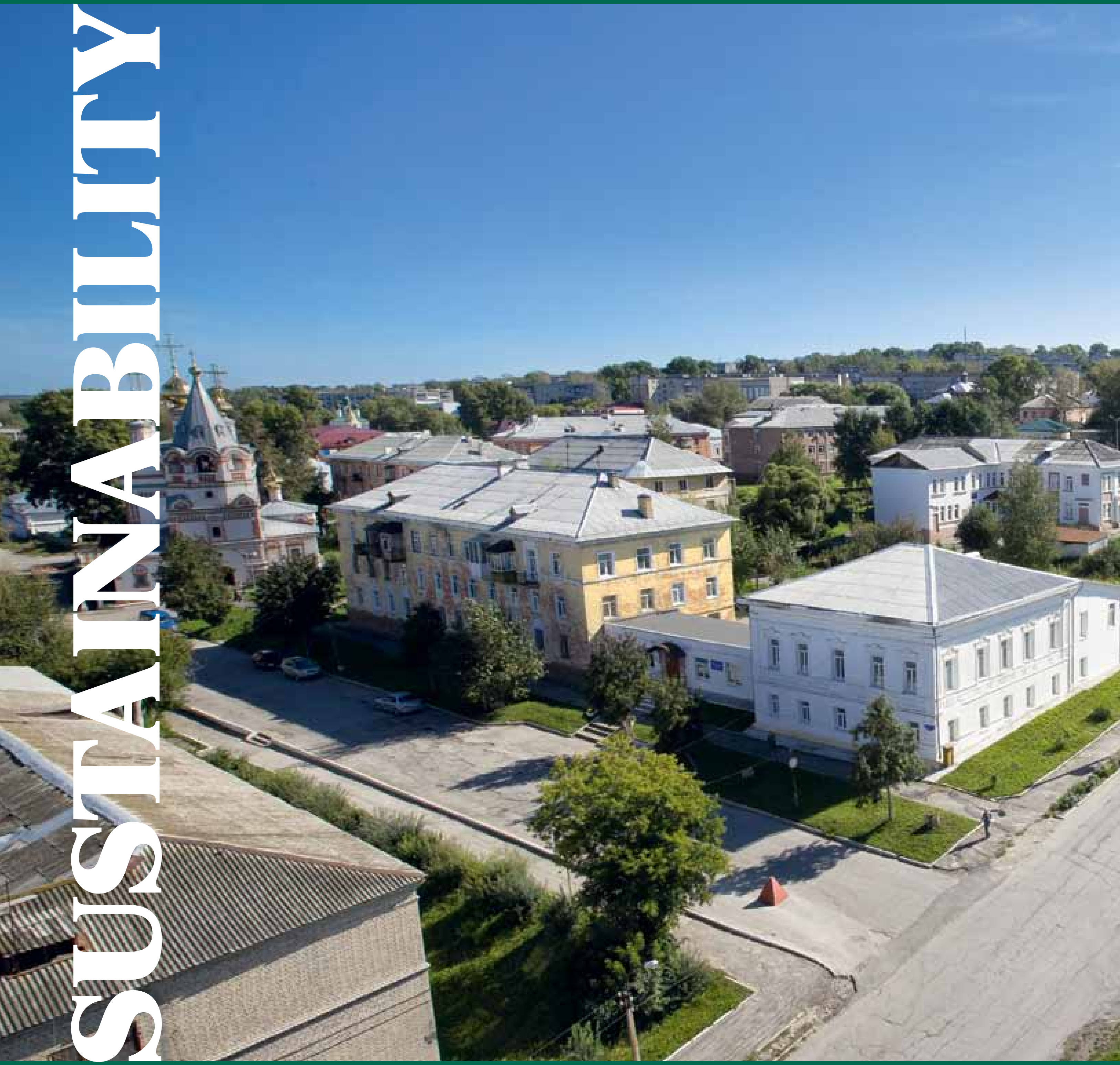

**People**

Our approach to our people and our performance for the year.

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**Communities**

Our approach to our local communities and our performance for the year.

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# Focus on continuing improvement

**Sir Robert Margetts**

Chairman of the CSR Committee

Senior Independent Director

We do understand that for a mining company sustainability should be the key value and target. We have long had a strong sense of responsibility towards the wellbeing of our employees, their families and local communities. In addition, by producing fertilisers and promoting proper plant nutrition, we aim to contribute towards finding solutions for global food security.

Being aware of the crucial role of sustainable development, in late 2011 Uralkali launched its CSR Committee under the guidance of the Board of Directors. As Chairman of the new Committee, I am delighted to say that, during the first year of our work, we were able to increase management focus on all major areas related to corporate social responsibility, its monitoring, and development of relevant practices in the Company. We appreciate the responsiveness, openness and efficient cooperation of the management in assisting with these activities.

In 2012, we placed great emphasis on increasing staff involvement, satisfaction and loyalty. We conducted perception surveys amongst our current and potential employees. We are aware that, in an increasingly competitive world, qualified and engaged employees are crucial to establishing and maintaining efficient and sustainable business processes. As such, we are planning to continue and expand our work in this area.

Employee satisfaction is impossible without creating a safe and comfortable working environment. Thus, last year we introduced the Cardinal Rules. These have already had a positive influence, and we hope to see even better results in 2013.

I would also like to note the efforts of Uralkali's top management regarding environmental issues. Energy conservation is a high priority for the Company, and our target for 2013 is to implement a new comprehensive energy saving programme which we developed over the past year.

In addition to creating a safe working environment, we engage in a number of educational, cultural, health and infrastructure projects for the benefit of local communities. A major event in 2012 was the launch of work towards a comprehensive plan for the Berezniki-Solikamsk agglomeration. The plan is

scheduled to be completed in September 2013 and will become the blueprint for the development of the region's infrastructure, housing and leisure facilities.

The main target for our Committee and top management for 2013 is to develop a new stakeholder engagement strategy. We took the first steps last year by developing an official CSR Policy which will serve as a guide for all Uralkali employees and will be referenced in all its programmes and plans.

We understand how important it is to fulfil our obligations in a timely way and we are committed to finding a balance between the interests of the Company, our employees and other stakeholders. We believe that this balance is the true foundation for the harmonious growth and development of Uralkali and society as a whole.

I am delighted to witness Uralkali's increasing focus on CSR issues and hope that the Company's Integrated Report contains valuable information for all our stakeholders.

# Corporate Social Responsibility Committee

Consideration of health, safety, environment and social responsibility issues to develop an effective management system for these areas.

| Goals for 2012: | | Goals for 2013: |
|---|---|---|
| – Development of recommendations to issue the Company's first Sustainability Report | Achieved | – Development of recommendations on CSR issues for the Integrated Report |
| – Participation in the development of the HSE Policy | Achieved | – Monitoring of the Company's HSE performance in 2013 |
| – Participation in the development of the Social Policy | Achieved | – Monitoring of stakeholder engagement in the regions where the Company has a presence |
| – Monitoring of the Company's HSE performance | Achieved | – Monitoring of HSE activities in 2013 |
| | | – Consideration of social projects |

**Statistics of matters considered by the CSR Committee**


## How we manage sustainability

# Stakeholder engagement: principles and mechanisms

| Stakeholder | Principles of cooperation | Mechanisms of engagement |
|---|---|---|
| **Shareholders and financial community** | Shareholders and potential investors are not only interested in the Company's financial results; they also evaluate non-financial indicators that demonstrate how Uralkali manages its business. Key focus areas are:<br>– Corporate governance<br>– Customer relations<br>– HR policy<br>– Workplace safety<br>– Relations with local communities and government authorities.<br>The Company aims to disclose information on its activities that is timely, objective and as complete as possible – including in relation to its performance, results, important events, risks and plans. | Uralkali is in constant contact with the financial community, and organises:<br>– Analyst and investor days<br>– Presentations, webcasts and conference calls to discuss the Company's financial results and plans<br>– Meetings between management and the investment community, including road shows and industry conferences, at which the Company presents its results, as well as an outlook for the potash market<br>– Visits to production facilities, potash mines and plants<br>– Regular day-to-day communications.<br>Uralkali publishes information on its activities, including internal policies, plans and business reports, on its corporate website.<br>Uralkali also conducts an annual survey of the investment community to gauge opinion on the strategy and operations of the Company, corporate governance practice, information disclosure and other important aspects of business performance.<br>The Company's shareholders contribute to strategically important decisions at its Annual General Meetings. |
| **Employees** | The Company's relationship with its employees is based on:<br>– Principles of social partnership<br>– Mutual respect and trust that underpin HR policy<br>– Providing financial and non-financial incentives<br>– Creating learning and development opportunities<br>– Meeting health, safety and environmental standards.<br>The Company rewards its employees with a competitive salary and benefits, including additional benefits upon retirement (e.g. as part of the Uralkali Council of Veterans). Standards of social support for employees and their families are significantly higher than those required under Russian labour law. Non-financial employee incentive programmes are also in place, with annual awards and letters of appreciation. | Uralkali has a number of mechanisms in place to engage with employees:<br>– Meetings between Uralkali managers and employees take place at least once a year as part of discussion of the Company's development plans<br>– Meetings to consider employee complaints and suggestions are also organised as and when required<br>– Regular communication via an internal communications system and the media<br>– Feedback opportunities, including a whistleblower hotline<br>– The Company conducts an annual employee satisfaction and employee engagement survey. Furthermore, employees are invited to participate in focus groups and qualitative research studies. Employees can also raise and discuss important issues during conferences.<br>The Company reviews each issue raised by employees and aims to deal with them as objectively as possible. |
| **Trade unions** | Key decisions involving personnel and the HR policies of the Company incorporate the expectations of trade unions.<br>The Management of Uralkali and trade unions develop and negotiate the Collective Bargaining Agreement (CBA), monitor its performance, and prepare a report on the performance of the CBA and the Health and Safety Agreement. | The CBA is valid for three years.<br>At least once a quarter the Company holds meetings with trade union representatives to get a better idea of its employees' opinions, interests and expectations.<br>On behalf of employees, trade unions take part in updating internal documents and regulations, and also provide consultations to employees on important social issues. |

| Stakeholder | Principles of cooperation | Mechanisms of engagement |
|---|---|---|
| **Local communities** | In terms of corporate social responsibility and local community development, projects and programmes are implemented in the following priority areas:<br>– Environmental safety and mitigating the consequences of industrial accidents<br>– Housing – particularly moving residents from dilapidated and dangerous buildings<br>– Social infrastructure development and modernisation<br>– Sports development<br>– Supporting cultural events<br>– Support for disadvantaged sections of the population (corporate philanthropy).<br>Uralkali also helps design development plans for regions in which it operates. | To give local residents a say in significant aspects of the Company's activities, public consultations are held on production development, environmental protection and social projects.<br>The Company regularly publishes on its website information on its corporate social responsibility and regional development initiatives. |
| **Customers and business partners** | The Company aims to build effective relationships with business partners, including customers and suppliers, based on transparent and mutually beneficial partnerships.<br>Customers:<br>Customer relations principles are set out in the Company's marketing policy. These include:<br>– The quality of goods and services provided<br>– Reliability of supplies<br>– Mandatory compliance with contract provisions and legal requirements<br>– User support for the Company's products.<br>Suppliers:<br>– The Company's work with suppliers is based on its procurement standards which are outlined in all tenders<br>– The Company performs a rigorous due diligence of all suppliers to establish that they are honest and solvent. The performance of requirements for counterparties pursuant to a signed contract and the Company's own internal standards are closely monitored. | Meetings with customers take place on a regular basis.<br>As part of the Company's customer relations, master classes and practical trainings are organised on mineral fertiliser use, and information is published on crop production technology and methods of applying fertilisers on the Company's website.<br>The Company is also assisting in the development of a pricing platform for the mineral fertiliser sector, adhering to principles of transparency and taking into account the opinions of stakeholders, including clients.<br>Meetings with potential suppliers take place during the procurement process. |
| **Government authorities** | Uralkali aims to establish and maintain stable and constructive relations with national and local government authorities, based on the principles of accountability, good faith and mutual benefit.<br>The Company works with government authorities and organisations in the following key areas:<br>– Reporting to regulators<br>– Taxation<br>– Planning and implementing local community development projects and social projects<br>– Maintaining a dialogue with government authorities on current legislative and regulatory issues<br>– Corporate philanthropy. | The Company holds regular meetings with the authorities. In addition, Uralkali representatives take part in various expert panels and workshops to make decision-makers at government level aware of its views.<br>The Company helps to organise conferences and events, and prepares briefings and statistical information on request from the authorities. Upon request, tours of production facilities are also organised for representatives of government bodies. |
| **Media** | The Company aims to ensure the full and timely disclosure to its stakeholders of all relevant financial and non-financial information. | The Company publishes on its website information on its activities in annual reports, press releases and other publications, as well as in the mass media, including social networks.<br>Upon request Uralkali representatives give interviews to the media, and the Company also organises press conferences, and media tours and meetings between Uralkali representatives and the media. |

See page 22 for further details on our stakeholder engagement.

# Focused on employee safety

## Why these issues are important to us

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

## Approach

Safety is a key element of our Code of Corporate Culture:

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

## Key facts in 2012

- Three employees died at the Group's facilities. All the incidents were investigated, and measures were taken to prevent them from recurring.
- Lost time injury frequency rate (LTIFR) decreased to 0.17 and 0.12 at the Group and Uralkali respectively.
- Implementation of the Cardinal Rules.
- 4,953 employees trained and certified in health and safety.

## Key priorities

- Absence of fatalities.
- Absence of industrial accidents.
- Prevention and reduction of occupational diseases amongst employees.

Health and safety is a key component of our strategic priority 5: Caring about our people and communities.

You can find more information on our KPIs and key risks for this priority on pages 23-43.

## The Cardinal Rules

In 2012, Uralkali implemented the Cardinal Rules programme, the first of its kind for a Russian company. The Company analysed workplace injury statistics for the past five years, and identified the dangerous activities causing 90% of accidents. On the basis of the analysis, Uralkali drew up seven safety rules with which employees and contractors must strictly comply.

Under the rules, the following activities are strictly prohibited:

Smoking in a mine

Working near live electricity

Loading and unloading while people are in dangerous proximity

Working at height without the use of a safety harness

Working and being in the working space of a tunnelling machine while in operation

Working in tunnels without roof support and/or roof bolts

Repairs and servicing of conveyors in operation, or using conveyors to move people and goods

## Plans for the future

- The Cardinal Rules are being implemented at all Group subsidiaries and associated companies from 1 January 2013.
- The Group will keep a record of minor injuries that do not lead to employees having to take time off.
- An automated control system for safety inspections of equipment at Uralkali's hazardous production facilities will be introduced.
- An assessment of working conditions will be completed.
- A draft mineworker deployment plan will be developed.
- A system to warn mine vehicle operators when people are in dangerous proximity is to be introduced.

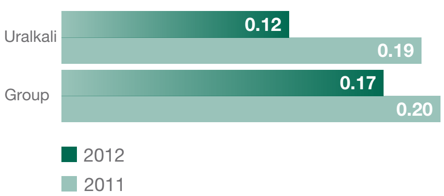
## Policy and strategy

In 2012, Uralkali adopted a Health, Safety and Environment Policy, thus signalling that the Company believes health, safety and the environment are key priorities that should be taken into account in all its actions and decisions.

Uralkali has a trade union organisation, incorporating more than 50% of employees, with which it has a Collective Bargaining Agreement and a Health and Safety Agreement. These agreements cover issues such as the provision of personal protective equipment to employees; the involvement of employee representatives in inspections, audits and accident investigations; and complaints procedures.

### Lost time injury frequency rate (LTIFR)[1]

**0.17**




[1] LTIFR is calculated based on the total number of lost time injuries per 200,000 hours worked. The 200,000 factor for LTIFR is derived from 50 working weeks at 40 hours per 100 employees.

## Actions and performance

We regret to report that three employees died at the Group's facilities in 2012: one person working for OJSC Uralkali, and two people working for Group subsidiary companies. All the incidents were investigated, and measures were taken to prevent them from recurring.

Uralkali is actively committed to ensuring safety in the workplace, and is investing heavily in health and safety programmes, including upgrading equipment, improving working conditions, and developing corporate safety standards. Adopting the Cardinal Rules in 2012 has enabled the Company to significantly reduce the number of accidents. In 2012, Uralkali spent US$6.6[2] million on safety.

The Company expects employees to strictly comply with the Cardinal Rules. Anyone shown to have broken the rules is dismissed in accordance with the Russian Labour Code; such dismissed employees, including those working for contractors, are banned from Uralkali's facilities for a period of one year.

The Company has also set itself the goal of encouraging active citizenship and improving employees' awareness of their personal responsibility – not only in relation to their own safety, but their colleagues' safety as well. Employees must warn each other if there is a risk of one of them breaking the Cardinal Rules. Any employee who witnesses a violation of the Cardinal Rules may report it to the responsible unit.

Each suspected violation is investigated by a commission of four senior executives and four trade union representatives, which assesses whether the Company has fulfilled its obligations to inform the employee and provide protective equipment. If Uralkali has met its obligations but the employee has violated one of the Cardinal Rules, then the employee is dismissed and the employee who reported the incident receives a bonus, equal to the average monthly salary at the Company in 2012.

In order to increase managers' sense of responsibility for accidents as a result of a violation of the Cardinal Rules, the head of a unit's annual bonus is reduced if such an accident occurs in their unit.

In 2012 Uralkali has introduced training in the application and promotion of the Cardinal Rules. The Company is confident that these measures will eventually lead to greater employee responsibility and awareness, and consequently to a fall in the number of accidents.

With the campaign in operation for just under a year, Uralkali can report that the initial results have been positive. For example, 80-90% of violations relate to non-compliance with safety regulations when working at height. In 2012, the proportion of accidents involving a fall from height to the total number of accidents declined to 14%, from 26% in 2011.

Uralkali intends to further enhance the Cardinal Rules, as well as the procedure for their application. From 1 January 2013, all the Group's subsidiaries and associated companies introduced their own Cardinal Rules, which covered specific aspects of their operations, such as transport safety.

[2] These expenditures represent third-party services.

## Health and safety requirements for contractors

When it comes to health and safety, Uralkali makes no distinction between its own employees and contractor personnel.

The Company checks all potential contractors to ensure that they have all necessary health and safety permits, and that their employees receive health and safety training and certification. Agreements with contractors expressly specify that their employees must comply with the safety requirements, and that all Uralkali's safety standards apply to the employees. Contractor personnel must receive health and safety induction training, and Uralkali's officers carry out regular health and safety inspections and checks during contract periods. Uralkali's contractors also have to comply with the Cardinal Rules: if they breach any of them they are taken off their assignment and banned from Uralkali facilities for a year. In 2012,110 people were taken off assignments.

## Organisational and technical measures

During the reporting period, scheduled safety inspections of equipment at hazardous production facilities were performed, and Uralkali received equipment use permits.

The Company pays particular attention to fire safety at its facilities. For instance, a great deal of time and resources are put into ensuring that fire alarm and extinguishing systems are in perfect working order, both above and below ground.

In 2012, Uralkali began a comprehensive assessment of its facilities, which involved a range of measures to evaluate working conditions and identify occupational hazards. The Company plans to complete the assessment in the first half of 2013.

In order to prevent accidents that involve large mining equipment, Uralkali tested an alarm system for warning vehicle operators if any individual is in dangerous proximity.

## Health

Uralkali believes that nothing is more important than people's health, and the Company takes care of its employees by preventing and reducing their exposure to health hazards in the workplace.

An effective system of regular health checks helps the Company to detect occupational diseases in their early stages, to identify the initial effects of exposure to health hazards, and to take measures to protect the health of employees and assist in their recovery.

In 2012, 13 cases of occupational diseases were recorded (two at Berezniki, and 11 at Solikamsk), which were mostly induced by occupational noise exposure and in some instances by high levels of whole-body vibration. To reduce the number of occupational diseases cases Uralkali applies the following measures:

- Mandatory hearing tests for all individuals working at sites with a high background noise level.
- Additional health checks for all employees working at sites with high background noise or vibration level.
- For employees found susceptible to occupational diseases, mandatory transfer to jobs that do not involve exposure to health hazards.
- Use of modern and innovative personal protective equipment (noise-cancelling headphones) and other means of mitigating the impact of negative workplace factors.

Uralkali uses various measures to prevent its employees from catching the most common types of diseases in Russia. For example, employees undergo regular mandatory health checks and examinations, and are also given vaccinations.

## Training and instructions

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

In 2012, 3,900 employees received training and certification in safety, and 1,053 received training and certification in health.

# Protecting our environment

## Why these issues are important to us

Sustainability of ecosystems, biodiversity and a healthy environment are vital conditions for the development of future generations. For this reason, a responsible approach to the environment is core to our business.

## Approach

Governed by sustainable development principles, Uralkali considers environmental protection activities as representing an integral part of doing business. The Company fully adheres to the requirements of environmental legislation, uses natural resources responsibly, and constantly introduces new environmental protection measures.

## Key achievements in 2012

- Around US$41.5 million invested in environmental protection at OJSC Uralkali.
- Energy passport created taking into account new energy consumers and Energy Saving Programme for 2013-2017 developed.
- 24.5 million kWh and 81,483 Gcal energy saved at the Group as a result of implementing energy efficiency measures.
- Amount of associated gas (arising from oil production) used for internal needs increased by 110% at the Group.

## Key priorities

- Reduction of waste discharges into water, balanced water consumption.
- Efficient waste management.
- Reduction of air emissions.
- Minimisation of energy consumption and $CO_2$ emissions.

The environment is a key component of our strategic priority 6: Promoting environmental safety.

You can find more information on our KPIs and key risks for this priority on pages 23-43.

## Environmental management system

The Environmental Protection Department is part of the Health, Safety and Environment Directorate. Environmental divisions of the Company's mines report to the Directorate, and are independent of production units.

More detailed information on the HSE management system, including in relation to environmental issues, can be found in the Focus on Health and Safety section of the report on page 68.

## Full regulatory compliance

Uralkali possesses all necessary environmental licences and certificates, which are updated and renewed as required. According to the Health, Safety and Environment Policy – the Company's key regulatory environmental protection document – the main goal of the HSE management system is to reduce adverse environmental impacts related to the Company's operations. The environmental management system is based on the "Planning – Implementation – Audit–Adoption of Measures" framework, which complies with ISO 14001 and OHSAS 18001 standards.

For further information about the Health, Safety and Environment Policy, see the Focus on Health and Safety section on page 68.

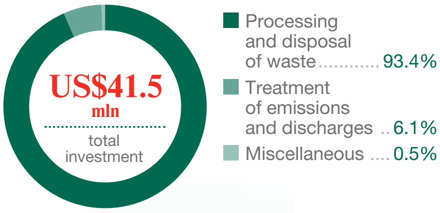
## Measures and performance

### Investments in environmental protection

In 2012, the Company continued to develop environmental protection measures. As part of its activities aimed at air, water and land protection, Uralkali invested in modernising existing and installing new treatment equipment, developing internal monitoring and control systems, personnel training, and R&D projects.

In the reporting period, investments in environment protection totalled approximately US$41.5 million, representing a further increase on prior years.

### Investments by Uralkali in environment protection measures in 2012 (US$ million)




In line with the practices of previous years, in 2012 the Company ensured that there were no significant violations of environmental legislation and regulatory requirements.

## Energy efficiency

Following the merger with Silvinit, Uralkali performed an energy audit at the end of 2011 to update information on energy consumption within the Company. Following the audit, which was completed at the end of 2012, an energy passport was compiled, which comprehensively describes the Company's energy consumption and fully complies with Russian legal requirements on energy saving. In addition, the data obtained during the audit served as the basis for elaborating the new Energy Saving Programme for 2013-2018, which will be a continuation of the previous Energy Saving Programme.

The Energy Saving Programme completed in 2012 was aimed at ensuring reduced energy consumption and the efficient use of energy resources, including maintaining an optimal ratio between procured and internally generated electricity. The Company implemented the following measures as part of the programme framework:

- a reduction in energy consumption (the construction of hot air gas heaters at the Berezniki-4 mine)
- electricity generation at its own facilities (the construction of gas turbine units at the Berezniki-4 and Solikamsk-1 mines)
- a reduction in procured energy costs (access to the wholesale electricity market, an increase in the use of associated petroleum gas, and the conclusion of long-term gas supply contracts).

In 2012, the Company adopted the Technical Energy Management Policy, which takes into account global best practice in energy saving.

### Use of associated petroleum gas

Under the Energy Saving Programme, the Company each year ramps up its procurement volumes of associated gas arising from oil production. This approach makes it possible not only to reduce the consumption level of natural gas and to ensure lower costs, but also to prevent the flaring of associated gas by oil companies, thus reducing the overall greenhouse gas emissions.

In 2012, the volume of associated gas used totalled 76.7 million m$^3$, which exceeds by 110% the volume consumed in 2011. Completion of a pipeline to Berezniki-4 in 2012 enabled Uralkali to substantially increase its consumption of associated petroleum gas.

### Greenhouse gas emissions

Uralkali recognises that its operations are inextricably linked to the consumption of energy, and that as a result the Company generates greenhouse gases. At the same time, however, it should be noted that greenhouse gas emissions from fertiliser production account for less than 1% of global volumes.

In 2012, the Company continued to monitor and record its greenhouse gas emissions. In the reporting period, $CO_2$ emissions by the Group amounted to 1.8 million tonnes.

### Emissions into the atmosphere

When expanding its production facilities, Uralkali upgrades existing treatment equipment. As a consequence, the operational efficiency of treatment facilities increases, thus reducing specific negative impacts on the environment.

In order to prevent untreated emissions during the implementation of new investment projects, production equipment is commissioned only after the installation of treatment equipment, in accordance with environmental law. In 2012, gross pollutant emissions at Uralkali facilities increased by 6.5% compared to 2011, to 3,600 tonnes.

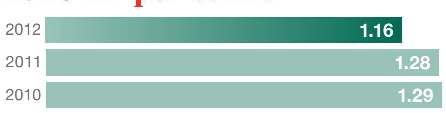
### Water resources

In a bid to ensure the efficient consumption and reuse of water in order to minimise waste-water discharges, the Company develops and implements annual environmental action plans.

In 2012, the total water intake for industrial needs and utility services at Uralkali facilities contracted by 10.7% compared to 2011, to 18.5 million m$^3$. The water intake from surface sources totalled 13.2 million m$^3$.

**Total water consumption for production needs (m$^3$ per tonne of production)**

**1.16 m$^3$ per tonne**




The volume of water recycled and reused at Uralkali totalled 70.1 million m$^3$ in the reporting period, remaining virtually unchanged compared to 2011 (71.9 million m$^3$).

### Waste management

In 2012, Uralkali continued to implement measures to achieve higher levels of waste management efficiency. Such measures included:

- introducing state-of-the-art production solutions to increase the recovery ratio of valuable components from ore
- backfilling the mined-out areas of mines, thus reducing not only the environmental impact, but also the risk of accidents due to landslides.

The reuse volume of non-hazardous waste at Uralkali facilities remained almost unchanged compared to 2011, at 10.2 million tonnes.

Waste that cannot be reused is dumped at special facilities (salt and slime dumps) in accordance with current permits. In the reporting period the disposal of hazardous waste at dumps doubled to 10,800 tonnes, as a result of the reconstruction of buildings and facilities at subdivisions and an increase in construction waste from dismantled buildings.

The Company seeks to increase the volume of hazardous wastes handled by third parties for reuse. The reuse of hazardous waste at Uralkali facilities in 2012 decreased fivefold, and totalled 183.5 tonnes.

### Land resources and biodiversity

As in previous years, in 2012 no instances of soil pollution resulting from Uralkali's operations were recorded at its industrial sites and sanitary zones. Constant monitoring in line with the Health, Safety and Environment Policy enables the Company to assess the state of the soil on a regular basis and, when necessary, to undertake prompt measures.

Uralkali's production facilities in the Berezniki and Solikamsk regions do not occupy any specially protected natural environments. Vishersky, the closest nature reserve, is located approximately 300 kilometres from the Company's production sites. However, Uralkali regularly monitors the water protection zones and the banks of small rivers, and records shrub and tree vegetation. Such research confirms that no material damage to biodiversity in the regions of the Company's operations has occurred.

### Geological safety

The prerequisites for the development of a safe deposit are mining in a safe manner and preserving the territory of a mine. In accordance with the legislation requirements, the Company applies the maximum possible number of mining safeguards in mines, where it is technically feasible to do so.

Where restrictions on the application of mining safeguards exist, Uralkali continues to use its own unique monitoring system to identify potential hazardous sections in a timely way, so as to provide immediate protection when necessary for the local population. The Company performs surveying and visual monitoring of mining territories and undertakes geophysical and hydrogeological research in all its mines. The frequency of monitoring is determined for each facility individually, and is in full compliance with all applicable safety requirements.

Uralkali cooperates closely with R&D institutes to perform in-depth studies into the environmental impact of its operations in the regions where it has presence.

### Public environmental measures

Uralkali believes that positive results in the resolution of environmental issues can be achieved through collaborative efforts. To this end, the Company actively engages local communities in various environmental campaigns.

As part of its continued efforts to increase the level of environmental awareness in communities, in 2012 the Company took part in a number of projects, with its contribution receiving recognition by project organisers. Such projects included:

More detailed information on geological safety is available on the Company's website www.uralkali.com


## Awards and achievements

In 2012, Uralkali won the "100 Best Organisations of Russia. Ecology and Management" competition and was ranked second by "Interfax-ER", a list of environment and energy transparent enterprises, which includes Russia's 150 biggest companies.

- The City campaign "Protection from Environmental Hazards Days" in Berezniki. Based on the campaign results, the Company received a diploma for its contributions to improving the city's environment.
- The Environmental campaign "All-Russia Cleanup. Let's Do It! – 2012". The Berezniki authorities awarded Uralkali a partner certificate, in recognition of the Company being a socially responsible participant in the event.

## Uralkali: Let's Do It! Let's Clean Up!

In 2012, Uralkali participated in the All-Russia environmental project Let's Do It! which was part of the global Let's Do It! World Cleanup campaign, which unites more than 90 countries.

Uralkali's environmental youth movement of potash workers, the Eco Recreation Zone, organised several cleanup events in the area of Berezniki and Solikamsk. Uralkali provided all necessary tools for the cleanups, as well as transport for the participants to the sites and equipment to dispose of rubbish at a solid waste dump.

Furthermore, as part of the Let's Do It! project, Uralkali organised a competition at its children's health rehabilitation centre – Uralskiye Samotsvety – to design the best poster in line with the slogan "Keep the area clean! Together we will preserve the nature of the Perm region!" The best examples of children's artwork were used as a template design for posters dedicated to the environment.

# Committed to our people

## Why these issues are important to us

The successful realisation of a business strategy is entirely dependent on people: their management skills, professional knowledge and commitment to the Company's work and values. Therefore, creating the conditions for professional and career growth is essential for us, and strengthens loyalty to the business.

## Approach

One of the components of a successful business is having an efficient workforce, and this is where Uralkali has a competitive advantage. With this in mind, Uralkali Group does all it can to retain qualified personnel and to attract the best of the best to its team. The Group offers its employees a competitive salary and a comprehensive benefits package, as well as broad opportunities for professional growth.

HR processes are organised in accordance with the Group's long-term strategies and legal requirements, and reflected in a strict reporting system. The Uralkali HR management team reports to the Company CEO.

## Key achievements in 2012

– US$14,262: the average annual wage per employee in the main production unit at the Group[1].
– 41: the average number of hours of training received by Uralkali Group employees in 2012.
– For all of Uralkali senior executive and mid-level management positions an adequate talent pool was formed in 2012 and a comprehensive personal development plan introduced for each candidate.
– 72.9%: the share of Company employees who would recommend Uralkali as an employer of choice.
– 250: the number of Uralkali Group managers who did training in promotion of the Code of Corporate Culture in 2012.

## Key priorities

– Development and promotion of best employees.
– Competitive remuneration for efficient work.
– Loyalty and engagement of employees.

[1] Excluding top managers and the Moscow office.


Our people are a key component of our strategic priority 5: Caring about our people and communities.

You can find more information on our KPIs and key risks for this priority on pages 23-43.

### Policy and strategy

In 2012, Uralkali Group developed new functional strategies and updated its HR strategy and key performance indicators in light of the 2011 merger with Silvinit. With the aim of implementing the HR functional strategy successfully, in 2012 management focused on unifying the HR structures and HR practices within the Group.

### The HR goals of Uralkali Group are:

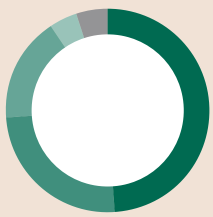
- To increase employee productivity
- To ensure that the business has qualified personnel
- To ensure staff loyalty and engagement
- To control HR expenditure

## Employee satisfaction survey

In 2012, Uralkali conducted an employee satisfaction survey, the first one for the merged company, which incorporated feedback from 2,924 employees from all levels and divisions of the Company.

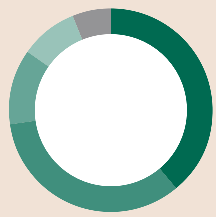
The key results of the survey are as follows:

### To what extent does Uralkali give you the opportunity to take part in training or to improve qualification in your area of expertise?



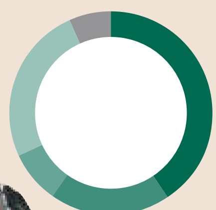
| | |
|---|---|
| Very likely, there is access | 49.1% |
| Definitely, there is access | 25.0% |
| Total | 74.1% |
| Unlikely, there is access | 16.7% |
| Definitely, there is no access | 4.3% |
| Total | 21% |
| Hard to say | 4.9% |

### Would you recommend Uralkali to a jobseeker?



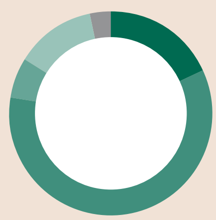
| | |
|---|---|
| Yes | 39.1% |
| Very likely | 33.8% |
| Total | 72.9% |
| Unlikely | 11.9% |
| No | 9.1% |
| Total | 21.0% |
| Hard to say | 6.1% |

### Do you have an opportunity to move to an improved salary tier within the Company?



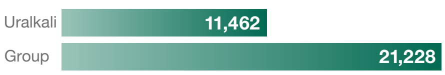
| | |
|---|---|
| Perhaps, yes | 40.7% |
| Definitely, yes | 19.2% |
| Total | 59.9% |
| Hard to say | 8.2% |
| Perhaps, no | 25.3% |
| Definitely, no | 6.6% |
| Total | 31.9% |

### Do you believe that the Company takes care of its employees?

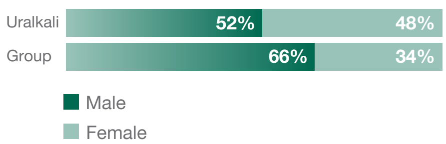


| | |
|---|---|
| Definitely, yes | 18.1% |
| Very likely | 59.5% |
| Total | 77.6% |
| Hard to say | 6.3% |
| Unlikely | 12.8% |
| Definitely, no | 3.3% |
| Total | 16.1% |

### Total workforce (IFRS, as of year-end)




### Employee gender breakdown (%)




#### Actions and performance

Uralkali meets all the legal requirements in terms of granting childcare leave and the related benefits and guarantees, including allowing employees to take leave and to return to their jobs afterwards.

The Group aims to maintain its status as one of the most attractive employers in the region. To this end, Uralkali offers a number of incentives for its staff to help them achieve their professional and career potential, including a competitive salary, a guaranteed benefits package, and learning and development opportunities.

#### Remuneration

In 2012, Uralkali completed its move to an integrated payroll system (IPS) following the merger between Uralkali and Silvinit. This system is consistent and grade-based. It is transparent and clearly shows employees how their salary is calculated, what factors affect their remuneration, and what they themselves, or their manager, can do to improve it.

To ensure that salaries in Uralkali Group remain competitive, the Company conducted a survey in 2012 (as in previous years) of the labour market in the Perm region and the Ural Federal District. Based on the survey's results, Uralkali adjusted the salary schemes, including establishment of premiums for people with rare and highly-demanded skills.

The Company places great emphasis on increasing the correlation between pay and performance. Its bonus system is part of a performance management system that links together the targets and goals of the Company as a whole, its units and individual employees. To engage employees in the development of proposals and programmes aimed at optimising business processes and improving the Company's economic performance, in 2012 the Company drew up a number of regulations on bonuses for performing particularly important assignments which generate confirmed economic benefits.

#### Professional and career growth

Uniform standards for personnel recruitment and promotion apply throughout the Company. In recruiting and promoting specialists, an assessment of a candidate's professional background (their level of education, qualifications, professional experience and compliance with the corporate competency framework) plays a key role.

## Schools and universities

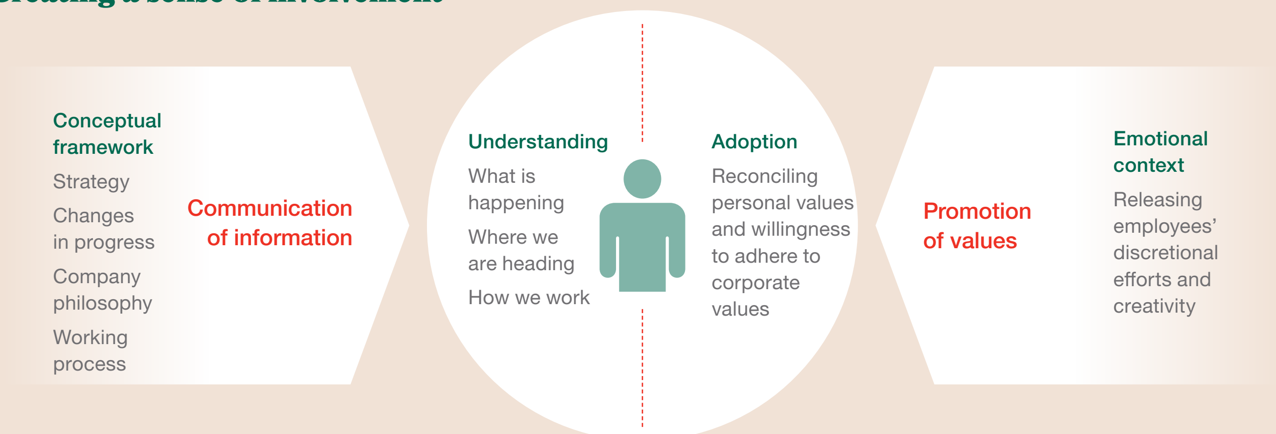
With the aim of staying at the top of the global potash industry, and bearing in mind the importance of training and retraining highly-skilled professionals for the industry, Uralkali regards its partnership with higher and secondary education institutions as strategically vital.

This cooperation takes place in three areas:

- Improving education by providing the institutions with materials and equipment, supporting research and monitoring the quality of teaching
- Encouraging students by offering scholarships and work experience opportunities
- Attracting the best students to work for the Company

Uralkali collaborates with Perm National Research Polytechnic University and its Berezniki branch, Perm State University, Berezniki Polytechnic College, Solikamsk Mining and Chemical College and Vocational School No. 47. In 2012, the Company awarded scholarships to more than 40 students.

## Creating a sense of involvement




## Corporate culture

Uralkali Group seeks to develop its corporate culture and increase employee engagement. In 2012 alone, 250 managers received training in the application and promotion of the Code of Corporate Culture. To meet stakeholder expectations, the Group started to develop new corporate standards and policies, the basic principles of which are set out in the Code of Corporate Culture. The Code was expanded in 2012 following the changes in the Company after the merger with Silvinit.

In line with the Group's current requirements, the Company provided a comprehensive training programme in 2012, designed for various categories of employees. As in previous years, this included several training arrangements – both vocational (professional development at the Company or at workshops, conferences, etc.) and mandatory (preparation for occupational health and safety certification, etc.).
In 2012, the majority of employees were trained in the application of the health and safety Cardinal Rules, and about 30% in human rights policies and procedures. About 3.4% of managers received training on the Company's anti-corruption policies and procedures.

### Incentives and benefits

The benefits package offered to Uralkali employees is defined by the Collective Bargaining Agreement between the employer and representatives of the trade union. Although a number of the subsidiaries do not have their own collective bargaining agreement, they all have benefits programmes.

Uralkali has its own health resorts, which its employees can visit all year round. Importantly, the Company not only invests significant funds in equipment for its own healthcare facilities, but also partially subsidises its employees' medical treatment costs.

Uralkali Group runs a health campaign for pre-school children of its employees at its own summer camp. In 2012, the Company organised summer holidays for teenagers at seaside holiday centres in Russia and abroad and paid a significant share of the costs.

The Company and its subsidiaries hold regular sporting activities with the aim of promoting a healthy lifestyle. Employees are entitled to reimbursement of half the cost of visiting swimming pools and skiing centres.

# Caring for our communities

## Why these issues are important to us

Realisation of major projects is a very difficult task without an open dialogue within society as we work for sustainable development in the territories where the Company operates.

We improve the living standards of local communities and create a close partnership with society.

## Approach

In taking into account the key principles of sustainability, Uralkali regards its involvement in the social development of the regions where it operates as vital to the successful growth of the business.

In all activities, the Company aims to strike a balance between its own interests and those of its employees and stakeholders.

The priority areas of Uralkali's CSR initiatives are as follows:

- Improving the quality of life of employees and their families, as well as of the communities of Berezniki and Solikamsk as a whole.
- Supporting cultural, educational, healthcare and sports projects.

## Key achievements in 2012

- US$29.1 million invested in local communities.
- US$11.4 million invested in socio-economic development in the region where Uralkali operates.
- In 2012 Uralkali provided financial support to develop a master plan for the Berezniki-Solikamsk region.

## Key priorities

- Socio-economic development in the regions where we operate.
- Provision of comfortable and safe living conditions.
- Partnership, trust and efficient dialogue with local communities and legal authorities.

Our communities are a key component of our strategic priority 5: Caring about our people and communities.

You can find more information of our KPIs and key risks for this priority on page 24-43.

### Policy and strategy

In 2012, the Board of Directors approved the Corporate Social Responsibility Policy (CSR Policy), which defines the main approaches and principles underpinning Uralkali's work in this area.

Under the CSR Policy, the Company has voluntarily committed itself to the following obligations:

- To support the welfare and personal development of employees
- To take the social characteristics of the region where Uralkali operates into account, in both the implementation of existing goals and decision-making for new projects
- To take all possible measures to minimise the adverse impact of operations on health and safety and the quality of life for employees, partners and local residents
- To maintain an open dialogue with all stakeholders and to provide them with regular information on the state of affairs at Uralkali and measures taken to reduce and eliminate environmental and social risks
- To take account of stakeholders' views when making decisions on aspects of industrial, environmental and public safety relating to current and future projects

As one of the Perm region's biggest employers and taxpayers, Uralkali makes a significant contribution to its economy. Guided by the principles of responsible business, Uralkali strives to be a reliable partner for its employees, local communities and the regional authorities, and to provide assistance with the implementation of social projects and initiatives.

Uralkali has entered into partnership agreements with local authorities. In doing so, the Company aims to ensure that its investments in regional socio-economic development, including social infrastructure, have a long-term impact.

A number of Uralkali employees take part in regulatory activities and decision-making on important urban issues by local government authorities, such as Berezniki City Council and Solikamsk City Council.

On a regional level, Uralkali works together with the Perm Region government and governor's administration. The Company plays an active role in alleviating social problems in the region, including resettling Berezniki residents living in dilapidated and dangerous housing.

### Actions and performance

In line with its social investment policy, Uralkali has continued its work in various areas of importance to the regions where the Company operates. Uralkali's social investments in 2012 amounted to US$29.1 million. Of this sum, 39% was spent on socio-economic development projects.

**Social investments (US$ mln)**

**US$ 29.1mln**


### Socio-economic development in the regions where Uralkali operates

Uralkali's CSR programmes are making a significant contribution to socio-economic development in the regions of its operations. As well as being a stable employer and reliable taxpayer, Uralkali voluntarily contributes to improving the quality of life in Berezniki and Solikamsk, the cities where its main facilities are located.

### Infrastructure development

The quality of a region's social infrastructure is integral to its quality of life. For this reason, Uralkali supports projects to create or redevelop social infrastructure facilities.

### Facilities for children

As part of the Company's continued efforts to improve the quality of life for its employees and their families, and to tackle the problem of a shortage of pre-school places, Uralkali launched a project in 2012 to build a pre-school education centre in Berezniki.

Construction of a three-floor nursery for 264 children, with a swimming pool, conservatory, assembly and sports halls and modern play areas, is due to start in the second half of 2013.

Uralkali also plans to build a pre-school educational centre in Solikamsk.

### Healthcare

In 2012, the Company continued to support major refurbishment work at the Berezniki City Children's Hospital, which began in 2011. The work is expected to be completed in early 2013. In total, Uralkali spent US$1.6 million on this project in 2011-2012.

In 2012, Uralkali also supported major refurbishment work at the anaesthesiology and intensive care unit at City Hospital No. 2 in Berezniki.

### Resettlement

In 2012, Uralkali continued to resettle residents living in dilapidated and dangerous housing in Berezniki and Solikamsk.

The decaying residential facilities are a consequence of the natural deterioration of Soviet-built housing, and also of an industrial accident due to the flooding of the Upper Kama potassium and magnesium salt deposit mine in Berezniki (October 2006).

The government of the Perm Region has developed a draft federal target programme titled "Resettlement of residents from dilapidated and dangerous housing in Berezniki, Perm Region, 2013-2017", which is awaiting approval at national level. Given the social importance of this project, Uralkali confirmed its readiness to play an active part in the implementation of this programme and to finance up to one-third of the resettlement costs. Uralkali representatives work closely with the regional and federal authorities on the programme, which will provide safe and comfortable housing for roughly 5,800 families.

### Development of the Berezniki-Solikamsk master plan

The creation and revision of urban planning schemes is an integral part of the contemporary development of cities. In 2012, as part of the Company's work with regional and city authorities, Uralkali provided financial support to a major project to develop a master plan for the Berezniki-Solikamsk region. The developers carried out geodesic, geological, hydrographic and meteorological surveys, gathered cadastral information, and obtained and analysed data on local demographics, and the state of the housing stock and infrastructure facilities. Using the collected data, they produced an outline plan, based on which the master plan itself will be developed.

## Charity and sponsorship

### Support for socially vulnerable groups

Uralkali has a strong track record of caring for socially vulnerable groups. The Company has traditionally provided support for retired employees, including making quarterly payments to them depending on the length of their employment with the Company, paying for stays at a Company health resort, organising celebrations for World War Two veterans, and renovating housing for those involved in the war, both in combat and on the home front.

### Support for culture

In order to preserve the cultural heritage of the Perm Region for future generations, Uralkali donated more than US$99,000 to a charity project launched by the Solikamsk administration to develop and expand the local Salt Museum. The administration also plans to create an interactive museum with modern facilities.

Uralkali was a general sponsor of Perm Sea, the first international festival of sylvinite and metal sculptures, held in Berezniki, and was also a sponsor of the Creation of the World music festival held in Perm from 29 June to 1 July 2012.

### Collaboration with local authorities

Providing assistance to local authorities is part of Uralkali's regional development policy. In 2012, the Company worked with the authorities to tackle various issues. The contributions by the Company included:

- Funding for the "Saving energy and improving energy efficiency" programme for Rodnikovskoye rural settlement in Solikamsk Municipal District
- Participation in the joint financing of plans for a new municipal solid waste landfill site for Solikamsk and Solikamsk Municipal District
- Assistance in the development of a general area plan for Polovodovskoye rural settlement in Solikamsk Municipal District.

### Support for not-for-profit organisations

Uralkali considers the work done by not-for-profit organisations as a vital aspect of social development that enhances social stability in the regions.

Accordingly, Uralkali made voluntary donations to the Berezniki branch of the All Russia Association of the Blind and the Solikamsk Social and Rehabilitation Centre.

The Company provides assistance to local ethnic and religious communities. In 2012, it contributed to funding the construction of a Russian Orthodox Church and Chapel of the Assumption in Berezniki, as well as financial and organisation support for a local ethnic festival.

### Support for sport

Uralkali traditionally contributes to sports development in the region where we operate, supporting the best sports traditions and attracting more children and teenagers into sports activities.

In 2012, Uralkali supported both professional and popular sports. The Company was the main sponsor of the Russian Kickboxing Championship, held in Solikamsk from 15 to 19 May. In addition, it is a principal partner of Amkar Perm, the region's only football team in the Russian Premier League, and provided financial assistance to the club throughout the year. Uralkali also supports the Perm Region Kyokushin Federation, which has been promoting karate to schoolchildren and students for many years. Funding from Uralkali enabled sportsmen from Solikamsk to take part in European arm wrestling and sambo championships. The Company is also a keen supporter of ice hockey in Solikamsk. In 2012, it provided funding for the city's senior hockey team to lease changing rooms and a rink, and to buy kit for the junior team.

Uralkali has high hopes for the basketball development programme for Solikamsk and Berezniki in 2013–2017, and took on the programme management, including searching for and hiring coaches and trainers, and paying their salaries.

# Independent Assurance Report to the Directors of Uralkali Group

The Directors of Open Joint Stock Company Uralkali engaged us to provide limited assurance on the information described below and set out in the Integrated Report of Open Joint Stock Company Uralkali and its subsidiaries (Uralkali) for the year ended 31 December 2012 and GRI Tables 2012 publication.

### What we are assuring ("Selected Information")

The qualitative and quantitative information disclosed in the 'Sustainability' section of the Integrated Report for the year ended 31 December 2012 and GRI Tables 2012. The scope of our work was restricted to the Selected Information for the year ended 31 December 2012 and does not extend to information in respect of earlier periods or to any other information in the Integrated Report.

### How the information is assessed ("Reporting Criteria")

We assessed the Selected Information using Uralkali's Reporting Criteria as set out in the Integrated Report and the Global Reporting Initiative ("GRI") Sustainability Reporting Framework, including version 3.1 of the Sustainability Reporting Guidelines and GRI Mining and Metals Sector Supplement (collectively, "GRI G3.1"). We believe that these criteria are appropriate given the purpose of our assurance engagement.

### Professional standards applied and Level of assurance[1]

We have used ISAE3000 (limited level of assurance) and we have complied with the IASB Code of Ethics.

### Understanding reporting and measurement methodologies

There are no globally recognised and established practices for evaluating and measuring the Selected Information. The range of different, but acceptable, techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The Reporting Criteria used as a basis of Uralkali's reporting should therefore be read in conjunction with the Selected Information and associated statements reported on Uralkali's website[2].

### Work done

Considering the risk of material misstatement of the Selected Information, we:

- made enquiries of Uralkali's management through interviews of personnel responsible for sustainability reporting and data collection. Interviews were held in Bereznyaki, Perm region, and Moscow;
- analysed the relevant policies and basic reporting principles and evaluated the design of the key structures, systems, processes and controls for managing, recording and reporting the Selected Information;
- performed limited substantive testing on a selective basis of the Selected Information to verify that data had been appropriately measured, recorded, collated and reported; and
- assessed the presentation of the Selected Information and compliance of the disclosures with the requirements of GRI G3.1.

### Uralkali's responsibilities

The Directors of Uralkali are responsible for:

- designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- establishing objective Reporting Criteria for preparing the Selected Information;
- measuring Uralkali's performance based on the Reporting Criteria; and
- the content of the Integrated Report and GRI Tables 2012.

### Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Directors of Uralkali.

### Our conclusions

As a result of our procedures nothing has come to our attention that indicates the Selected Information for the year ended 31 December 2012 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

This report, including our conclusions, has been prepared solely for the Directors of Uralkali as a body in accordance with the agreement between us, to assist the Directors in reporting Uralkali corporate responsibility performance and activities. We permit this report to be disclosed in the Integrated Report for the year ended 31 December 2012, to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and Uralkali for our work or this report except where terms are expressly agreed between us in writing.

ZAO "PricewaterhouseCoopers Audit",
Moscow, Russia

25 April 2013

[1] Assurance, defined by the International Auditing and Assurance Standards Board (IAASB), gives the user confidence about the subject matter assessed against the reporting criteria. Reasonable assurance gives more confidence than limited assurance, as a limited assurance engagement is substantially less in scope in relation to both the assessment of risks of material misstatement and the procedures performed in response to the assessed risks. The term "assurance" hereafter is not used as defined in Federal Law № 307-FZ of 30.12.2008 "On Auditing Activities" (edition of 28.12.2010).

[2] The maintenance and integrity of Uralkali's website is the responsibility of the Directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on Uralkali's website.

# GOVERNANCE

## Board of Directors

The biographies of the Board of Directors' members, their skills and experience.

p 86

## Corporate governance report

How the Group is governed, the activities of the Board and the Committee Reports.

p 88

## Management Board

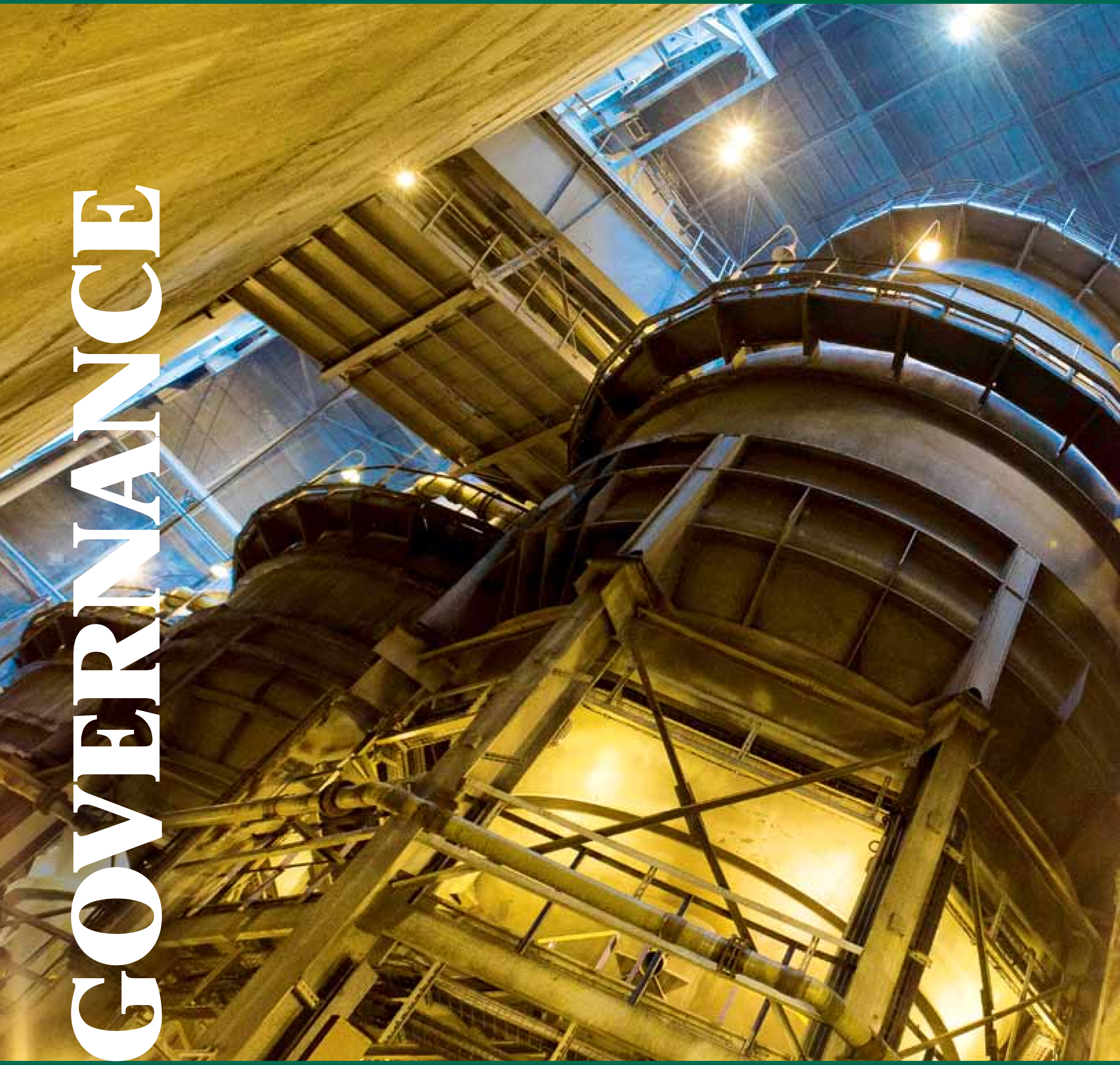
The biographies of the management team, their executive authorities and corporate conduct.

p 98

## Information for shareholders and investors

Detailed information on shares performance over the year, Company's shareholder structure and cross-links to other communication channels.

p 103




4
Independent directors
12
Meetings of the Board

# Effective and accountable leadership

**Uralkali's Board of Directors includes specialists in mining, finance, audit, management, investment, human resources, safety, and corporate social responsibility. Having highly qualified professionals on the Board gives Uralkali the confidence that there is an appropriate level of control in all its key business areas, and that shareholder trust in the Company will increase.**

### Alexander Voloshin

Chairman of the Board of Directors

Independent Director

**Election**
First elected to the Board of Directors in September 2010.
Re-elected in June 2011 and in June 2012.

**Skills and experience**
1999-2003: Head of the Administration of the President of the Russian Federation.

1999-2008: Chairman of the Board of Directors of RAO UES of Russia and member of the Boards of Directors of its affiliates.

**Committee membership**
Does not serve on any Board committees.

**External appointments**
Chairman of the Board of Directors of OJSC First Cargo Company. Member of the Boards of Directors at MMC Norilsk Nickel and Yandex N.V.

### Sir Robert Margetts

Deputy Chairman of the Board of Directors

Senior Independent Director

**Election**
Elected to the Board of Directors in June 2011. Re-elected in June 2012.

**Skills and experience**
1998-2010: Member of the Board of Directors of Anglo American PLC, Wellstream PLC, Chairman of the Board of Directors of Legal & General PLC, British Oxygen Company PLC. He was previously Executive Vice-Chairman of Imperial Chemical Industries PLC.

**Committee membership**
Chairman Corporate Social Responsibility Committee (hereinafter – CSR Committee). Member of the Audit Committee, the Appointments and Remuneration Committee, and the Investments and Development Committee.

**External appointments**
Chairman of the Board of Directors of the Energy Technologies Institute, Ensus Ltd., and Ordnance Survey, non-executive director of Huntsman Corporation LLC.

### Alexander Mosionzhik

Deputy Chairman of the Board of Directors

Non-executive Director

**Election**
First elected to the Board of Directors in September 2010. Re-elected in June 2011 and in June 2012.

**Skills and experience**
Since 1999: has held various consecutive executive positions in Nafta Moskva.
2006-2013: Chairman of the Board of Directors of Nafta Moskva.
2009-2011: member of the Boards of Directors of OJSC PIK Group and OJSC Polyus Gold.
2010-2012: Member of the Boards of Directors of JSCB International Financial Club.
September 2010-December 2011: Chairman of the Supervisory Board of CJSC Belarusian Potash Company 2011-2013 – Member of the Board of Directors of Polyus Gold International Ltd.

**Committee membership**
Chairman of the Appointments and Remuneration Committee, member of the Investments and Development Committee.

**External appointments**
Does not serve on the Boards of other companies.

## Vladislav Baumgertner

Member of the Board of Directors

Chief Executive Officer

### Election

Elected to the Board of Directors in June 2011. Re-elected in June 2012.

### Skills and experience

2004-2010: Member of the Board of Directors of Uralkali.
2005-2010: General Director of Uralkali.
September 2010-February 2011: General Director of Silvinit.
February 2011 and February 2013: reappointed General Director of Uralkali.

### Committee membership

Member of the CSR Committee.

### External appointments

Serves on the Boards of Directors of several companies affiliated with Uralkali.
Since December 2011: Chairman of the Supervisory Board of CJSC Belarusian Potash Company.

## Paul Ostling

Member of the Board of Directors

Independent Director

### Election

Elected to the Board of Directors in June 2011. Re-elected in June 2012.

### Skills and experience

1977-2007: held various management positions at Ernst & Young, most recently as Global Chief Operational Officer.
2007-2011: worked at Kungur – oil & gas equipment and services, first as the CEO, then as a member of the Board of Directors.
2008-2011: member of the Boards of Directors of OJSC Promsviazbank and Uralchem Holding P.L.C.
2007-2013: member of the Boards of Directors of OJSC MTS, Cool NRG, Pty Ltd.

### Committee membership

Chairman of the Audit Committee (financial expert).
Member of the Appointments and Remuneration Committee, CSR Committee, Investments and Development Committee.

### External appointments

Chairman of the Boards of Directors of Brunswick Rail Management Ltd, Phoenix Neftegaz Services LLC, member of the Boards of Directors of Innolume GmbH and Datalogix Inc.

## Gordon Sage

Member of the Board of Directors

Independent Director

### Election

First elected to the Board of Directors in June 2012.

### Skills and experience

1970-2001: held a variety of senior posts within Rio Tinto, where he worked in planning, projects, financial development and market development, last CEO of the Industrial Minerals business and a Director of Rio Tinto plc. (1995-2001).
2000-2002: was a non-executive Director of the Railtrack Group plc.
2002-2012: was an independent director of Merrill Lynch World Mining Trust plc (now Blackrock World Mining Trust plc). At both companies he became senior independent director.
2003-2010: was a non-executive director of Balfour Beatty plc.
2001-2006: served as Deputy Chairman of the board of directors of ERM, the international firm of environmental and social consultants.

### Committee membership

Member of the CSR Committee, the Audit Committee, the Appointments and Remuneration Committee and Investments and Development Committee.

### External appointments

Does not serve on the boards of other companies.

## Anna Kolonchina

Member of the Board of Directors

Non-executive Director

### Election

First elected to the Board of Directors in September 2010. Re-elected in June 2011 and in June 2012.

### Skills and experience

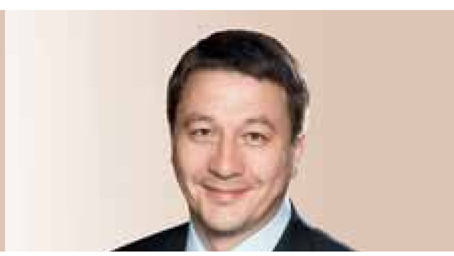
2001-2010: held a series of management positions at Deutsche Bank AG in London, Wainbridge Ltd., and OJSC PIK Group.
Since 2010: Managing Director of Nafta Moskva.
Since March 2013: Executive Managing Director of Nafta Moskva.
September 2010-December 2011: member of the Supervisory Board of CJSC Belarusian Potash Company.
2010-2012: Member of the Boards of Directors of JSCB International Financial Club and OJSC Polyus Gold.

### Committee membership

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

### External appointments

Member of the Boards of Directors of OJSC PIK Group, and Polyus Gold International Ltd.



## Anton Averin

Member of the Board of Directors

Non-executive Director

### Election

First elected to the Board of Directors in September 2010. In 2011 Anton Averin was not nominated as a candidate to the Board of Directors and was re-elected to the Board of Directors in 2012.

### Skills and experience

2002-2008: Director of the Investment Department of Nafta Moskva LLC.
Since 2008: Managing Director of Nafta Moskva.

### Committee membership

Member of the Investments and Development Committee and the CSR Committee.

### External appointments

Member of the Board of Directors of OJSC Solikamsk Magnesium Plant.

## Alexander Malakh

Member of the Board of Directors

Non-executive Director

### Election

First elected to the Board of Directors in September 2010. Re-elected in June 2011 and in June 2012.

### Skills and experience

1998-2001: consultant at McKinsey & Company
2001-2010: held managerial positions in Mars Corp., investment company Alpha-Eco LLC, and Rosvodokanal.
Since January 2010: Deputy General Director of ICT Group. 2010-2013: member of the Board of Directors of Fesco PLC.

### Committee membership

Chairman of the Investments and Development Committee, Member of the Appointments and Remuneration Committee and the CSR Committee.

### External appointments

Does not serve on the boards of other companies.

# Maintaining confidence of shareholders

Sir Robert Margetts

Deputy Chairman of the Board of Directors

Senior Independent Director

“In 2012, Uralkali’s Board of Directors worked intensively to introduce new corporate governance practices in line with the best international standards. The expertise of the Board members, their sound understanding of corporate governance, and the professionalism of the management, set a strong foundation for the Company’s future business activities.

Our commitment to best corporate governance practices is a priority element of our strategy, and it is substantiated by specific actions developed and implemented by the Company.

In December 2012, the Board of Directors approved the Corporate Governance Policy, which is an action-based document setting forth corporate governance principles, objectives and implementation plans. Our key governance principles are efficiency, transparency, accountability, segregation of competence and control areas, and assurance of shareholders’ rights. The foundation principles for our key governance objectives are to: maintain and increase confidence of shareholders and other stakeholders; ensure compliance with legal and regulatory requirements; and, implement best corporate governance practices to meet the highest global standards.

The principles and objectives set by the Corporate Governance Policy will be used for further improvements, as we see corporate governance as an ever-developing process.

We are pleased to note that our efforts were acknowledged in 2012.

Uralkali took part in an evaluation of annual reports, which is held each year by the MICEX-RTS exchange, and became an awardee in the Disclosure of Corporate Governance Information in the Annual Report nomination.

Uralkali’s Legal and Corporate Directorate, which deals with information disclosures and development of internal documents and public reports, won the Legal Insight and Odgers Berndtson’s 2012 Best Legal Departments in Russia competition in the Chemical Industry nomination.

Our Corporate Secretary won the 2012 Corporate Secretary award of the Director of the Year national award.

These awards indicate that we are moving in the right direction. We deliberately set ambitious targets and will use our best endeavours to achieve them.

## Our achievements of the year

- The Board of Directors added a new independent director
- All non-Russian independent directors now sit on all committees of the Board of Directors
- The Company’s first review of the Board of Directors’ performance was conducted
- The Company’s first Sustainability Report was approved
- The Corporate Social Responsibility Policy was approved
- The Corporate Governance Policy was approved

# Report of the Board of Directors

## Composition of the Board of Directors

The current Board of Directors was elected by the Annual General Meeting of shareholders on 7 June 2012. As prescribed by the Company's Charter, the Board of Directors has nine members. Currently, four of the nine directors are independent directors in line with the UK Corporate Governance Code, and four directors are non-executive directors. The Board's only executive director is Vladislav Baumgertner, the Chief Executive Officer of Uralkali.

## Changes in the composition

In 2012, Alexander Nesis and Pavel Grachev, who were on the Board of Directors from September 2010, left the Board. They both contributed to enhancing the efficiency of the Board of Directors and improving our corporate governance.

In 2012, the Board of Directors was joined by a new independent director – Gordon Sage, who has over 30 years of experience as an executive in Rio Tinto. In June 2012, Anton Averin, who had been a director in 2010-2011, was elected to the Board as a non-executive director, and also became a member of the Investment and Development Committee and the Corporate Social Responsibility Committee.

## Composition balance

The balance between independent and non-executive directors, on the whole, matches the structure of the Company's share capital, with around 45% of the shares in free float.

The Board of Directors contains mining, finance, audit, management, investment, HR, safety, and corporate social responsibility specialists. Independent and non-executive directors are present on every committee of the Board of Directors.

## Professional experience[1]

| | |
|---|---|
| Finance/Audit | 4 |
| Investment | 6 |
| Mining | 3 |
| Engineering | 3 |
| International experience | 3 |
| HR | 3 |
| Strategy | 6 |
| Marketing | 3 |
| General management | 9 |

[1] A director may represent several categories.

## Time on the Board of Directors (months)[1]

| | |
|---|---|
| Alexander Voloshin | 27 |
| Sir Robert Margetts | 18 |
| Alexander Mosionzhik | 27 |
| Anna Kolonchina | 27 |
| Alexander Malakh | 27 |
| Anton Averin | 6[2] |
| Vladislav Baumgertner | 18[3] |
| Paul Ostling | 18 |
| Gordon Sage | 6 |

[1] As of 31 December 2012.

[2] Excluding the time on the Board of Directors in 2010-2011.

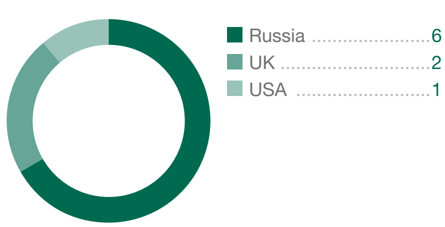
[3] Excluding the time on the Board of Directors in 2004-2010.

## Performance review

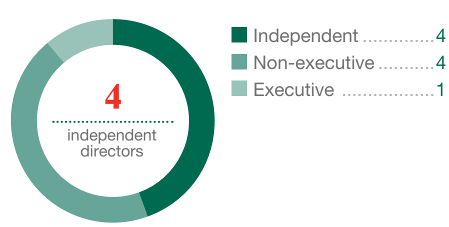
In 2012, the Company carried out its first review of the Board of Directors' performance. The review included 12 categories of assessment, including the performance of the Board of Directors itself; the quality of information support provided to the Board of Directors; interaction between directors within the Board of Directors and with management of the Company; efficiency of committees' meetings, composition and performance; development of meeting agendas. Also the performance of the Chairman of the Board of Directors and the Corporate Secretary were reviewed. The process helped Uralkali to identify areas of potential improvement and to take necessary steps to improve the work of the Board of Directors.

One of the main purposes of the review, which was held in March 2013, was to identify directors' positions on matters that received mixed scores last year. This year's review, whose results were presented to the Board of Directors on 10 April 2013, demonstrated that our efforts produced an improvement. Thus, the quality of information support to the Board of Directors was improved, and directors gave much higher scores to the efficiency of committees than they gave in 2012. The performance of the Board of Directors and its awareness of the situation in the Company in general also scored higher marks year-on-year. It is also important to note that the Board

## Country of permanent residence of directors




## Categories of directors



of Directors has visibly become a better team. Among other things, this was made possible by the steps developed and implemented following last year's review.

To maintain a systematic approach to such performance reviews, in December 2012, the Extraordinary General Meeting amended the Regulations on the Board of Directors to formally include the annual performance review process. In late December 2012, the Appointments and Remuneration Committee approved the corresponding review procedure, which described a general methodology of the review and recommended assessment criteria. This can, of course, be adjusted to better respond to specific objectives of the Company and reflect completed improvement measures implemented following the previous year's review.

### Distribution of functions

Functions in the Board of Directors are distributed in line with best corporate governance practices:

- **The roles of the Chairman of the Board of Directors and the Chief Executive Officer are split as follows:** the Chairman is responsible for leading the Board of Directors and for ensuring its efficiency in every aspect, while the CEO is responsible for day-to-day management of the Company.
- **The Senior Independent Director** interacts with shareholders on behalf of the Board of Directors, and communicates their views back to the Board of Directors to ensure the Board of Directors fully understands shareholders' concerns and to arrange communication between the shareholders and directors, where necessary.
- **The Corporate Secretary** organises the work of the Board of Directors and its committees, arranges relations with the management and facilitates the annual Board review process.

### Directors' induction and training

In 2012, the Company developed an induction procedure for new directors which includes a review of strategic and certain operating aspects of the Company's activities, personal meetings with members of the management team, visits to key production sites in Berezniki and Solikamsk, review of key internal documents, rights and obligations of new directors under applicable laws and other requirements. Also in 2012, the Company followed best corporate governance practices to sign its first Appointment Letters with directors, where such rights and obligations were specified in writing.

2012 also saw the commencement of training sessions for directors. The directors had a chance to indicate areas of training that would be preferable, for them personally and for the Board of Directors as a whole. In November 2012, the Company arranged a workshop on legal requirements related to directors. In addition to the directors, the workshop was attended by representatives of the Company's management.

### Work planning and distribution of time

Development of work plans for the Board of Directors and its committees for the following calendar year begins in April of the current year and continues through the end of December, when the Board of Directors usually approves its work plan for the following year. The schedule of meetings is arranged in single sessions, each covering several days and including a meeting of the Board of Directors and meetings of all its committees. Specific dates mainly depend on periods during which the Company must – under the applicable law or internal practices – make certain decisions: approve financial statements or public reports, convene a general meeting or pass an annual budget. Not surprisingly, our directors maintain close relations with the Company even outside work sessions by providing telephone or email consultations and taking part in management meetings. Uralkali is sure that its directors always give their work for the Company all the attention it needs.

### Activities of the Board of Directors in 2012

The Board of Directors provides general oversight and coordination of the Company's activities. Being a key element of the Company's corporate governance system, the Board of Directors is responsible for setting strategic targets and their follow-up, facilitating a dialogue with shareholders, assuring the Company's reports, and controlling the work of the management. Pursuant to Uralkali's Charter, the Board of Directors' areas of competence include approval of the Company's budget, general meetings of shareholders, election of the Management Board, approval of certain internal documents, preliminary sign-off of the Annual Report and other matters.

The work of the Board of Directors in 2012 followed the schedule approved in December 2011. According to the schedule and within the prescribed time periods, the Board of Directors approved the 2011 IFRS statements and the H1 2012 consolidated condensed financial information, provisionally gave approval to the Annual Report, and convened and held an Annual General Meeting on 7 June 2012, as well as an Extraordinary General Meeting on 12 December 2012, which mainly addressed the payment of interim dividends as prescribed by the Dividend Policy of Uralkali.

Other major matters considered by the Board of Directors in 2012 included:

- approval of the restated Regulations on the Information Policy, which now include regulations on operations with Uralkali's securities by certain categories of insider;
- convocation of an Extraordinary General Meeting held on 16 April 2012, which resolved to reorganise Uralkali through the annexation of a number of subsidiaries and improve the structure of Uralkali Group;

## Frequency of and attendance at meetings in 2012[1]

| Name | Board of Directors (12 meetings[2]) | Audit Committee (6 meetings) | Appointments and Remuneration Committee (3 meetings) | Investment and Development Committee (6 meetings) | Corporate Social Responsibility Committee (5 meetings) |
|---|---|---|---|---|---|
| Anton Averin | All[3] | – | – | All | All |
| Pavel Grachev | All | – | All | – | – |
| Alexander Voloshin | All | – | – | – | – |
| Anna Kolonchina | All | All | All | – | All |
| Alexander Malakh | All | All | All | All | All |
| Alexander Nesis | All | – | – | All | – |
| Alexander Mosionzhik | All | – | All | All | – |
| Vladislav Baumgertner | All | – | – | – | All |
| Sir Robert Margetts | All | All | All | All | All |
| Paul Ostling | All | All | All | – | All |
| Gordon Sage | All | All | – | – | – |

1 “Attendance” means participation of directors in meetings by way of physical presence (for meetings held in presentia), voting by filling voting ballots (for meetings held in absentia), and submission of a written opinion in relation to agenda items if physical presence is impossible.

2 Five out of 12 meetings of the Board of Directors were held in absentia.

3 “All” refers to the number of Board/committee meetings where a director had to be present either before the termination of the director’s term of office or following his/her election to the Board/committee.

- approval of the Company’s first Sustainability Report that reflects our efforts to develop a socially responsible business;
- approval of the Risk Management and Internal Control Policy;

See Risk Management section on page 38.

- announcement of a share buyback programme, which effectively continued the initial buyback programme launched in 2011; and
- approval of the Corporate Governance Policy and the Corporate Social Responsibility Policy, which specify key objectives and principles for these two areas.

### Strategic session

A strategic session held in Berezniki in June 2012 became an important event in the work of the Board of Directors. Typically, meetings of the Board of Directors and its committees are held in Moscow; however, the directors decided to hold one session at the main production sites of the Company. The two-day session enabled the directors to review a number of important issues: the Company’s long-term development strategy until 2030; the transport strategy; proposals to develop the distribution network; repairs and management of production assets; HR strategy; and development of demand for potash fertilisers in Russia. The strategic session was unanimously acknowledged by the Board of Directors as an efficient exercise, and so will be continued on an annual basis in the future.

### Shareholder relations

Ensuring efficient relations with shareholders continued to be a priority of the Board of Directors in 2012. It is important to note that apart from traditional communication with shareholders and investors – conference calls, management’s road shows, numerous interviews and presentations, as well as regular disclosure of information – the Company conducted its first road show of independent directors, with our Investor Relations and Capital Markets Department taking the lion’s share of credit for the success of this event. Sir Robert Margetts, Paul Ostling and Gordon Sage, i.e. all three of the non-Russian independent directors, whose views on the Company and its prospects are what the investor community is most interested in, held meetings with investors in London and New York. Investors asked questions about corporate governance and the protection of shareholders’ rights – things that foreign investors are typically concerned about when dealing with Russian companies. To address such concerns, these matters continue to be an area of continuous focus for the Board of Directors and its committees. We also conduct annual investor surveys, in which we try to identify their views on what we do, including the quality of corporate governance in Uralkali. Comments from investors are then subjected to thorough discussions by the Investment and Development Committee, which is responsible, among other things, for monitoring stakeholders' expectations.

### General meetings

Traditionally, general meetings of shareholders are one of the main ways to engage our shareholders. Pursuant to Russian laws, a general meeting is the highest management authority of Uralkali. Governed by the Law "On Joint-Stock Companies" and the Company's Charter, the general meeting's scope covers a wide range of important matters including payment of dividends, approval of annual reports, selection of an external auditor, re-organisation of the Company, annual election of directors, approval of directors' remuneration, election of the Revision Commission, and approval of major and related party transactions.

Three general meetings of the shareholders of the Company took place in 2012.

On 16 April 2012 an Extraordinary General Meeting resolved to re-organise Uralkali through an annexation of JSC "Sylvinit-Resurs", JSC "SP Kama" and OJSC "Kamskaya Gornaya Kompaniya", approve the Regulations on the Revision Commission, and approve amendments to the Regulations on directors' remuneration and compensation.

On 7 June 2012 an Annual General Meeting resolved to pay dividends for 2011 and approved the new wording of the Charter and the Regulations on general meetings of shareholders as well as the amendments to the Regulations on directors' remuneration and compensation to allow for directors' and officers' indemnity and liability insurance agreements.

On 12 December 2012 an Extraordinary General Meeting approved payment of interim dividends, the restated Charter (to which technical amendments had to be made), and the restated Regulations on directors' remuneration and compensation, which encompassed all amendments previously approved by general meetings as separate documents.

### Committees of the Board of Directors

The Board of Directors ran four full-time committees in 2012:

- the Audit Committee;
- the Appointments and Remuneration Committee;
- the Investments and Development Committee; and
- the Corporate Social Responsibility Committee.

Twice during the year changes were made to the composition of the committees; on 7 June 2012, when the Annual General Meeting reflected the new composition of the Board of Directors, and on 20 December 2012, when the Board of Directors resolved to include all of the non-Russian independent directors in all of its committees.

The committees are consultative bodies of the Board of Directors, which conduct a preliminary consideration of matters to be submitted to the Board of Directors, or matters that fall under specific committees' competence as prescribed by the Board of Directors, and issue their recommendations accordingly. Generally, such recommendations serve as important inputs for the decision-making process of the Board of Directors. In total, 20 committee meetings were held in 2012. Importantly, committee meetings are open to any director of the Company, and attendance of non-member directors is even welcomed when a committee is involved in important discussions. Such an approach allows for a full and comprehensive consideration of any matter, which often involves members of the management team and external advisers, and helps the committee determine whether the matter under discussion can be brought to the attention of the Board of Directors or should be given additional examination. The committee chairmen utilise the work of the committees as an important communication and development opportunity for the management team.

### Directors' remuneration

Independent members of the Board of Directors receive remuneration in line with the Regulations on directors' remuneration and reimbursement. The current wording of the Regulations was approved by the Extraordinary General Meeting of shareholders on 12 December 2012 and encompasses all amendments that have previously been approved as separate documents by several general meetings starting from June 2011. A director's remuneration consists of base remuneration in the amount of US$ 200,000 per annum and additional remuneration paid for performance of additional duties as a committee member or chairperson or as Deputy Chairman of the Board of Directors. The Chairman of the Board of Directors is paid US$1 million per year. Remuneration is paid on a monthly basis in equal amounts. Pursuant to the Regulations on directors' remuneration and compensation, directors were paid the following amounts in 2012:

| | Amount of remuneration[1] | |
|---|---|---|
| Name | RUB | USD[2] |
| Alexander Voloshin | 35,714,432 | 1,175,873 |
| Sir Robert Maretts | 19,974,295 | 657,640 |
| Paul Ostling | 13,316,414 | 438,434 |
| Gordon Sage (from 7 June 2012) | 5,640,434 | 185,707 |
| **Total** | **74,645,575** | **2,457,654** |
| | Amount of reimbursement of expenses | |
| | RUB | USD |
| **Total** | **4,697,652** | **154,667** |

[1] Hereinafter all amounts are calculated including income tax for individuals.

[2] Hereinafter all amounts in US$ are calculated using the RUB/US$ exchange rate as of 31 December 2012 (30.3727 RUB/US$).

# The Audit Committee report

The Audit Committee is a consultative body of the Board of Directors, which was created to consider matters falling under the scope of the Committee according to the Regulations of the Audit Committee of the Board of Directors (the Regulations).

The Audit Committee's activities are governed by applicable requirements and recommendations of the Russian Federal Financial Markets Service, Moscow and London stock exchanges' requirements, the Charter of the Company, resolutions of the Board of Directors, and the Regulations, which were approved in their current wording on 21 December 2011.

The Committee's terms of reference are extensive. It mainly covers public reports, internal and external audit, risk management and internal controls, corporate governance and legal and regulatory compliance.

**The Audit Committee in 2012**

As of 1 January 2012, the Audit Committee had the following members:

- Paul Ostling (Chairman of the committee, independent director, financial expert);
- Sir Robert Margetts (Senior Independent Director);
- Anna Kolonchina (non-executive director); and
- Alexander Malakh (non-executive director).

Following the election of a new independent director by the Annual General Meeting held in June 2012, the composition of the Audit Committee was changed – Alexander Malakh left and Gordon Sage, new independent director, joined the Committee.

The Audit Committee had six meetings in 2012. In addition, the Chairman had numerous meeting with the Company's financial management and risk management team, as well as with professional advisers. During that year, the Committee focused on risk minimisation plans, risk chart issues and compliance projects. The Committee plans to monitor implementation of these projects and finalise the development of the compliance system in 2013.

The Committee also gives its serious attention to corporate governance issues. In 2012, it approved a plan to improve corporate governance that included organisational and technical measures.

The Committee recommended to the Board of Directors to approve CJSC PricewaterhouseCoopers Audit as the auditor of the Company's financial statements for 2012.

The Board of Directors noted the recommendation of the Audit Committee and the respective report of the Chairman of the Audit Committee and proposed to the shareholders to approve the selected candidate as the auditor of the Company for 2012. The proposal was supported by the shareholders.

On 7 June 2012, the Board of Directors determined the fees of CJSC PricewaterhouseCoopers Audit for the audit of the Company's 2012 IFRS accounts in the amount of RUB25,480,000.

**The actual amount paid in 2012 to CJSC PricewaterhouseCoopers Audit and its affiliates was RUB45 867 933[1], including:**

| Company | Payments for audit services (RUB) | Payments for consulting services (RUB) |
|---|---|---|
| CJSC PricewaterhouseCoopers Audit | 33,252,400 | 3,900,224 |
| PricewaterhouseCoopers Russia B.V. | – | 8,715,309 |
| **Total** | **33,252,400** | **12,615,533** |

The Committee came to the conclusion that the actual ratio between fees for audit and consulting services (72.5% to 27.5% respectively) guarantees the impartiality and independence of the auditor of the Company's financial statements.

[1] Including VAT and overhead expenses.

# Activities of committees of the Board of Directors

## Audit Committee

**Paul Ostling**

Audit Committee Chairman

### Audit Committee statistics


> **Last year we focused on risk management and compliance projects to bring Uralkali's policies in these spheres in line with best practices. The Board approved the Risk Management and Internal Control Policy and we are planning to finalise the development of the compliance system in 2013.**

### Members:

Paul Ostling (Chairman)

Anna Kolonchina

Sir Robert Margetts

Gordon Sage

### Key areas:

Review of all issues connected with risk management and internal control, external audit and reporting, internal audit, corporate governance and legal compliance.

### Goals for 2012:

- further monitoring of risk minimisation plans;
- development of recommendations to approve the IFRS annual and semi-annual reports;
- monitoring of the Company's achievements in meeting strategic targets and plans and of reports on such achievements;
- development of recommendations to approve the Annual Report; and
- monitoring of projects and plans to continue the post-merger integration and improvement of financial and information systems and processes.

Achievement of goals for 2012 ✓

### Goals for 2013:

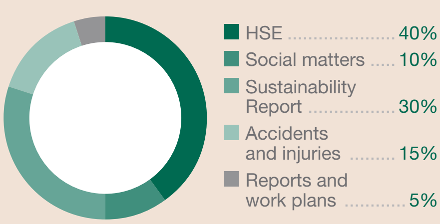
- continue monitoring of risk minimisation plans;
- development of recommendations to approve the IFRS annual and semi-annual reports and the Annual Report;
- review of the risk matrix;
- monitoring of the quality of corporate governance; and
- finalisation of projects to create a compliance system.

## Corporate Social Responsibility Committee

**Sir Robert Margetts**

Corporate Social Responsibility Committee Chairman

### CSR Committee statistics




> **During its first year of work, the CSR Committee established policies, strategies and plans, together with a system for monitoring and reporting on the CSR agenda. This enabled the Company to launch its debut Sustainability Report last year and to integrate CSR into this year's Annual Report.**

### Members:

Sir Robert Margetts (Chairman)

Vladislav Baumgertner

Paul Ostling

Gordon Sage

Alexander Malakh

Anton Averin

### Key areas:

Consideration of health, safety, environment and social responsibility issues to develop an effective management system for these areas.

### Goals for 2012:

- development of recommendations to issue the Company's first Sustainability Report;
- participation in the development of the HSE Policy;
- participation in the development of the Social Policy; and
- monitoring of the Company's HSE performance.

Achievement of goals for 2012 ✓

### Goals for 2013:

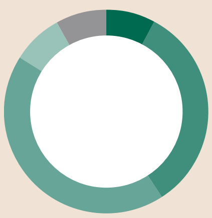
- development of recommendations on CSR issues for the Integrated Report;
- monitoring of the Company's HSE performance in 2013;
- monitoring of stakeholder engagement in the regions where the Company operates;
- monitoring of HSE activities in 2013; and
- consideration of social projects.

## Appointments and Remuneration Committee

**Alexander Mosionzhik**

Appointments and Remuneration Committee Chairman

### Appointments and Remuneration Committee statistics



- Achievement of KPIs ..... 8%
- Recommendations on approving KPIs ..... 33%
- HR-related projects ..... 43%
- Development of a procedure to assess the performance of the Board of Directors ..... 8%
- Composition of committees of the Board of Directors 8%

> **Uralkali has ambitious goals which can only be achieved with an efficient and motivated team. Therefore, we pay much attention to the development and assessment management of KPIs.**

**Members:**

Alexander Mosionzhik (Chairman)

Sir Robert Margetts

Paul Ostling

Gordon Sage

Alexander Malakh

Anna Kolochina

**Key areas:**

Engagement of qualified specialists for the management of the Company; development of necessary incentives to facilitate the successful functioning of the Company's management bodies to implement strategic plans and ensure succession in management.

**Goals for 2012:**

– assessment of the management's 2011 performance charts; establishment of performance targets for 2012;

– approval of the list of information materials to be provided to new directors, CEO and members of the management board;

– development of recommendations on key appointments to management bodies of the Company's subsidiaries and affiliates; and

– consideration of material changes in the personnel remuneration/motivation system[1].

**Achievement of goals for 2012** ✓

**Goals for 2013:**

– assessment of the management's 2012 performance charts;

– consideration of the succession plan;

– consideration of headcount issues related to labour productivity;

– review of the labour market and salary levels in the Company; and

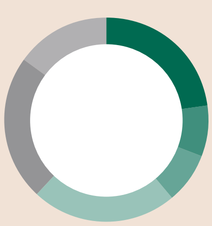
– development of recommendations. on key appointments

## Investments and Development Committee

**Alexander Malakh**

Investments and Development Committee Chairman

### Investments and Development Committee statistics



- Investment projects..... 23%
- Budgeting ..... 8%
- Dividends ..... 8%
- Market development projects..... 23%
- Strategy ..... 23%
- Other matters ..... 15%

> **We are aware that long-term business planning is an essential part of value creation for our shareholders. In 2012 we held a strategic session where we considered the Company's strategy till 2030. The Committee also took active part in budgeting and consideration of investment projects.**

**Members:**

Alexander Malakh (Chairman)

Alexander Mosionzhik

Anton Averin

Sir Robert Margetts

Paul Ostling

Gordon Sage

**Key areas:**

Consideration of the Company's strategic development, budgeting process and major investment projects.

**Goals for 2012:**

– consideration of specific functional strategies;

– finalisation of a project to optimise the repair system;

– monitoring of the budgeting process;

– development of recommendations on KPIs; and

– monitoring and consideration of strategic initiatives of the management and the Board of Directors.

**Achievement of goals for 2012** ✓

**Goals for 2013:**

– consideration of specific functional strategies and the current long-term strategy of the Company;

– follow-up of the project to optimise the repair system;

– monitoring of investment projects' efficiency;

– monitoring of the budgeting process; and

– consideration of strategic initiatives and proposals on new investment projects.

[1] The remuneration/motivation system did not materially change in 2012, and so this matter was not considered.

### Risk management and internal control

Uralkali's risk and internal control management system is based on the principles set out in the Enterprise Risk Management-Integrated Framework[1], which state that Enterprise Risk Management is:

- A process, ongoing and flowing through the entity and effected by people at every level of an organisation
- Applied in strategy-setting.
- Applied across the enterprise, at every level and unit, and includes taking an entity-level portfolio view of risk.
- Designed to identify potential events that, if they occur, will affect the entity.
- Able to provide reasonable assurance to an entity's management and board of directors.

In September 2012, the Board of Directors approved the Risk Management and Internal Control Policy, which declared the Company's views on these areas, set basic requirements and key principles of risk management and internal control development and maintenance, and specified respective responsibilities and roles of Uralkali's management bodies and employees as follows:

#### Board of Directors

- Responsible for the efficiency of the risk management process and for the development and maintenance of the corporate Risk Management and Internal Control System (RM&IC).
- Approves the Company's risk appetite.
- Considers the most material risks and monitors risk response measures.

#### Audit Committee

- Is an expert authority of the Board of Directors and gives recommendations regarding the efficiency of the RM&IC.
- Considers the most material risks and corresponding management techniques applied by the Company's executive bodies.

#### CEO

- Provides overall guidance of the risk management process; approves general regulating documents and the strategy of the RM&IC.

#### Management Board

- Is an expert authority of the CEO for risk management and internal control.
- Monitors management of specific risks as instructed by the CEO.

#### Executive directors

On their own or by delegating authorities:

- Ensure regulation of business processes within their area of activity; identify the processes' objectives and assess key risks of failure to meet such objectives; assess identified risks within their area of activity;
- Ensure identification of control procedures that cover identified risks.

#### Risk manager

Coordinates the risk management process in terms of:

- Development of a methodology and programmes for risk management, fraud prevention and response and internal control both in general and in terms of subsequent methodological supports of participants of the RM&IC.
- Identification of risks and opportunities and their consideration by the management in making managerial decisions.
- Assessment of risks by heads of subdivisions.
- Identification and assessment of control procedures that cover identified risks.
- Development of missing control procedures and corrective action plans where necessary.
- Ensuring timely performance of duties by the process participants.
- Exercising day-to-day control of efficiency of risk management and fraud prevention and response processes and of development and operation of the internal control system.
- Development of consolidated information about the risk management process and internal control system at all levels for the Audit Committee, the Board of Directors, the CEO and the Management Board.

#### Internal Audit Department

Is responsible for providing guarantees, identifying areas of potential improvements, and consultations on corrective measures related to the:

- Internal Control System.
- Corporate Governance System.
- Risk Management System.

Also controls compliance with procedures of the internal control system and informs the Audit Committee about identified violations.

#### Employees

- Duly perform duties assigned to them by the RM&IC; timely inform their management about risks identified during current activities or about facts that indicate realisation of risk events; perform a primary assessment of identified risks; and carry out actions specified in risk response action plans.

[1] ERM (enterprise risk management) – the Enterprise Risk Management Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

## Risk management and internal control in the development of financial statements

Transparency and reliability of financial reporting is one of the crucial principles of corporate governance, and ensuring the proper quality of reporting is a key function of the Board of Directors, and so this process is given special attention.

Uralkali has a number of control procedures aimed at ensuring the adequacy and reliability of collected and processed data.

The reporting development process involves employees, managers and external auditors of the Company, who have the following roles:

### Chief Financial Officer

Ensures:

- Availability and reliability of information in the enterprise resource management system.
- Interaction with auditors.
- Inventory count of the property.

### Revision Commission

Assures:

- Data in Uralkali's annual reports.
- Periodic annual accounting statements.
- Reports sent to statistical and government authorities and assessment of the internal control system.

### Audit Committee

Considers:

- Uralkali's financial statements.
- Draft reports of the external auditors.

Monitors:

- Fullness and integrity of financial statements.

Recommends:

- External auditor candidates to the Board of Directors for subsequent proposals to the general meeting.

### External auditors

Audit:

- RAC accounting statements.
- IFRS annual consolidated financial statements.
- IFRS consolidated condensed financial statements.

### Board of Directors

Approves financial statements taking into account recommendations made by the Audit Committee.

# Delivering good governance

### Vladislav Baumgertner
General Director (CEO), Chairman of the Management Board

> “2012 marked a year of considerable progress for our company. The management team proved that it can solve the most ambitious tasks despite the challenges posed by ongoing macroeconomic instability.

See Vladislav Baumgertner’s biography on page 87.

### Viktor Belyakov
Director for Economics and Finance (CFO)

**Appointment**
Member of the Management Board since 2007.

**Skills and experience**
Since 2004: joined Uralkali as Financial Controller and eventually became the Director for Economics and Finance as well as Deputy General Director.

Since July 2010: Chief Financial Officer of Uralkali.

**External appointments**
Serves on the Boards of Directors of several companies affiliated with Uralkali.

Member of the Boards of Directors of Ecoprombank, JSC Registrator Intraco.

### Boris Serebrennikov
Production Director

**Appointment**
Member of the Management Board since 2012.

**Skills and experience**
1994-2011: worked at OJSC Silvinit in various managerial positions from Head of Mine-2 to Director of Mine-1.

After the merger of Uralkali and Silvinit in June 2011 was appointed Director of Solikamsk mine-1 of Uralkali.

Since April 2012: Production Director of OJSC Uralkali.

**External appointments**
No external appointments.

### Evgeny Kotlyar
Chief Engineer

**Appointment**
Member of the Management Board since 2011.

**Skills and experience**
2000-2011: Production Director at Silvinit.

After the merger of Uralkali and Silvinit in June 2011 was appointed Production Director of Uralkali in April 2012.

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

### Vladimir Bezzubov
Procurement Director

**Appointment**
Member of the Management Board since 2011.

**Skills and experience**
2004-2010: worked at OJSC Siberian Coal Energy Company in various managerial positions.

February 2011: appointed Head of Procurement of Silvinit.

After the merger of Uralkali and Silvinit in June 2011 was appointed Director of procurement at Uralkali.

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

### Andrey Motovilov
Head of Government Relations

**Appointment**
Member of the Management Board since 2011.

**Skills and experience**
2009-2010: Deputy Head of the Representative Office of Perm Territory in the Government of the Russian Federation.

Since 2010: Head of Government Relations at Uralkali.

**External appointments**
Member of the Board of Directors of OJSC Baltic Bulk Terminal.

### Alexander Babinsky
Head of Public Relations

**Appointment**
Member of the Management Board since 2011.

**Skills and experience**
2006-2010: Deputy Chief Editor at RIA NEWS.

Since 2011: Head of the PR Department of Uralkali.

**External appointments**
Member of the Board of Directors of Media Sphere LLC affiliated with Uralkali.

## Marina Shvetsova

Director for Legal and Corporate Affairs

**Appointment**
Member of the Management Board since 2005.

**Skills and experience**
Since 2006: Director for Legal and Corporate Affairs of Uralkali.

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

Member of the Board of Directors JSC Registrator Intraco.

## Elena Samsonova

HR Director

**Appointment**
Member of the Management Board since 2004.

**Skills and experience**
Since 2004: HR Director of Uralkali.

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

## Stanislav Seleznev

HSE Director

**Appointment**
Member of the Management Board since 2011.

**Appointment**
Member of the Management Board since 2011.

**Skills and experience**
2007-2010: HSE Director at Lafarge Cement LLC

Since 2010: HSE Director of Uralkali

**External appointments**
Chairman of the Board of Directors of CJSC Uralkali-Technologiya, affiliated with Uralkali.

## Ildar Sabirov

Director of Security

**Appointment**
Member of the Management Board since 2012.

**Skills and experience**
2007-2009: Deputy Director of Security and Director of Security at Mechel Group.

2009-2010: head of economic security unit and head of economic security department at OJSC Uralneftekhim.

Since 2010: member of the Security Directorate in Uralkali; became Director of Security in 2012.

**External appointments**
Member of the Board of Directors of SA Sheriff-Berezniki LLC and Sheriff-Bezopasnost LLC.

## Oleg Petrov

Sales and Marketing Director

**Appointment**
Member of the Management Board since 2010.

**Skills and experience**
2005-2010: First Deputy General Director of CJSC Belarusian of Potash Company.

Since 2010: Director of sales and marketing of Uralkali.

**External appointments**
Member of the Supervisory Board of CJSC Belarusian Potash Company.

## Pavel Vakhnin

IT Director

**Appointment**
Member of the Management Board since 2012.

**Skills and experience**
2008-2012: held executive positions in PhosAgro, latterly as IT Director.

**External appointments**
Member of the Board of Directors of Satellite-Service LLC, affiliated with Uralkali.

## Executive Authorities

### CEO and Management Board

The Chief Executive Officer is the sole executive authority of the Company, whose terms of reference are governed by the Charter of the Company. The CEO is also the Chairman of the Management Board.

The CEO of the Company is Vladislav Baumgertner, who has held this position since 22 February 2011. On 14 February 2013, when his term of office prescribed by the Company's Charter expired, the Board of Directors re-appointed Mr. Baumgertner to the same position.

The Management Board is a collective executive board of the Company. The number of members and composition of the Management Board is determined by the Board of Directors.

In 2012, the composition of the Management Board changed several times:

- In January 2012, the composition was changed following the retirement of Igor Tsuranov, who held the position of Director for Investments.
- In April 2012, Vladimir Vaulin, who was the Chief Engineer, left the Company. He was replaced by Evgeny Kotlyar, previously the Director of Production. The position of the Director of Production was taken by Boris Serebrennikov, previously the head of one of Uralkali's production divisions.
- In June 2012, following a general meeting of shareholders, the Management Board was re-elected, but the number of members and composition were left unchanged.
- In September 2012, Ildar Sabirov became the new Director of Security to replace Dmitry Sharapov.
- In November 2012, Pavel Vakhnin joined the Management Board as IT Director.

Currently, the Management Board has 13 members, led by the CEO of the Company.

The Management Board had ten meetings in 2012 and considered 88 agenda items.

In 2012, the Management Board continued its efforts in relation to sustainability, optimisation of the Company's organisational structure, personnel development, description of competence of committees under the CEO, and finalisation and approval of the updated functional strategies of various subdivisions.

In 2012, members of the Management Board also served on the governance authorities of Uralkali's subsidiaries.

### Information on major and related party transactions

In 2012, the Company entered into a number of transactions deemed major transactions and/or related party transactions pursuant to the Federal Law "On Joint Stock Companies" (hereinafter the Law). The Law states that such transactions fall under the scope of the general meeting of shareholders or the Board of Directors depending on the value of the transaction and the composition and/or number of related parties. The Law also specifies the procedure for approving such transactions.

Most of the transactions approved by the general meeting of shareholders as related party transactions which may be entered into in the future in the normal course of business within certain limits – those are transactions with Uralkali's subsidiaries. These transactions were deemed related party transactions due to the fact that certain members of Uralkali's Management Board also serve in governance authorities of Uralkali's subsidiaries.

Also in 2012, the Annual General Meeting of shareholders approved two related party transactions as all members of the Board of Directors were deemed related parties to these transactions. In particular, the general meeting approved:

- An insurance agreement (a corporate D&O liability insurance policy), whose terms and conditions are approved on an annual basis.
- Deeds of Indemnity between Uralkali and each member of the Board of Directors. At the same time, the aggregate value of the property of the Company which may be alienated as the result of such deeds (which are also deemed inter-related transactions) exceeds 2%, which pursuant to the Law is an additional ground for submitting these transactions to the general meeting of shareholders of the Company.

All the above mentioned transactions were approved in line with the related party approval procedure prescribed by the Federal Law "On Joint-Stock Companies". Therefore, these transaction create no conflict of interest.

In 2012, a total of six major transactions were approved by the Company, including:

- An accession agreement approved in the course of the reorganisation of OJSC Uralkali through the accession of CJSC IC Silvinit-Resource, CJSC SP Kama and OJSC Kamskaya Gornaya Kompaniya.
- A non-revolving credit line agreement with a limit of RUB 66 billion between OJSC Uralkali and OJSC Sberbank of Russia and associated agreements:

- Property and property rights pledge agreements and a cross-currency and interest rate swap agreement to ensure the performance of the obligations of OJSC Uralkali under the credit line agreement.
- An addendum to the credit line agreement to extend the loan proceeds availability period.

### Committees under the Chief Executive Officer (working groups)

The current structure of management and control bodies in Uralkali was designed in line with Russian legal requirements. It is also based on our Corporate Governance Policy whereby we develop and expand the existing structure by creating special consultative bodies that would provide additional expertise when discussing significant matters. For instance, in 2012 the following committees under the Chief Executive Officer (or working groups) were established:

- Working group for health, safety, environment and corporate social responsibility.
- Working group for risks and internal controls.
- Working group for information technologies.
- Working group for investments.

The working groups were established to ensure a single approach to the decision-making process in these key areas. The working groups are led by the CEO, who is supported by other relevant members of the Management Board, and their competence covers information monitoring and analysis, preliminary discussions of key issues and risks, and follow-up of action plans. In 2012, the working groups held 28 meetings, which undoubtedly provided considerable assistance to the CEO and the Management Board.

### Remuneration of the Management Board

Remuneration of the members of the Management Board of Uralkali consists of two parts – a monthly salary, whose amount is established under individual labour contracts, and an annual bonus. The size of the bonus is determined by the achievement of individual annual KPIs, which reflect the individual's contribution to the achievement of the Company's strategic and operating objectives.

In April 2011, the Board of Directors approved the main principles of the long-term incentive strategy for senior executives of Uralkali. These principles aim to increase motivation of the senior executives to increase the market capitalisation of the Company for the benefit of its shareholders and investors. The incentive programme covers a three-year period starting from Q2 2011. The bonus size will depend on the absolute stock performance and the return on equity relative to Uralkali's peers will be adjusted to the volatility of the Russian stock market versus the US market.

As of 31 December 2012, no payments were made under this long-term incentive programme.

In December 2011, the new edition of the Regulations of the Appointments and Remuneration Committee of the Board of Directors was approved in new wording having to reflect the following areas of competence of the committee, related to the remuneration of the Management Board: development of principles and criteria of remuneration, establishment of KPIs, regular assessment of performance and development of proposals for the Board of Directors on re-appointment of the CEO and members of the Management Board.

The meeting of the Appointments and Remuneration Committee of the Board of Directors, in which the management's achievement of 2012 targets was assessed, took place in mid-February 2013, and the payment of the annual bonus was made in February 2013.

The total amount of remuneration paid to the members of the Management Board for their work in 2012 was as follows:

| | RUB[1] | US$[2] |
|---|---|---|
| Salary | 227,464,980 | 7,489,126 |
| Annual bonus | 96,034,893 | 3,161,882 |
| **Total** | **323,499,873** | **10,651,008** |

[1] All amounts are calculated to include income tax for individuals.

[2] All amounts in US dollars are calculated using the RUB/US$ exchange rate as of 31 December 2012 (30.3727 RUB/US$).

### Shares owned by directors

According to JSC Registrator Intraco, which administers the register of holders of registered securities of Uralkali, as of 31 December 2012, Evgeny Kotlyar, who was a member of the Company's Management Board from 1 January 2012 until 31 December 2012, is registered in the Company's share register. Evgeny Kotlyar owns 53,608 ordinary shares of Uralkali, which is equal to 0.0018% of the Company's authorised capital. There are no other members who currently hold or previously held positions in management bodies of Uralkali in 2012 in the Company's share register both as of 1 January 2012 and as of 31 December 2012. There is no record of any transactions made by members of Uralkali's management bodies to acquire or alienate shares of the Company, including dates and essence of transactions, the category (type) and number of Uralkali shares which were the subject matter of such transactions from 1 January 2012 until 31 December 2012. The share register has no record of share owners whose shares are held by nominal holders as of 1 January 2012 and 31 December 2012.

## Corporate conduct

### Business ethics

In 2012, a new edition of Uralkali's Code of Corporate Culture took effect. For the first time, it included the Company's business ethics rules. Given that we work on a regular basis with various stakeholders, and bearing in mind the high standards expected of us as a public company, being the largest firm in the region where we operate, and one of the world's leading potash producers, we have established various standards and principles in the Code, which underpin our relationships with our stakeholders. Our key objectives in this area are: to comply with legislation; to meet the requirements of stock exchanges; to adhere to the Universal Declaration of Human Rights; and to reject corruption. With this in mind, we maintain a constant dialogue with stakeholders. We look for mutually acceptable solutions, taking every angle and viewpoint into consideration. We keep track of important changes in areas relating to Uralkali's activities, taking account of global best practices. In doing so, we are building better relationships with our stakeholders.

### Fraud and corruption prevention

Since 2011, Uralkali has had an Anti-Fraud Programme, aimed at preventing instances of fraud. The Programme implementation schedule for 2012-2014 has been approved.

In 2011, we carried out a pilot project focusing on procurement as part of the Programme. Within this project, we developed a number of internal regulatory documents and identified procedures where fraud could occur. We upgraded our hotline service and the method of verifying information on fraud and corruption, which involves scheduled and unscheduled inspections. Following the inspections, information is sent to the CEO, the executive director to whom the employee at fault reports, and the HR Director. Should an employee of the Company be found to have committed an administrative or criminal offence, all the documents are submitted to the law enforcement agencies. In 2012, Uralkali conducted various scheduled investigations that resulted in measures including dismissal and disciplinary penalties.

All units of the Company are analysed for corruption risks. In 2012, 13 units were analysed. The Company has dealt with instances of corruption in various ways, including dismissal. Conducting inspections in the event of various violations helps us to prevent and mitigate losses.

# Communicating clearly

## Information for shareholders

### Ordinary shares

In accordance with (i) resolution of the Extraordinary General Meeting of shareholders held on 16 April 2012 on reducing the charter capital of Uralkali through cancellation of shares in connection with the reorganisation in the form of a merger of several companies, and (ii) a report on cancellation of ordinary shares of Uralkali, approved by the Board of Directors of Uralkali on 23 July 2012, modifications to the Charter of Uralkali were registered, which contain updated information on the amount of the charter capital of the Company and the number of ordinary shares into which the charter capital is divided.

As of 1 August 2012 the charter capital of Uralkali was RUB1,468,007,945.5 divided into 2,936,015,891 ordinary registered shares with the face value of RUB0.5 each. As of the date of this Report the charter capital of the Company remains unchanged since 1 August 2012.

### Global Depositary Receipts

Global Depositary Receipts (GDRs) are issued in respect of ordinary shares at the ratio of five registered ordinary shares per GDR. The GDRs are traded on the London Stock Exchange.

Securities traded on the stock exchanges (LSE, Moscow Exchange) are fungible – ordinary shares may be converted into GDRs and vice versa.

As of the date of this Report, the total number of GDRs was close to 25% of the share capital of the Company. The Company's depositary bank is Bank of New York.

See Contact information on page 173.

### Buyback programme

On 13 November 2012 the Company renewed a programme to buy back its ordinary shares and GDRs (the Programme). The total amount of the Programme will not exceed US$1.636 billion which may be invested in buyback of shares and GDRs in the period from 13 November 2012 to 13 November 2013. As of 22 April 2013, since the renewal of the Programme, securities in a total amount of approximately US$228 million have been purchased.

As a result of the previous share and GDR buyback programme, in effect from 6 October 2011 to 6 October 2012, a total of 65.1 million shares and 11.2 million GDRs were purchased for approximately US$863.3 million. In accordance with best corporate practice, these securities were subsequently cancelled.

Renewal of the Programme to buy back ordinary shares and GDRs reflects the Company's belief that the creation of shareholder value over the long term requires a balanced approach to investing in organic growth and returning excess capital to shareholders whilst maintaining a strong and robust capital structure in accordance with the leverage parameters the Company has previously communicated. Subject to obtaining the necessary corporate approvals and compliance with the relevant corporate procedures, the purchased shares and GDRs will be cancelled following completion of the Programme.

### Stock exchanges

As of 31 December 2012, Uralkali's ordinary shares and GDRs are traded on the London Stock Exchange and Moscow Exchange.

#### Trading floors of Uralkali's shares and GDRs

| Trading floor | Ticker code |
|---|---|
| Moscow Exchange | URKA |
| London Stock Exchange (LSE) | URKA |

#### Uralkali's securities identification numbers

| | |
|---|---|
| CUSIP[1]: | |
| – Regulation S GDRs | 91688E206 |
| – Rule 144A GDRs | 91688E107 |
| ISIN[2]: | |
| – Regulation S GDRs | US91688E2063 |
| – Rule 144A GDRs | US91688E1073 |
| | RU0007661302 |

Uralkali's securities are included in the main indices of stock exchanges where the Company is listed. Uralkali makes a substantial part of the index MSCI Russia, DAXglobal/Agribusiness as well as RTS and MICEX indexes.

On 24 September 2012 the Company's GDRs were included in the DAXglobal Agribusiness index for the first time, which reflects the capitalisation of major companies in the agricultural sector and is one of the main guides for global investment funds focused on the sector. Thus, Uralkali became the first Russian company in the index, and one of the top five.

[1] CUSIP (Committee on Uniform Security Identification Procedures) – identification number given to the issue of shares for the purposes of facilitating clearing.

[2] ISIN (International Securities Identification Number) – International Identification Number of the share.

### Uralkali's share in major indices

| Index | Share[1] |
|---|---|
| MICEX | 4.92% |
| RTS | 5.19% |
| MSCI Russia | 4.26% |
| DAXglobal Agribusiness | 5.35% |

[1] As of 08 March 2013.
Sources: Moscow Exchange, MSCI, DAX.

### Analyst coverage

The Company enjoys a strong following among equity research analysts with over 15 brokers publishing research on the Company over the last 12 months including Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, UBS and VTB Capital.

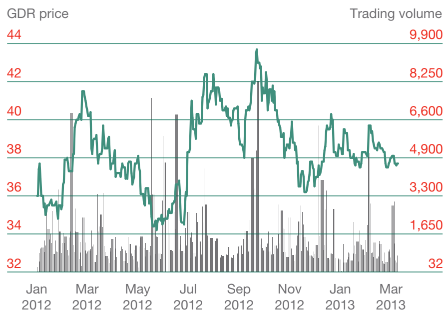
This coverage universe continues to grow; in 2012, analytical coverage of the Company was initiated by Morgan Stanley and Barclays and in January 2013 Canadian bank BMO Capital Markets also initiated coverage.

### Credit ratings

In June 2012, the Company obtained investment grade credit ratings from three international rating agencies: Fitch, Standard & Poor's and Moody's. Fitch and Standard & Poor's assigned the Company a credit rating of BBB-, while Moody's assigned it a rating of Baa3. All three agencies gave a "stable" outlook. Investment ratings show that Uralkali is a prime borrower with a strong position in the industry, a balanced financial policy and reliable risk management practices, and it is committed to the best standards of corporate governance. The Company believes that high ratings will attract financing on even more favourable terms and so broaden the base of investors.

### Uralkali share price performance and trading volumes – 2012 and Q1 2013

#### London Stock Exchange: Uralkali GDRs




— GDR price, US$/GDR
— Trading volume, thousand GDRs

Source: Bloomberg.

#### Moscow Exchange Uralkali ordinary shares


— Share price, RUB/share
— Trading volume, thousand shares

Source: Bloomberg.

### Uralkali GDRs and ordinary shares trading information (market transactions, Bloomberg)

| | LSE (GDR, US$) | | Moscow Exchange (shares, RUB) | |
|---|---|---|---|---|
| | 2011 | 2012 | 2011 | 2012 |
| Annual maximum price | 50.5 | 43.7 | 296.1 | 272.9 |
| Annual minimum price | 27.8 | 34.2 | 197.4 | 210.7 |
| Year-end price | 36.0 | 38.2 | 233.5 | 234.9 |
| Trading volume (million pcs.) | 417.6 | 420.9 | 1,109.4 | 834.0 |

### Credit ratings

| | Standard & Poor's | Moody's | Fitch |
|---|---|---|---|
| Credit rating | BBB- | Baa3 | BBB- |
| Outlook | Stable | Stable | Stable |
| Last rating date | 18.06.2012 | 19.06.2012 | 30.10.2012 |

### Total shareholder return[2]

| | Uralkali | Peer average[3] |
|---|---|---|
| TSR 2011 | 2.0% | -26.6% |
| TSR 2012 | 10.0% | 7.2% |

[2] For Uralkali and its competitors total shareholder return calculated based on change in share price for the period and taking into account dividends announced in the period.

[3] Competitors: Mosaic, Potash Corp.

**Victor Belyakov**
Director for Economics and Finance (CFO)

> "We seek to be open and responsive in our relations with the investment community. Moreover, we regularly ask analysts and investors for feedback on our communications to further improve our investor relations practices.

# Dividends

### Taxation

As a general rule, dividends in the Russian Federation are taxed as follows:

- for legal entities: 0% (pursuant to the relevant provisions of the Tax Code of the Russian Federation) or 9% for Russian residents and 15% for non-residents; and
- for individuals: 9% for Russian residents and 15% for non-residents.

Should the provisions of any double taxation treaty be applicable, the tax payments must be made in compliance with the tax rate indicated under the relevant treaty.

This information is provided for information purposes only. Potential and current investors should seek the advice of professional consultants advising on tax matters related to investments in the shares and GDRs of the Company.

### Dividend policy

The payment of dividends is regulated by the legislation of the Russian Federation.

Dividends are paid from the profits of the Company after taxation (net profit of the Company). The size of the net profit is determined on the basis of the accounting (financial) statements of the Company. Pursuant to the Law, the Charter of the Company and the Regulations on the Dividend Policy, the Company has the right to decide (declare) to pay dividends based on the results of the financial year as well as on the results of the first quarter, six months and nine months of the financial year (interim dividends). The decision to pay (declare) dividends must be taken by general meeting of shareholders. Nevertheless, the total amount of dividends may not exceed the amount recommended by the Board of Directors.

Under the new edition of the Regulations on the Dividend Policy of Uralkali approved by the Board of Directors in September 2011, the Board of Directors of the Company makes recommendations to the general meeting of shareholders regarding the procedure of the distribution of profits as dividends. The Board of Directors also makes recommendations to the general meeting regarding the size of the dividends on the shares of the Company and the procedure for their payment at least twice during one calendar year. Subject to compliance with the Law, other regulations of the Russian Federation, the Charter and the indicated Regulations, the Board of Directors should base its recommendations on the fact that the total amount of funds spent on dividends should be no-less than 50% of the net profit of the Company in accordance with the financial statements of the Company developed in compliance with the International Financial Reporting Standards (IFRS) for the relevant period.

### Dividend payout

| Period | Record date | Date of Adoption of decision on dividend payment | Amount of dividend per ordinary share/ GDR (RUB) | Amount of accrued dividends (RUB '000) |
|---|---|---|---|---|
| Interim dividends | 06.11.2012 | 13.12.2012 | 4.71/23.55 | 13,828,634.85 |
| 2011 | 26.04.2012 | 07.06.2012 | 4.00/20.00 | 12,378,551.62 |
| Interim dividends | 02.11.2011 | 08.12.2011 | 4.00/20.00 | 12,378,066.30 |
| 2010 | 24.05.2011 | 29.06.2011 | 4.55/22.75 | 14,080,050.40 |

### Dividend payout[4]

**c.50%**


[4] Of IFRS net income.

### Shareholder structure, April 2013

- Mr S. Kerimov[5] 17.2%
- Mr A. Nesis 5.1%
- Mr Z. Mutsoev[5] 6.4%
- Mr A. Skurov[5, 6] 4.8%
- Mr F. Galtchev[5] 7.0%
- Wadge Holdings Ltd[7] 12.5%
- Free Float 47.0%

[5] Includes shares transferred under repo agreement(s) with voting rights being retained by the seller.
[6] Includes 2 per cent. of the shares of Uralkali which underlie bonds exchangeable into ordinary shares of Uralkali issued by Fenguard Ltd which are held by VTB Capital plc. The bonds were issued in 2012 and mature in 2014.
[7] Wadge Holdings Ltd is ultimately jointly controlled by Mr. Kerimov, Mr. Mutsoev, Mr. Skurov and Mr. Galtchev. Wadge Holdings Ltd is the issuer of bonds held by Chengdong Investment Corporation that are exchangeable into 12.5 per cent. of Uralkali's ordinary shares. The bonds were issued in 2012 and mature in 2014.

### Geography of Uralkali's shareholders (free float), December 2012

- United States 40%
- United Kingdom 25%
- Switzerland 6%
- Germany 6%
- Russian Federation 4%
- Rest of Europe 11%
- Rest of World 8%

### Investor Day 2012

In June 2012, Uralkali hosted its annual Capital Markets Day in Perm region, which was attended by over 30 investors and analysts. The event included a presentation given by senior management reviewing Q1 2012 results, discussions with the operational senior management of the Company, site visits to the Company's assets located in Berezniki and Solikamsk (mines and plants), and a visit to the site of a new mine development.

In 2013 Uralkali plans to host a similar trip for the investment community.

## Financial calendar for 2013

| Activity | Date |
|---|---|
| Announcement of production results for 2012 | January 14, 2013 |
| Announcement of production results for Q1 2013 | April 5, 2013 |
| Announcement of results for 2012 (IFRS) | April 10, 2013 |
| Roadshow | May 2013 |
| Capital Markets Day | June 17-18, 2013 |
| Annual shareholders' meeting | June 2013 |
| Announcement of production results for Q2 2013 | July 2013 |
| Announcement of IFRS results for H1 2013 | September 2013 |
| Roadshow | October 2013 |
| Announcement of production results for Q3 2013 | October 2013 |

# Investor relations

### Communication and dialogue

Communication with all our shareholders is given a high priority. Uralkali's management maintains a regular dialogue with institutional investors and sell-side analysts through participation in meetings, presentations, global conferences, webcasts and conference calls to announce financial results and to present an overview of the potash market.

In 2012 the Company implemented the following measures for interaction with the investment community:

- The roadshows of the senior management involving meetings with institutional investors in the USA, Canada, UK and continental Europe.
- The senior management of the Company participated in 13 conferences (leading global market and industry conferences and forums focused on emerging markets).
- Two roadshows undertaken by certain of the Company's independent directors (November-December 2012).
- In total over 500 meetings with the investment community were held.
- The Capital Markets Day hosted by Uralkali was attended by over 30 participants. The programme included meetings with the operational senior management as well as a visit to business assets.
- Four audio webcasts on financial results and an overview of the potash market were held.


Uralkali's Reporting Centre.

### Board Oversight

The Board receives regular investor relations reports covering key investor meetings and activities, shareholder and investor feedback. Analyst reports are also circulated on a continuing basis. The Company regularly conducts perception studies among the investment community regarding satisfaction with the long-term developmental strategy of the Company, corporate governance quality, information disclosure in the area of sustainable development and other key issues. The survey results are presented to the Board of Directors.

### Information Disclosure

The Company posts on the website of the London Stock Exchange through the system of information disclosure (RNS) announcements of financial results, and then the Company publishes this information on its own website in the form of press releases and distributes it to the media. The Company publishes its financial results on a quarterly basis.

The greatest care is taken to ensure that any relevant information is released to all shareholders and analysts at the same time, in accordance with the FSA's Disclosure and Transparency Rules. The information is distributed across the following channels:

### Website

The Company issues its results and other news releases, as well as regular updates in relation to Uralkali operations and the status of the expansion programme. Any interested parties can subscribe to receive these news updates by registering online.

Since the launch of the new corporate website in May 2011, the information has been updated regularly. For the convenience of users the following sections of the site and online tools were developed in 2012:

- **Reporting Centre** which consolidates the following information:
  - video interview with a senior management representative containing comments on major events in the reporting period
  - press release on financial and operating results
  - market review
  - presentation for investors
  - link to the audio webcast with management presentations
  - details of the conference call

http://www.uralkali.com/investors/results/

- **The Key Figures** section contains financial and operating results of the Company for the previous reporting periods, as well as data on sustainable development of the Company and crop prices. The data is presented in numerical and graphical form and can be downloaded in Excel format.

http://www.uralkali.com/investors/main_indicators/

- The **Prices and Indexes** section contains prices for potash, crops and freight, as well as stock indexes. The data is presented in graphical format and is updated on a regular basis.

http://www.uralkali.com/investors/marketdata/prices/

The Company also organises and hosts real-time audio webcasts with management presentations at leading industry conferences.

The Annual Report of the Company is posted in electronic form on the Company's website www.uralkali.ru on the day of its official publication, which the Company notifies in a press release. A hard copy of the Annual Report is available upon request on the website http://www.uralkali.com/ru/investors/reporting_and_disclosure/annual/


**Uralkali won three separate contests for the best annual corporate report for 2011. The Company was awarded recognition in eight categories.**

- **The 15th Annual Report Competition** organised by **MICEX-RTS**: Best Disclosure of Information in an Annual Report of an Issuer with Capitalization of over RUB 100 billion (1st place), Best Design and Graphic Arts (2nd place), Best Disclosure of Corporate Governance Information in an Annual Report (3rd place).
- **The 15th Annual Federal Competition for Annual Reports and Corporate Sites** (1st place): Best Disclosure of Information in an Issuer's Annual Report, Best Overall Presentation of a Company, Best Annual Report among Industrial Companies, Best Annual Report of an Issuer in the Volga Federal District.
- **The 9th Annual Competition for Annual Reports** organised by **Expert RA**: Design and Graphic Arts (1st place).

**IR Awards**

- **IR Magazine Russia & CIS/EXTEL** Award (October 2012): Best IR in Chemicals.
- **IR Magazine Russia & CIS Awards 2012** VI Ceremony (July 2012):
  - **Vladislav Baumgertner:** Best investor relations by a CEO.
  - **Viktor Belyakov:** Best investor relations by a CFO.
  - **Anna Batarina:** Best investor relations officer (2nd place).
- **Russian CFO Awards 2012 (May 2012):** Viktor Belyakov won the "Best Merger and Acquisition (M&A)".
- **Investor Awards 2012:** "Merger and Acquisition of the Year" for merger with Silvinit and "Best Corporate Strategy of Business Development" (May 2012).

For additional information see the website
http://www.uralkali.com/investors/

### Social Media

Following recent trends in media communication, Uralkali also selectively uses social media as an additional channel of information disclosure. Company and industry news, publications in the Russian and foreign media and findings of research institutes can be found on our official page on Facebook.

www.facebook.com/UralkaliRU

and on Twitter

www.twitter.com/UralkaliRU

### E-mail

The Investor Relations Department can be contacted with respect to any queries at
ir@msc.uralkali.com

# FINANCIAL STATEMENTS

**Independent auditor’s report**

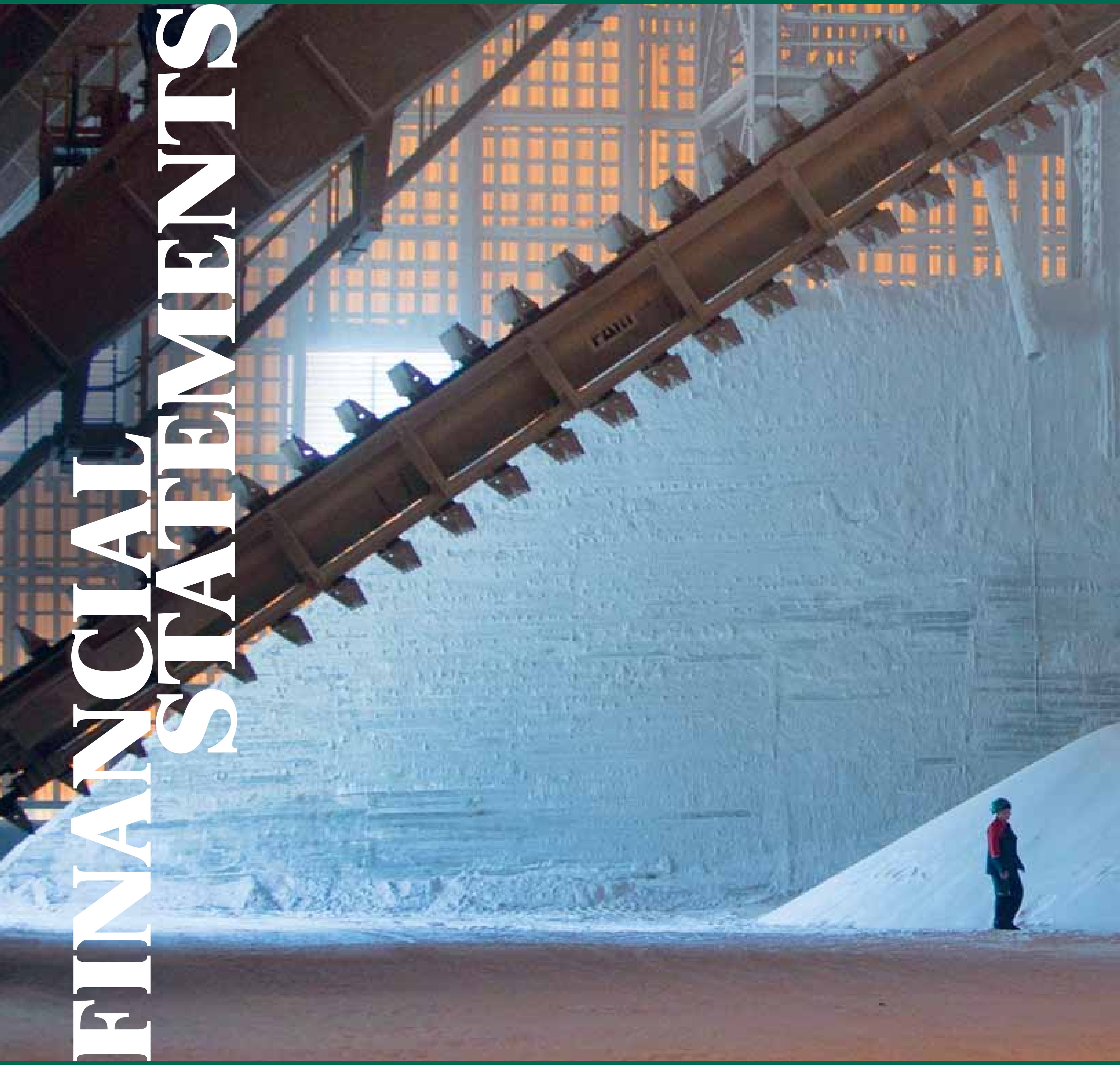
External verification of the Integrated Report and Accounts 2012.

p 112

**Consolidated financial statements**

Financial information for the Group, including detailed notes.

p 113



**US$2,375 mln**

**EBITDA**

**9.4 mln tonnes**

**Sales volume**

# Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company Uralkali:

1 We have audited the accompanying consolidated financial statements of Open Joint Stock Company Uralkali (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2012 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Consolidated Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

6 In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

10 April 2013
Moscow, Russian Federation

# Consolidated Statement of Financial Position

**As of 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

| | Note | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets:** | | | |
| Property, plant and equipment | 9 | **3,385,128** | 3,169,736 |
| Prepayments for acquisition of property, plant and equipment | | **78,998** | 27,282 |
| Letters of credit for acquisition of property, plant and equipment | | **–** | 10,429 |
| Goodwill | 10 | **1,939,538** | 1,829,694 |
| Intangible assets | 11 | **5,854,916** | 5,592,039 |
| Investments in associates | 13 | **12,887** | 12,563 |
| Deferred income tax asset | 33 | **23,465** | 39,289 |
| Other non-current financial assets | | **7,220** | 5,273 |
| Derivative financial assets | 23 | **27,590** | – |
| Restricted cash | 17 | **3,576** | – |
| **Total non-current assets** | | **11,333,318** | **10,686,305** |
| **Current assets:** | | | |
| Inventories | 14 | **242,167** | 243,603 |
| Trade and other receivables | 15 | **560,857** | 467,999 |
| Current income tax prepayments | | **347,528** | 33,279 |
| Loans issued to related parties | 7 | **–** | 316 |
| Derivative financial assets | 23 | **1,181** | – |
| Other financial assets at fair value through profit or loss | 16 | **133,941** | 189,730 |
| Restricted cash | 17 | **142,332** | 8,169 |
| Cash and cash equivalents | 17 | **1,523,244** | 1,009,450 |
| | | **2,951,250** | 1,952,546 |
| Non-current assets held for sale | 9 | **6,469** | 28,416 |
| **Total current assets** | | **2,957,719** | **1,980,962** |
| **Total assets** | | **14,291,037** | **12,667,267** |
| **EQUITY** | | | |
| Share capital | 18 | **35,762** | 37,638 |
| Treasury shares | 18 | **(58)** | (746) |
| Share premium | | **6,884,228** | 6,879,880 |
| Revaluation reserve | | **5,302** | 5,302 |
| Currency translation reserve | | **(680,145)** | (1,144,287) |
| Retained earnings | | **2,511,233** | 2,269,362 |
| **Equity attributable to the company's equity holders** | | **8,756,322** | **8,047,149** |
| **Non-controlling interests** | | **8,265** | **12,461** |
| **Total equity** | | **8,764,587** | **8,059,610** |
| **LIABILITIES** | | | |
| **Non-current liabilities:** | | | |
| Borrowings | 21 | **2,820,271** | 3,017,155 |
| Post employment benefits obligations | 34 | **37,809** | 23,450 |
| Deferred income tax liability | 33 | **1,079,886** | 716,234 |
| Provisions | 19 | **84,670** | 51,755 |
| Derivative financial liabilities | 23 | **13,906** | 75,981 |
| **Total non-current liabilities** | | **4,036,542** | **3,884,575** |
| **Current liabilities:** | | | |
| Borrowings | 21 | **1,122,075** | 282,095 |
| Trade and other payables | 24 | **266,447** | 292,895 |
| Provisions | 5, 19 | **14,684** | 66,283 |
| Derivative financial liabilities | 23 | **17,560** | 21,501 |
| Mine flooding provisions | 5, 20 | **32,924** | 31,060 |
| Current income tax payable | | **1,602** | 2,865 |
| Other taxes payable | | **34,616** | 26,383 |
| **Total current liabilities** | | **1,489,908** | **723,082** |
| **Total liabilities** | | **5,526,450** | **4,607,657** |
| **Total liabilities and equity** | | **14,291,037** | **12,667,267** |

Approved for issue and signed on behalf of the Board of Directors 10 April 2013

Chief Executive Officer

Chief Financial Officer

# Consolidated Statement of Income

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

| | Note | 2012 | 2011 |
|---|---|---|---|
| Revenues | 25 | **3,949,793** | 3,495,889 |
| Cost of sales | 26 | **(990,799)** | (888,198) |
| **Gross profit** | | **2,958,994** | **2,607,691** |
| Distribution costs | 27 | **(770,664)** | (631,006) |
| General and administrative expenses | 28 | **(231,375)** | (219,487) |
| Taxes other than income tax | | **(39,032)** | (28,584) |
| Other operating income and expenses | 30 | **(66,074)** | (37,940) |
| **Operating profit** | | **1,851,849** | **1,690,674** |
| Mine flooding costs | 32 | **(3,534)** | (26,444) |
| Finance income | 31 | **166,880** | 48,768 |
| Finance expense | 31 | **(78,788)** | (375,653) |
| **Profit before income tax** | | **1,936,407** | **1,337,345** |
| Income tax expense | 33 | **(339,796)** | (152,260) |
| **Net profit for the year** | | **1,596,611** | **1,185,085** |
| **Profit is attributable to:** | | | |
| Owners of the Company | | **1,600,807** | 1,184,032 |
| Non-controlling interests | | **(4,196)** | 1,053 |
| **Net profit for the year** | | **1,596,611** | **1,185,085** |
| Earnings per share – basic and diluted (in US cents) | 35 | **54.01** | 43.89 |

# Consolidated Statement of Comprehensive Income

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

| | 2012 | 2011 |
|---|---|---|
| **Net profit for the period** | **1,596,611** | **1,185,085** |
| **Other comprehensive income/(loss)** | | |
| Effect of translation to presentation currency | **464,142** | (1,042,698) |
| **Total other comprehensive income/(loss) for the year** | **464,142** | **(1,042,698)** |
| **Total comprehensive income for the year** | **2,060,753** | **142,387** |
| **Total comprehensive income for the year attributable to:** | | |
| Owners of the Company | **2,064,949** | 141,334 |
| Non-controlling interests | **(4,196)** | 1,053 |

# Consolidated Statement of Cash Flows

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | **1,936,407** | 1,337,345 |
| | | | |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment and amortisation of intangible assets | | **459,505** | 377,477 |
| Net loss on disposal and write-off of property, plant and equipment | 30 | **31,934** | 17,072 |
| Write-down of non-current assets held for sale to fair value less costs to sell and impairment of fixed assets reclassified to non-current assets held for sale | 30 | **50,912** | – |
| Accrual/(reversal) of provision for impairment of receivables and income from assignment of accounts receivable and loans issued | 30 | **2,115** | (13,920) |
| Loss on disposal of subsidiaries | 30 | **–** | 4,344 |
| Net change in provisions | 19 | **(54,739)** | 25,751 |
| Finance income and expense, net | | **(81,726)** | 152,653 |
| Foreign exchange (gain)/loss, net | 31 | **(16,624)** | 135,862 |
| | | | |
| **Operating cash flows before working capital changes** | | **2,327,784** | **2,036,584** |
| Increase in trade and other receivables | | **(96,325)** | (3,021) |
| Decrease in inventories | | **15,688** | 24,415 |
| Increase/(decrease) in accounts payable, accrued expenses and other creditors | | **29,013** | (28,891) |
| Increase in other taxes payable | | **11,185** | 12,890 |
| | | | |
| **Cash generated from operations** | | **2,287,345** | **2,041,977** |
| Interest paid | 21 | **(215,183)** | (97,063) |
| Income taxes paid | | **(319,916)** | (287,209) |
| **Net cash generated from operating activities** | | **1,752,246** | **1,657,705** |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of intangible assets | | **(4,588)** | (1,726) |
| Acquisition of property, plant and equipment | | **(399,431)** | (365,237) |
| Proceeds from sales of property, plant and equipment and non-current assets held for sale | | **19,627** | 27,204 |
| Purchase of financial assets at fair value through profit or loss | | **–** | (296,014) |
| Proceeds from sale of financial assets at fair value through profit or loss and other investments | | **54,134** | 104,804 |
| Acquisition of subsidiaries, net of cash acquired | 6 | **–** | (1,113,990) |
| (Increase)/decrease in restricted cash | 17 | **(137,739)** | 804 |
| Dividends and interest received | | **67,993** | 27,293 |
| **Net cash used in investing activities** | | **(400,004)** | **(1,616,862)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Repayments of borrowings | | **(523,100)** | (1,443,899) |
| Proceeds from borrowings | 21 | **1,055,329** | 3,134,676 |
| Syndication fees and other financial charges paid | 21 | **(13,873)** | (39,319) |
| Proceeds from bonds issued | 22 | **–** | 1,028,768 |
| Redemption of bonds issued | 22 | **–** | (1,028,768) |
| Payment due to early redemption of bonds | 22,31 | **–** | (31,172) |
| Cash proceeds from derivatives | 23 | **93,714** | 35,733 |
| Cash paid for derivatives | 23 | **(18,613)** | (43,826) |
| Purchase of treasury shares | | **(539,814)** | (358,816) |
| Finance lease payments | 31 | **(1,558)** | (1,650) |
| Dividends paid to the Company's shareholders | | **(901,468)** | (742,731) |
| **Net cash generated from/(used in) financing activities** | | **(849,383)** | **508,996** |
| | | | |
| Effect of foreign exchange rate changes on cash and cash equivalents | | **10,935** | (21,901) |
| **Net increase in cash and cash equivalents** | | **513,794** | 527,938 |
| **Cash and cash equivalents at the beginning of the year** | 17 | **1,009,450** | **481,512** |
| | | | |
| **Cash and cash equivalents at the end of the year** | 17 | **1,523,244** | **1,009,450** |

# Consolidated Statement of Changes in Equity

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Treasury Shares** | **Share premium/ (discount)** | **Revaluation reserve** | **Retained earnings** | **Currency translation reserve** | **Total attributable to owners of the Company** | **Non-controlling interests** | **Total equity** |
| **Balance at 1 January 2011** | **20,387** | **(440)** | **(31,618)** | **5,302** | **1,970,950** | **(101,589)** | **1,862,992** | **616** | **1,863,608** |
| Profit for the period | – | – | – | – | 1,184,032 | – | 1,184,032 | 1,053 | 1,185,085 |
| Other comprehensive loss | – | – | – | – | – | (1,042,698) | (1,042,698) | – | (1,042,698) |
| **Total comprehensive income/ (loss) for the period** | **–** | **–** | **–** | **–** | **1,184,032** | **(1,042,698)** | **141,334** | **1,053** | **142,387** |
| **Transactions with owners** | | | | | | | | | |
| Dividends declared (Note 18) | – | – | – | – | (885,620) | – | (885,620) | – | (885,620) |
| Issue of share capital for the acquisition of a subsidiary (Note 6) | 17,251 | – | 7,356,633 | – | – | – | 7,373,884 | – | 7,373,884 |
| Treasury shares acquired in a business combination (Note 6) | – | (205) | (86,420) | – | – | – | (86,625) | – | (86,625) |
| Purchase of treasury shares | – | (101) | (358,715) | – | – | – | (358,816) | – | (358,816) |
| **Total transactions with owners** | **17,251** | **(306)** | **6,911,498** | **–** | **(885,620)** | **–** | **6,042,823** | **–** | **6,042,823** |
| Non-controlling interest acquired in a business combination (Note 6) | – | – | – | – | – | – | – | 15,373 | 15,373 |
| Disposal of non-controlling interest acquired in a business combination (Note 6) | – | – | – | – | – | – | – | (4,581) | (4,581) |
| **Balance at 1 January 2012** | **37,638** | **(746)** | **6,879,880** | **5,302** | **2,269,362** | **(1,144,287)** | **8,047,149** | **12,461** | **8,059,610** |
| Profit/(loss) for the period | – | – | – | – | 1,600,807 | – | 1,600,807 | (4,196) | 1,596,611 |
| Other comprehensive income | – | – | – | – | – | 464,142 | 464,142 | – | 464,142 |
| **Total comprehensive income/ (loss) for the period** | **–** | **–** | **–** | **–** | **1,600,807** | **464,142** | **2,064,949** | **(4,196)** | **2,060,753** |
| **Transactions with owners** | | | | | | | | | |
| Dividends declared (Note 18) | – | – | – | – | (815,962) | – | (815,962) | – | (815,962) |
| Purchase of treasury shares | – | (1,188) | (538,626) | – | – | – | (539,814) | – | (539,814) |
| Cancellation of treasury shares | (1,876) | 1,876 | 542,974 | – | (542,974) | – | – | – | – |
| **Total transactions with owners** | **(1,876)** | **688** | **4,348** | **–** | **(1,358,936)** | **–** | **(1,355,776)** | **–** | **(1,355,776)** |
| **Balance at 31 December 2012** | **35,762** | **(58)** | **6,884,228** | **5,302** | **2,511,233** | **(680,145)** | **8,756,322** | **8,265** | **8,764,587** |

# Notes to the Consolidated Financial Statements

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

### 1 The Uralkali Group and its operations

Open Joint Stock Company Uralkali (the "Company") and its subsidiaries (together the "Group") produce mineral fertilizers, primarily potassium based, which are extracted and processed in the vicinity of the city of Berezniki and Solikamsk, Russia. They are distributed both on domestic and foreign markets. In May 2011 the Company acquired OJSC Silvinit and related subsidiaries (together the "Silvinit Group") and as a result, the financial position and the results of operations of Silvinit Group have been included in the Group's consolidated financial statements since 17 May 2011 (Note 6). The Group manufactures various types of products, the most significant being a wide range of potassium salts. The Group is a major Russia-based potash manufacturer. For the year ended 31 December 2012 approximately 78% of potash fertilizers was exported (for the year ended 31 December 2011: 82%).

The Company holds operating licences, issued by the Perm regional authorities for the extraction of potassium, magnesium and sodium salts from the Bereznikovskiy, Durimanskiy, Bigelsko-Troitsky, Solikamskiy (north and south parts) and Novo-Solikamskiy plots of the Verkhnekamskoye field. Upon the expiry of the licences they were prolonged till 2018-2021 at nominal cost (Note 39). The Company also owns a licence for the Ust'-Yaivinskiy plot of the Verkhnekamskoye field, which expires in 2024, and for the Polovodovsky plot of the Verkhnekamskoye field, which expires in 2028.

As of 31 December 2011 and 31 December 2012 the Group had no ultimate controlling party.

The Company was incorporated as an open joint stock company in the Russian Federation on 14 October 1992. The Company has its registered office at 63 Pyatiletki St., Berezniki, Perm region, Russian Federation. Almost all of the Group's production capacities and all long-term assets are located in the Russian Federation.

As of 31 December 2012 the Group employed approximately 21.2 thousand employees (31 December 2011: 23.0 thousand).

### 2 Basis of preparation and significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the periods presented.

#### 2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except for certain financial instruments that are presented at fair value as described in Note 2.13.

Group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Federal Law on Accounting of the Russian Federation, except for Uralkali Trading SA and Uralkali Trading (Gibraltar) Limited which maintain their accounting records in US dollars ("US$") and prepare their financial statements in accordance with IFRS. JSC Belarusian Potash Company maintains its accounting records in Belarussian Roubles ("BYR") and in accordance with Belarussian Laws and Regulations. UKT Chicago, Inc. maintains its accounting records in US$ and in accordance with US GAAP. These consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

#### 2.2 Consolidated financial statements

Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one-half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of all identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the assets transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

## 2. Basis of preparation and significant accounting policies (continued)

### 2.3 Non-controlling interest

Non-controlling interest is that part of the net results and net assets of a subsidiary, including fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction directly in equity.

### 2.4 Joint arrangements

A joint operation is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control. Joint operation is accounted for using continuing recognition of Group's relevant share of assets, liabilities, revenues and expenses. Unrealised gains and losses on transactions between the Group and its joint operation are eliminated.

### 2.5 Investments in associates

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### 2.6 Property, plant and equipment

Property, plant and equipment acquired or constructed prior to 1 January 1997 is recorded at the amounts determined by an independent valuation as of 1 January 1997 less accumulated depreciation and impairment. Property, plant and equipment acquired or constructed subsequent to 1 January 1997 is recorded at cost less accumulated depreciation. Cost includes all costs directly attributable to bringing the asset to its working condition for its intended use.

Property, plant and equipment acquired through business combination is recorded at fair value determined by independent valuation at the date of acquisition, less accumulated depreciation since acquisition date.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss within other operating expenses.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use and fair value less costs to sell.

Repair and maintenance expenditures are expensed as incurred. Major renewals and improvements are capitalised. Gains and losses on disposals determined by comparing proceeds with the carrying amount are recognised in profit or loss.

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

| | Useful lives in years |
|---|---|
| Buildings | 10 to 50 |
| Mine development costs | 10 to 30 |
| Plant and equipment | 2 to 30 |
| Transport | 5 to 15 |
| Others | 2 to 15 |
| Land | Not depreciated |

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

## 2. Basis of preparation and significant accounting policies (continued)

### 2.7 Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, investment properties and intangible assets are not depreciated or amortised.

### 2.8 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged on a straight line basis over the lease term to profit or loss.

Operating leases include long-term leases of land with rental payments contingent on cadastral values regularly reviewed by the government.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

### 2.9 Finance lease liabilities

Where the Group is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

### 2.10 Goodwill

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

## 2. Basis of preparation and significant accounting policies (continued)

### 2.11 Intangible assets

The Group's intangible assets, other than goodwill, have definite useful lives and primarily include mining licences. Intangible assets are initially measured at acquisition cost or production cost, including any directly attributable costs of preparing the asset for its intended use, or, in the case of assets acquired in a business combination, at fair value as at the date of the combination.

Expenditure on software, patents, trademarks and non-mineral licences are capitalised and amortised using the straight-line method over their useful lives. Mining licences are amortized on a unit of production method.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

### 2.12 Classification of financial assets and liabilities

The Group classifies its financial assets into the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit and loss designed as such upon initial recognition.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Financial assets at fair value through profit and loss designed as such upon initial recognition represents derivative financial instruments and other financial assets at fair value through profit or loss.

Derivative financial instruments, represented by cross-currency interest rate swaps, are carried at their fair value. All derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The income received from currency-interest rate swap transactions is presented in the interest expense line item. The Group does not apply hedge accounting.

Other financial assets at fair value through profit or loss are financial assets, represented by highly liquid corporate bonds and shares, designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if: (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's management.

Changes in fair value of financial assets at fair value through profit and loss designed as such upon initial recognition are recognised in the line item fair value gains/(losses) on financial assets at fair value through profit or loss and other investments. Coupon income from corporate bonds recognized in the interest income line item.

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

Financial liabilities have the following measurement categories: (a) held for trading, which also includes financial derivatives financial instruments and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

### 2.13 Initial recognition of financial instruments

Derivatives and other financial assets at fair value through profit or loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

A gain or loss on initial recognition is only recorded if there is a difference between the fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All regular way purchases and sales of financial instruments are recognised on the trade date, which is the date that the Group commits to purchase or sell the financial instrument.

### 2.14 Derecognition of financial assets

The Group derecognises financial assets when: (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired; or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets; or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

## 2. Basis of preparation and significant accounting policies (continued)

### 2.15 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the reporting date in the Russian Federation for entities incorporated in the Russian Federation, in Switzerland for Uralkali Trading SA, in Gibraltar for Uralkali Trading (Gibraltar) Limited, in the USA for UKT Chicago, Inc. and in Belorussia for JSC Belarusian Potash Company. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

The Group's uncertain tax positions are assessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences arising on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition or subsequently for goodwill which is not deductible for tax purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

### 2.16 Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis. The cost of finished products and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. The cost of finished goods includes transport expenses that the Company incurs in distributing goods from its factory to sea ports, vessels and overseas warehouses as these are costs incurred in bringing the inventory to its present location. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

### 2.17 Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss.

### 2.18 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and deposits with original maturity of more than three months held for the purpose of meeting short-term cash needs that are convertible into known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Restricted balances being exchanged or used to settle liability at least twelve months after the reporting date are shown separately from cash and cash equivalents for the purposes of the consolidated statement of financial position and are included in non-current assets.

Bank overdrafts which are repayable on demand are included as a component of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

## 2. Basis of preparation and significant accounting policies (continued)

### 2.19 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, other than on a business combination, are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented as share premium.

### 2.20 Treasury shares

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### 2.21 Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements have been authorised for issue.

### 2.22 Value added tax

Output value added tax is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debt, including VAT.

### 2.23 Borrowings

Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense on a time-proportion basis using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

The Group capitalises borrowing costs relating to assets that take a substantial period of time to prepare for use or sale (qualifying assets) as part of the cost of the asset. The Group considers a qualifying asset to be an investment project with an execution period exceeding one year.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

### 2.24 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

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

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

### 2.25 Trade and other payables

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

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

## 2. Basis of preparation and significant accounting policies (continued)

### 2.26 Foreign currency transactions

**Functional and presentation currency.** Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is the national currency of the Russian Federation, RR. Presentation currency of the Group is US$ since the Company's management considers presentation of the financial statements in US$ to be more useful for the users of the financial statements.

**Transactions and balances.** Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end official exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items, including equity investments.

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

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each statement of income and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses and cash flows are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

At 31 December 2012, the official rate of exchange, as determined by the Central Bank of the Russian Federation (CBRF), was US$ 1 = RR 30.37 (31 December 2011: US$ 1 = RR 32.20). The official Euro to RR exchange rate at 31 December 2012, as determined by the CBRF, was Euro 1 = RR 40.23 (31 December 2011: Euro 1 = RR 41.67). The average official rate of exchange for the twelve months ended 31 December 2012 was US$ 1 = RR 31.09, was Euro 1 = RR 39.95 (twelve months ended 31 December 2011: US$ 1 = RR 29.39, Euro 1 = RR 40.87).

### 2.27 Revenue recognition

Revenues are recognised on the date of risks transfer under the appropriate INCOTERMS specified in the sales contracts, as this is the date when the risks and rewards of ownership are transferred to the customers. For "Free On Board" (FOB) transactions, the title to goods transfers as soon as the goods are loaded on the ship. For "Delivery At Frontier" (DAF) transactions, the title to goods transfers only when goods cross the Russian border. For "Free Carrier" (FCA) terms, the title transfers when goods are loaded on the first carrier (railway carriages). For "Cost and Freight" (CFR) terms, the title transfers when goods pass the rail of the ship in the port of shipment.

Sales of services are recognised in the accounting period in which the services are rendered.

Sales of potash of Belaruskali and Silvinit (prior to its acquisition) are recognized in the line item other operating income and expenses net of all related costs.

Sales are shown net of VAT, export duties and discounts, and after eliminating sales within the Group. Revenues are measured at the fair value of the consideration received or receivable.

### 2.28 Transhipment costs

Transhipment costs incurred by OJSC Baltic Bulker Terminal ("BBT"), a 100% subsidiary whose activity is related to transhipment of fertilisers produced by the Group, are presented within distribution costs. These costs include depreciation, payroll, material expenses and various general and administrative expenses.

### 2.29 Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

### 2.30 Social costs

The Group incurs personnel costs related to the provision of benefits such as health services and charity costs related to various social programmes. These amounts have been charged to other operating expenses.

### 2.31 Pension costs

In the normal course of business, the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed as incurred.

## 2. Basis of preparation and significant accounting policies (continued)

### 2.31 Pension costs (continued)

For defined benefit pension plans, the cost of providing benefits is determined using the Projected Unit Credit Method and is charged to profit or loss so as to spread the cost over the service period of the employees. An interest cost representing the unwinding of the discount rate on the scheme liabilities is charged to profit or loss. The liability recognised in the consolidated statement of financial position, in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date. The plans are not externally funded. The defined benefit obligation is calculated annually by the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms of maturity approximating the terms of the relevant pension liability.

All actuarial gains and losses which arise in calculating the present value of the defined benefit obligation are recognised immediately in profit or loss.

### 2.32 Earnings per share

Earnings per share are determined by dividing the net income attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

### 2.33 Segment reporting

The Group identifies segments in accordance with the criteria set forth in IFRS 8 "Operating segments", and based on the way the operations of the Company are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources. The chief operating decision-maker has been determined as the Board of Directors. It was determined, that the Group has one operating segment – the extraction, production and sales of potash fertilisers.

### 2.34 Going concern

Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the situation in the financial markets on the operations of the Group.

## 3 Adoption of new or revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2012:

**"Disclosures – Transfers of Financial Assets" – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).** The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. These amendments do not have material effect on the Group's consolidated financial statements.

**Other revised standards and interpretations effective for the current period.** The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on the Group's consolidated financial statements.

## 4 New accounting pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective as at 1 January 2013, and have not been early adopted:

**IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, effective for annual periods beginning on or after 1 January 2015, with earlier application permitted).** The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group;

**IFRS 10, Consolidated financial statements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).** The Group is currently assessing the impact of the standard on its consolidated financial statements;

**IFRS 11, Joint arrangements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).** The Group is currently assessing the impact of the standard on its consolidated financial statements;

**IFRS 12, Disclosure of interests in other entities (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).** The Group is currently assessing the impact of the standard on its consolidated financial statements;

**IFRS 13, Fair Value Measurement (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).** The Group is currently assessing the impact of the standard on its consolidated financial statements;

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

### 4 New accounting pronouncements (continued)

**Amendments to IAS 1, Presentation of financial statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012).** The Group is currently assessing the impact of the amendments on its consolidated financial statements;

**Amended IAS 19, Employee benefits (issued June 2011, effective for periods beginning on or after 1 January 2013).** The Group is currently assessing the impact of the amendments on its consolidated financial statements;

**IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).** The Group is currently assessing the impact of the amended standard on its consolidated financial statements;

**Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).** The Group is currently assessing the impact of the amended standard on its consolidated financial statements;

**Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).** The Group is currently assessing the impact of the amended standard on its consolidated financial statements;

**Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013).** The Group is currently assessing the impact of the amendments on its consolidated financial statements;

**Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued in October 2012 and effective for annual periods beginning 1 January 2014).** The Group is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards, amendments to standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

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

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

**Provisions for mine flooding.** On 28 October 2006, the Group ceased production operations in Mine 1 due to natural groundwater inflow that reached a level which could not be properly controlled.

On 1 November 2006, the commission of Rostekhnadzor issued an act on its technical investigation of the cause of flooding in Mine 1. According to the act, the flooding was caused by a "new kind of previously unknown anomaly in the geological structure" and "the development of two sylvinite layers AB (1964-1965) and Kr II (1976-1977)". The combination of circumstances in the run up to the accident, in terms of source, scope and strength was classified as "being extraordinary and unavoidable events under prevailing conditions not dependent on the will of the parties involved".

In November 2008, at the request of Russian Deputy Prime Minister, Igor Sechin, a new commission was established by Rostekhnadzor to carry out a second investigation into the cause of flooding in Mine 1. The second commission's report was published on 29 January 2009, concluding that the flooding was caused by a "combination of geological and technological factors".

In March 2010, the Board of Directors of the Company approved voluntary compensation, as a part of its social responsibility, of additional expenditures in relation to the construction of a 53-kilometer railway bypass in the amount of US$ 32,924 (31 December 2011: US$ 31,060) to OJSC "Russian Railways". To date this provision has not been utilized as the process for making the payment has not been finalised (Note 20).

The procedure for calculating and compensating for mineral deposits lost as a result of mine flooding is not established by Russian law. However, the Company evaluates the risk that such claims could arise as "possible". In the appendices to the report of the second commission of Rostekhnadzor, there is a calculation of the value of lost mineral resources (from US$ 835,619 to US$ 2,785,462) and a calculation of losses resulting from mineral extraction tax not received by the government due to flooding (from US$ 31,739 to US$ 105,852). The Company analysed the calculations provided in the appendices and evaluated the risk of compensation in the stated amount as "remote".

**Remaining useful life of property, plant and equipment and mining licences.** Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period during which these assets will bring economic benefit to the Group (Note 9).

The Group holds operating mining licences prolonged till 2018-2021 upon the expiry on 1 April 2013 (Note 39). Management assesses the remaining useful life of mining licences on the basis of the expected mining reserves.

**5 Critical accounting estimates, and judgements in applying accounting policies (continued)**

The estimated remaining useful life of some property, plant and equipment and mineral resources is beyond the expiry date of the relevant operating licences (Note 1). The management believes that in the future the licences will be further renewed in due order. Any changes to this assumption could significantly affect prospective depreciation and amortisation charges and asset carrying values.

**Impairment of goodwill**. The Group tests goodwill for impairment at least annually (Note 10). The goodwill relates to the acquisition of the Silvinit Group, CJSC Solikamsky Stroitelny Trest and OJSC BBT. The goodwill is primarily attributable to the expected future operational and marketing synergies of the combined group and is allocated to CGU Uralkali Group.

**Trade and other receivables.** The Group's management analyses overdue trade and other accounts receivable at each reporting date. Overdue accounts receivable are not provided for if management has certain evidence of their recoverability. If management has no reliable information about the recoverability of overdue receivables, a 100% impairment provision is accrued for trade and other receivables overdue by more than 90 days; receivables overdue by more than 45 (but less than 90) days are provided for at 50% of their carrying amount.

**Inventory.** The Group engages an independent surveyor to verify the physical quantity of finished products at the reporting dates. In accordance with the surveyor's guidance and technical characteristics of the devices used, the possible valuation error is +/-4-6%. At the reporting date the carrying amount of finished products may vary within this range.

**Tax legislation.** Russian tax, currency and customs legislation is subject to varying interpretations (Note 36).

**Provision for filling cavities.** A provision has been established in the consolidated financial statements for the Group's obligation to replace the earth extracted from the Solikamsk mines (Note 19).

The remeasurement of an existing amount of cavities that result from changes in estimates of mine surveys reflected as an asset and depreciated over its useful life by straight-line method of depreciation. The company makes provision only for the legal liabilities, which are included in licenses agreements. The periodic unwinding of the discount rate and changes in discount rate are recognised in profit or loss in financial income and expense. The amount of expenses incurred due to filling of the cavities for other reason is recognised in current period in the consolidated statement of income.

The major uncertainties that relate to amount and timing of the cash outflows related to the filling cavities works and assumptions made by management in respect of these uncertainties are as follows:

- The extent of the filling cavities works which will have to be performed in the future may vary depending on the actual environmental situation. Management believes that the legal obligation to replace the earth in the mines is consistent with the cavities filling plan agreed with the State mine supervisory body;
- The future unit cost of replacing one cubic meter of the earth in the mines may vary depending on the technology and the cost of resources used. Management assumes that the unit cost of replacing a cubic meter of earth in future years, during the period for which the current filling cavities plan is in place, adjusted for the effect of inflation, will not be materially different from the actual cost incurred in 2012;
- Management applied its judgment in determining the rate used in discounting the future real cash outflows associated with the filling cavities works, reflecting the time value of money. In 2012 management applied discount rate of 6.6%;
- Ongoing filling cavities costs incurred out of agreed plan are recognised as expenses when incurred.

**Restructuring provision.** The Group accrued a provision for the closing down of the ore-treatment plant and carnallite plant subdivision at Berezniki 1 (Note 19).

The major uncertainties that relate to amount and timing of the cash outflows related to the restructuring works and assumptions made by management in respect of these uncertainties are as follows:

- Estimates were used to determine the costs of dismantling and restoration works for the liquidation of the ore-treatment plant and the carnallite plant at Berezniki 1;
- Management applied its judgment in determining the rate used in discounting the future real cash outflows associated with the dismantling works, reflecting the time value of money. The discount rate used is in the range from 6% to 8% depending on the timing of expenses.

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

## 6 Business combinations

No business combinations occurred in 2012.

The following business combinations occurred in 2011:

### (i) Acquisition of Silvinit Group

On 17 May 2011, the Company acquired Silvinit Group, creating one of the world's leading potash companies, a leading global fertilizer producer and one of Russia's leading mineral resource companies.

The acquisition was made through the purchase of 1,565,151 Silvinit ordinary shares, representing approximately 20% of its ordinary share capital, for total cash consideration of US$ 1.4 billion, completed on 28 February 2011, and a subsequent statutory merger of the Company and OJSC Silvinit, through the issuance of Uralkali ordinary shares for the remaining ordinary and preferred share capital of OJSC Silvinit, completed on 17 May 2011. Upon completion of the merger, OJSC Silvinit ceased to exist and OJSC Silvinit shareholders received 133.4 Uralkali ordinary shares for each 1 ordinary share in Silvinit and 51.8 Uralkali ordinary shares for each 1 preferred share in Silvinit.

The financial position and the results of operations of Silvinit Group were included in the Group's consolidated financial statements from 17 May 2011.

The table below sets forth the fair values of Silvinit Group consolidated identifiable assets, liabilities and contingent liabilities at the date of acquisition:

| | Note | Attributed fair value |
|---|---|---|
| **Assets** | | |
| Property, plant and equipment | 9 | 1,850,768 |
| Intangible assets | 11 | 6,460,432 |
| Investments in associates | 13 | 25,875 |
| Other non-current financial assets | | 11,190 |
| Deferred tax assets | 33 | 118,108 |
| Trade and other receivables | | 177,861 |
| Inventories | | 150,464 |
| Loans issued | | 3,633 |
| Irrevocable bank deposits | | 6,987 |
| Cash and cash equivalents | | 350,577 |
| **Total assets** | | **9,155,895** |
| **Liabilities** | | |
| Borrowings | 21 | 1,323,507 |
| Deferred tax liabilities | 33 | 970,914 |
| Post employment benefits obligations | 34 | 12,486 |
| Provision for filling cavities, long-term | 19 | 52,215 |
| Trade and other payables | | 52,948 |
| Current income tax payable | | 5,583 |
| Legal provision | 19 | 60,528 |
| Provision for filling cavities, short-term | 19 | 6,597 |
| **Total liabilities** | | **2,484,778** |
| **Total identifiable net assets at fair value** | | **6,671,117** |

The Group finalized purchase price allocation in its consolidated financial statements for the year ended 31 December 2011.

The fair value of trade and other receivables includes trade and other receivables with a fair value of US$ 177,861 being the best estimate of contractual cash flows expected to be collected. The gross contractual amount of trade and other receivables due was US$ 232,671.

## 6. Business combinations (continued)

The acquisition-date fair value of the total purchase consideration and its components are as follows:

| | US$ thousands |
|---|---|
| Cash consideration paid | 1,432,093 |
| Fair value of newly issued shares of the acquirer | 7,373,884 |
| Effect of translation to presentation currency | 19,637 |
| **Total purchase consideration** | **8,825,614** |

Cash consideration of US$ 1.4 billion paid by the Group was recorded as consideration paid on the acquisition of subsidiary in the consolidated statement of cash flows. The remaining approximately 80% ownership interest was transferred to the Group in exchange for the newly issued shares of OJSC Uralkali. The fair value of these newly issued shares of the acquirer was determined on the basis of closing market price of the ordinary shares on the date of acquisition.

Acquisition related transaction costs of US$ 4,141 were expensed as general and administrative expenses.

The excess of the total consideration paid by the Group over the fair values of assets and liabilities, net of treasury shares acquired, represents the goodwill in the total amount of US$ 2,067,872.

| | Note | US$ thousands |
|---|---|---|
| Total identifiable net assets at fair value | | 6,671,117 |
| Treasury shares acquired | | 86,625 |
| Goodwill | 10 | 2,067,872 |
| **Total purchase consideration** | | **8,825,614** |

The goodwill is primarily attributable to the expected future operational and marketing synergies. The goodwill will not be deductable for tax purposes in future periods.

If the acquisition had occurred on 1 January 2011, Group results for year ended 31 December 2011 would have been:

- Gross revenue – US$ 4,202,656;
- Net profit – US$ 1,527,189;
- Freight, railway tariff, transshipment – US$ 632,245;
- Depreciation and amortization, financial income and expenses, income tax expense – US$ 906,216;
- Volume sold – 10,648 thousands tonnes.

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

### 6. Business combinations (continued)

#### (ii) Acquisition of CJSC Solikamsky Stroitelny Trest (SST)

On 7 October 2011, the Company obtained control over its associate SST, the local leader of the construction market in the city of Solikamsk. The acquisition was made through the purchase of SST ordinary shares, representing approximately 47.64% of its ordinary share capital, for total cash consideration of US$ 35,375.

The financial position and the results of operations of SST were included in the Group's consolidated financial statements from 7 October 2011.

The table below sets forth the fair values of SST consolidated identifiable assets and liabilities at the date of acquisition:

| | Note | Attributed fair value |
|---|---|---|
| Assets | | |
| Property, plant and equipment | 9 | 42,145 |
| Intangible assets | 11 | 224 |
| Trade and other receivables | | 3,569 |
| Inventories | | 25,047 |
| Cash and cash equivalents | | 2,901 |
| **Total assets** | | **73,886** |
| Liabilities | | |
| Borrowings | 21 | 5,087 |
| Deferred tax liabilities | 33 | 4,483 |
| Trade and other payables | | 15,461 |
| **Total liabilities** | | **25,031** |
| **Total identifiable net assets at fair value** | | **48,855** |

The excess of the total consideration paid by the Group over the fair values of assets and liabilities represents the goodwill.

| | Note | US$ thousands |
|---|---|---|
| Total identifiable net assets at fair value | | 48,855 |
| Fair value of the non-controlling interest | | (15,373) |
| Fair value of existing interest in acquiree | 13 | (11,926) |
| Goodwill | 10 | 13,819 |
| **Total purchase consideration** | | **35,375** |

The goodwill is attributable to the expected future optimization of the construction and repair works for the Group. The goodwill will not be deductable for tax purposes in future periods.

The Group finalized the purchase price allocation in the consolidated financial statements for the year ended 31 December 2011.

The fair value of trade and other receivables includes trade and other receivables with a fair value of US$ 3,569 being the best estimate of contractual cash flows expected to be collected. The gross contractual amount of trade and other receivables did not differ from their fair value at acquisition date.

The acquired Company contributed revenue of US$ 5,282 and loss of US$ 6,493 to the Group for the period from the date of acquisition to 31 December 2011. If the acquisition had occurred on 1 January 2011, Group revenue for 2011 would have been US$ 3,511,941 and profit for 2011 would have been US$ 1,180,701.

LLC Solikamskavto and LLC Stroimarket, subsidiaries of SST, were disposed shortly after acquisition of SST for total consideration of US$ 1,810. The loss on disposal of subsidiaries in the amount of US$ 4,344 was recognized in the other operating income and expenses (Note 30).

## 7 Related parties

Related parties are defined by IAS 24, "Related Party Disclosures". Parties are considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Key management and their close family members are also considered related parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below.

| Statement of financial position caption | Nature of relationship | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| Balances | | | |
| Prepayments for acquisition of property, plant and equipment | Associate | **4,799** | 1,531 |
| Prepayments for acquisition of property, plant and equipment | Other related parties | **4,022** | 2,294 |
| Trade and other receivables | Associate | **64** | 26 |
| Trade and other receivables | Other related parties | **6** | 2,752 |
| Trade and other payables | Associate | **616** | 2,414 |
| Trade and other payables | Other related parties | **–** | 423 |
| Loans issued to related parties | Associate | **–** | 316 |
| Transactions | | | |
| Acquisition of property, plant and equipment | Associate | **24,095** | 32,028 |
| Acquisition of property, plant and equipment | Other related parties | **4,704** | 3,257 |
| Acquisition of inventories | Associate | **7,572** | 6,648 |
| Acquisition of inventories | Other related parties | **–** | 62 |

| Statement of income caption | Nature of relationship | 2012 | 2011 |
|---|---|---|---|
| Other domestic revenue | Associate | **202** | 86 |
| Other domestic revenue | Other related parties | **9,228** | 10,198 |
| Transportation and other revenues | Associate | **7** | 57 |
| Transportation and other revenues | Other related parties | **1** | 2,906 |
| Repairs and maintenance | Associate | **3,657** | 3,571 |
| Repairs and maintenance | Other related parties | **915** | 228 |
| Other expenses | Associate | **842** | 2,112 |
| Other expenses | Other related parties | **2,509** | 167 |
| Interest income | Former key management personnel | **–** | 211 |
| Interest income | Other related parties | **33** | 114 |
| Monitoring costs | Associate | **2,519** | 855 |

### Cross shareholding

As of 31 December 2011, CJSC JV Kama, CJSC IK Silvinit-Resource and Enterpro Services Ltd. owned 0.81%, 0.37% and 1.60% of the ordinary shares of the Company, correspondingly.

In July 2012 the Group finalized its internal legal restructuring. As a result treasury shares owned by CJSC IK Silvinit-Resource, CJSC JV Kama, Enterpro Services Ltd. were cancelled with decrease of authorized share capital (Note 18).

As of 31 December 2012 Enterpro Services Ltd., a 100% owned subsidiary of the Group, owned 0.13% of the ordinary shares of the Company.

### Management's compensation

Compensation of key management personnel consists of remuneration paid to executive directors and other directors for their services in full- or part-time positions. Compensation is made up of annual remuneration and a performance bonus depending on operating results.

The Board of Directors has approved the main principles of the long-term incentive strategy of Uralkali's top management. The remuneration will depend on total shareholder return relative to the Company's peers and will be adjusted to the volatility of the Russian stock market versus the US market. The absolute risk adjusted stock performance will also influence the amount of remuneration. The program is effective from the third quarter of 2011 and the Group liability as of 31 December 2012 was estimated to be nil (31 December 2011: nil).

Total key management compensation represented by short-term employee benefits and included in general and administrative and distribution expenses in the consolidated statement of income were US$ 15,968 and US$ 21,027 for the years ended 31 December 2012 and 31 December 2011, respectively.

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

## 8. Segment reporting

The Group identifies the segment in accordance with the criteria set forth in IFRS 8, and based on the way the operations of the Company are regularly reviewed by the chief operating decision-maker to analyse performance and allocate resources. The chief operating decision-maker has been determined as the Board of Directors. It was determined, that the Group has one operating segment – the extraction, production and sale of potash fertilisers.

The financial information reported on operating segments is based on management accounts which are based on IFRS.

a) Segment information for the reportable segment is set out below:

| | Note | 2012 | 2011 |
|---|---|---|---|
| Revenue | 25 | **3,949,793** | 3,495,889 |
| **Segment result (Net profit)** | | **1,596,611** | 1,185,085 |
| | | | |
| Depreciation and amortisation | | **(459,505)** | (377,477) |
| Mine flooding costs | 32 | **(3,534)** | (26,444) |
| Finance income | 31 | **166,880** | 48,768 |
| Finance expense | 31 | **(78,788)** | (375,653) |
| Income tax | 33 | **(339,796)** | (152,260) |

b) Geographical information

The analysis of Group sales by region was:

| | 2012 | 2011 |
|---|---|---|
| Russia | **649,377** | 414,162 |
| Latin America, China, India, South East Asia | **2,597,574** | 2,221,114 |
| USA, Europe | **676,510** | 853,708 |
| Other countries | **26,332** | 6,905 |
| **Total revenue** | **3,949,793** | **3,495,889** |

The sales are allocated by region based on the destination country.

c) Major customers

The Group had no external customers which represented more than 10% of the Group's revenues in the year ended 31 December 2012. In 2011 the Group had sales in excess of 10% to one customer, revenue from this customer represented 15% of total Group revenue for the year ended 31 December 2011.

d) In addition to the above segment disclosure, management is preparing additional information that splits the result of potash segment activity between export potash sales, domestic potash sales and other sales. Direct cost of sales and distribution expenses are allocated proportionally based on revenues. Indirect expenses, such as general and administrative expenses, other operating income and expenses and taxes other than income tax are allocated between categories proportionally based on cost of sales. Some costs are considered as unallocated (loss on disposal of fixed assets, net results on sale of Belaruskali and Silvinit goods, mine flooding costs, finance income and expense, income tax expense).

This split for the year ended 31 December 2012 was as follows:

| | Export potash sales | Domestic potash sales | Total potash sales | Other sales | Unallocated | Total |
|---|---|---|---|---|---|---|
| **Tonnes (thousands)** | **7,281** | **2,081** | **9,362** | **–** | **–** | **9,362** |
| | | | | | | |
| Revenues | 3,300,416 | 528,494 | 3,828,910 | 120,883 | – | 3,949,793 |
| Cost of sales | (714,888) | (204,355) | (919,243) | (71,556) | – | (990,799) |
| Distribution, general and administrative expenses, other operating income and expenses and taxes other than income tax | (1,001,222) | (69,051) | (1,070,273) | (36,683) | (189) | (1,107,145) |
| **Operating profit/(loss)** | **1,584,306** | **255,088** | **1,839,394** | **12,644** | **(189)** | **1,851,849** |
| Mine flooding costs | | | | | (3,534) | (3,534) |
| Finance income and expense, net | | | | | 88,092 | 88,092 |
| | | | | | | |
| Profit before income tax | | | | | | **1,936,407** |
| Income tax expense | | | | | (339,796) | (339,796) |
| **Segment result/Net profit** | | | | | | **1,596,611** |

## 8. Segment reporting (continued)

This split for the year ended 31 December 2011 was as follows:

| | Export potash sales | Domestic potash sales | Total potash sales | Other sales | Unallocated | Total |
|---|---|---|---|---|---|---|
| **Tonnes (thousands)** | **7,040** | **1,579** | **8,619** | **–** | **–** | **8,619** |
| Revenues | 3,081,727 | 322,851 | 3,404,578 | 91,311 | – | 3,495,889 |
| Cost of sales | (687,015) | (154,148) | (841,163) | (47,035) | – | (888,198) |
| Distribution, general and administrative expenses, other operating income and expenses and taxes other than income tax | (839,190) | (47,591) | (886,781) | (23,141) | (7,095) | (917,017) |
| **Operating profit/(loss)** | **1,555,522** | **121,112** | **1,676,634** | **21,135** | **(7,095)** | **1,690,674** |
| Mine flooding costs | | | | | (26,444) | (26,444) |
| Finance income and expense, net | | | | | (326,885) | (326,885) |
| Profit before income tax | | | | | | **1,337,345** |
| Income tax expense | | | | | (152,260) | (152,260) |
| **Segment result/Net profit** | | | | | | **1,185,085** |

## 9. Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

| | Buildings | Mine development costs | Plant and equipment | Transport | Assets under construction | Other | Land | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance as of 31 December 2011 | 793,300 | 608,486 | 1,479,088 | 285,675 | 864,357 | 54,765 | 35,566 | 4,121,237 |
| Additions | – | – | – | 13,838 | 373,565 | – | – | 387,403 |
| Changes in estimates adjusted against property, plant and equipment (Note 19) | – | 35,736 | – | – | – | – | – | 35,736 |
| Transfers | 80,724 | 75,432 | 192,451 | – | (356,204) | 4,669 | 2,928 | – |
| Disposals | (6,997) | (7,739) | (39,823) | (5,391) | (8,213) | (7,826) | (329) | (76,318) |
| Impairment of fixed assets reclassified to assets held for sale (Note 30) | (5,664) | – | – | – | – | – | (25,277) | (30,941) |
| Reclassification to non-current assets held for sale | (2,004) | – | – | – | – | – | (6,319) | (8,323) |
| Write-off of fixed assets (Note 30) | (9,112) | (1,302) | (4,568) | – | – | – | – | (14,982) |
| Effect of translation to presentation currency | 48,977 | 38,952 | 92,308 | 17,351 | 52,106 | 3,218 | 1,448 | 254,360 |
| **Balance as of 31 December 2012** | **899,224** | **749,565** | **1,719,456** | **311,473** | **925,611** | **54,826** | **8,017** | **4,668,172** |
| **Accumulated Depreciation** | | | | | | | | |
| Balance as of 31 December 2011 | 143,668 | 179,767 | 532,546 | 83,258 | – | 12,262 | – | 951,501 |
| Depreciation charge | 25,878 | 42,533 | 213,797 | 22,517 | – | 3,166 | – | 307,891 |
| Disposals | (1,230) | (934) | (26,162) | (2,591) | – | (3,231) | – | (34,148) |
| Non-current assets held for sale (Note 18) | (95) | – | – | – | – | – | – | (95) |
| Write-off of fixed assets (Note 30) | (3,020) | (689) | (1,882) | – | – | – | – | (5,591) |
| Effect of translation to presentation currency | 9,137 | 11,767 | 36,383 | 5,470 | – | 729 | – | 63,486 |
| **Balance as of 31 December 2012** | **174,338** | **232,444** | **754,682** | **108,654** | **–** | **12,926** | **–** | **1,283,044** |
| **Net Book Value** | | | | | | | | |
| **Balance as of 31 December 2011** | **649,632** | **428,719** | **946,542** | **202,417** | **864,357** | **42,503** | **35,566** | **3,169,736** |
| **Balance as of 31 December 2012** | **724,886** | **517,121** | **964,774** | **202,819** | **925,611** | **41,900** | **8,017** | **3,385,128** |

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

## 9. Property, plant and equipment (continued)

| | Buildings | Mine development costs | Plant and equipment | Transport | Assets under construction | Other | Land | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance as of 31 December 2010 | 352,726 | 219,510 | 827,807 | 159,695 | 758,575 | 30,646 | 6,267 | 2,355,226 |
| Additions | – | – | – | 16,264 | 384,021 | – | – | 400,285 |
| Transfers | 37,064 | 30,048 | 282,477 | – | (353,587) | 2,832 | 1,166 | – |
| Disposals | (12,956) | (903) | (32,894) | (15,231) | (6,243) | (5,604) | (21) | (73,852) |
| Acquisitions of subsidiaries (Note 6) | 518,450 | 430,538 | 579,482 | 156,001 | 142,062 | 33,538 | 32,842 | 1,892,913 |
| Disposal of subsidiaries (Note 6) | (8,148) | – | (2,024) | (2,569) | – | – | (142) | (12,883) |
| Reclassification to non-current assets held for sale | (2,730) | – | (26,712) | (403) | – | (1,400) | – | (31,245) |
| Write-off of fixed assets (Note 30) | (9,174) | (1,966) | (12,823) | (3) | – | (19) | – | (23,985) |
| Effect of translation to presentation currency | (81,932) | (68,741) | (136,225) | (28,079) | (60,471) | (5,228) | (4,546) | (385,222) |
| **Balance as of 31 December 2011** | **793,300** | **608,486** | **1,479,088** | **285,675** | **864,357** | **54,765** | **35,566** | **4,121,237** |
| **Accumulated Depreciation** | | | | | | | | |
| Balance as of 31 December 2010 | 140,073 | 165,502 | 417,201 | 72,941 | – | 12,633 | – | 808,350 |
| Depreciation charge | 20,663 | 26,747 | 183,108 | 19,069 | – | 2,826 | – | 252,413 |
| Disposals | (3,007) | (548) | (20,668) | (3,386) | – | (2,282) | – | (29,891) |
| Reclassification to non-current assets held for sale | (92) | – | (2,547) | (44) | – | (146) | – | (2,829) |
| Write-off of fixed assets (Note 30) | (5,496) | (761) | (8,884) | (3) | – | (19) | – | (15,163) |
| Effect of translation to presentation currency | (8,473) | (11,173) | (35,664) | (5,319) | – | (750) | – | (61,379) |
| **Balance as of 31 December 2011** | **143,668** | **179,767** | **532,546** | **83,258** | **–** | **12,262** | **–** | **951,501** |
| **Net Book Value** | | | | | | | | |
| **Balance as of 31 December 2010** | **212,653** | **54,008** | **410,606** | **86,754** | **758,575** | **18,013** | **6,267** | **1,546,876** |
| **Balance as of 31 December 2011** | **649,632** | **428,719** | **946,542** | **202,417** | **864,357** | **42,503** | **35,566** | **3,169,736** |

### Fully depreciated assets still in use

As of 31 December 2012 and 31 December 2011 the gross carrying value of fully depreciated property, plant and equipment still in use was US$ 407,516 and US$ 298,977, respectively.

### Assets pledged under loan agreements

As of 31 December 2012 and 31 December 2011 the carrying value of property, plant and equipment pledged under bank loans was US$ 183,528 and US$ 87,314 (Note 21), respectively.

### Property, plant and equipment write-off

During the year ended 31 December 2012 the Group wrote off fixed assets with a gross book value and accumulated depreciation of US$ 14,982 and US$ 5,591, respectively, due to the abandonment of an ore-treatment plant and carnallite plant at Berezniki 1 (Note 19), and recognised a loss of US$ 9,391 (Note 30) in the consolidated financial statements.

During the year ended 31 December 2011 the Group wrote off fixed assets with a gross book value and accumulated depreciation of US$ 23,985 and US$ 15,163, respectively, due to the abandonment of an ore-treatment plant and carnallite plant at Berezniki 1 (Note 19), and recognised a loss of US$ 8,822 (Note 30) in the consolidated financial statements.

### Reclassification to assets held for sale

In the year ended 31 December 2012 and 31 December 2011 the Group reclassified a number of fixed assets acquired in the course of the Silvinit Group acquisition (Note 6) as non-current assets held for sale as part of its strategy to divest non-core assets.

In the year ended 31 December 2012 the Group reclassified plots of land and premises with a gross book value and accumulated depreciation of US$ 8,323 and US$ 95, respectively. Impairment in the amount of US$ 30,941 (Note 30) was recognized prior to reclassification to non-current assets held for sale for the year ended 31 December 2012 (for the year ended 31 December 2011: nil).

In the year ended 31 December 2011 the Group reclassified a titanium sponge complex with a gross book value and accumulated depreciation of US$ 31,245 and US$ 2,829, respectively. In the year ended 31 December 2012 the Group wrote-down the titanium sponge complex held for sale to fair value less costs to sell (Note 30) and then disposed the assets for the amount of US$ 8,445.

## 10. Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

| | Note | 2012 | 2011 |
|---|---|---|---|
| Gross book value at 1 January | | **1,829,694** | 12,009 |
| Accumulated impairment losses at 1 January | | **–** | – |
| **Carrying amount at 1 January** | | **1,829,694** | **12,009** |
| Acquisition of subsidiaries | 6 | **–** | 2,081,691 |
| Effect of translation to presentation currency | | **109,844** | (264,006) |
| **Carrying amount at 31 December** | | **1,939,538** | **1,829,694** |
| Gross book value at 31 December | | **1,939,538** | 1,829,694 |
| Accumulated impairment losses at 31 December | | **–** | – |
| **Carrying amount at 31 December** | | **1,939,538** | **1,829,694** |

The goodwill is primarily attributable to the expected future operational and marketing synergies arising from the acquisition of subsidiaries, which are attributable to the combined business as a whole and not to individual assets of subsidiaries. Allocation of goodwill to cash-generating unit (CGU):

| CGU allocated | Acquisition | 2012 | 2011 |
|---|---|---|---|
| Uralkali Group | Silvinit Group (Note 6) | **1,912,705** | 1,804,376 |
| Uralkali Group | CJSC SST (Note 6) | **14,783** | 13,950 |
| Uralkali Group | OJSC BBT | **12,050** | 11,368 |
| **Total carrying amount of goodwill** | | **1,939,538** | **1,829,694** |

The recoverable amount of CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates. The growth rates do not exceed the long-term average growth rate for the industry in which the Group operates.

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

| | 2012 | 2011 |
|---|---|---|
| RR/US$ exchange rate | **32** | 30 |
| Growth rate beyond five years | **3% p.a.** | 3% p.a. |
| Pre-tax discount rate | **10.6% p.a.** | 13.4% p.a. |
| Long-term inflation rate | **3% p.a.** | 3% p.a. |

The Group did not recognise any impairment of goodwill in the consolidated financial statements for the years ended 31 December 2012 and 31 December 2011.

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

## 11. Intangible assets

| | Note | Mining licences | Software | Other | Total |
|---|---|---|---|---|---|
| **Cost as of 1 January 2011** | | **783** | **17,620** | **473** | **18,876** |
| **Accumulated amortisation** | | **(75)** | **(14,142)** | **–** | **(14,217)** |
| **Carrying amount as of 1 January 2011** | | **708** | **3,478** | **473** | **4,659** |
| Additions | | – | 1,674 | – | 1,674 |
| Capitalised borrowing costs | | 67,403 | – | – | 67,403 |
| Acquisition of subsidiaries | 6 | 6,458,905 | 1,751 | – | 6,460,656 |
| Amortisation charge | 26, 28 | (128,178) | (1,860) | – | (130,038) |
| Effect of translation to presentation currency | | (811,946) | (343) | (26) | (812,315) |
| **Cost as of 31 December 2011** | | **5,703,894** | **19,774** | **447** | **5,724,115** |
| **Accumulated amortisation** | | **(117,002)** | **(15,074)** | **–** | **(132,076)** |
| **Balance as of 31 December 2011** | | **5,586,892** | **4,700** | **447** | **5,592,039** |
| Additions | | – | 5,316 | – | 5,316 |
| Capitalised borrowing costs | | 78,838 | – | | 78,838 |
| Disposals | | (84) | (703) | – | (787) |
| Amortisation charge | 26, 28 | (151,252) | (3,674) | | (154,926) |
| Disposals of accumulated depreciation | | 84 | 356 | – | 440 |
| Effect of translation to presentation currency | | 333,688 | 294 | 14 | 333,996 |
| **Cost as of 31 December 2012** | | **6,127,042** | **25,681** | **461** | **6,153,184** |
| **Accumulated amortisation** | | **(278,876)** | **(19,392)** | **–** | **(298,268)** |
| **Balance as of 31 December 2012** | | **5,848,166** | **6,289** | **461** | **5,854,916** |

The table below summarises descriptions and carrying amounts of individual material mining licences:

| Licensed plot | **31 December 2012** | 31 December 2011 |
|---|---|---|
| Solikamskiy plot (north part) | **2,211,460** | 2,192,880 |
| Solikamskiy plot (south part) | **2,088,882** | 1,997,453 |
| Novo-Solikamskiy plot | **210,551** | 211,150 |
| Polovodovskiy plot | **1,336,595** | 1,184,723 |
| **Total** | **5,847,488** | **5,586,206** |

## 12. Joint arrangement

The Company has a 50% interest in JSC Belarusian Potash Company ("BPC") – the remaining 50% is divided between Belaruskali (which owns 45%) and Belarusian Railways (which owns 5%). According to BPC's charter, all decisions on shareholders meeting could be taken only with a majority of 75%. Therefore, BPC operations are under the joint control of Belaruskali and the Company (the "Participants"). BPC's principal activity is the marketing and exporting, as an agent, potash fertilizers produced by the participants.

BPC's charter provides for separate accounting of the operations of each participant, including separate accounting for the sales of the participants' goods and the related cost of sale and distribution costs. Administrative expenses incurred by BPC are currently shared as follows: not more than 78% (year ended 31 December 2011: 69%) allocated to Belaruskali operations, and not less than 22% (year ended 31 December 2011: 31%) allocated to Group operations. The actual proportion depends on the volume of goods sold by each participant through BPC.

The distribution of net income to each participant is made on the basis of their relevant results after deducting administrative costs, unless both participants decide not to distribute. Group's operations through BPC, assets and the Group's liabilities located in BPC are included in these consolidated financial statements. The consolidated statement of income reflects the revenue from sales by BPC of Uralkali's products, together with the related costs of sales, distribution and administrative costs.

## 13. Investments in associates

The Group has the following investments in associates primarily acquired in the course of acquisition of Silvinit Group (Note 6):

| | Country of incorporation | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| OJSC Galurgiya | Russia | **46%** | 46% |
| LLC Mashinostroitelnoe predpriyatie Kurs | Russia | **–** | 30% |

The table below summarises the movements in the carrying amount of the Group's investment in associates.

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Carrying amount at 1 January** | | **12,563** | **242** |
| Share of profit of associates | | **354** | 2,871 |
| **Share of net assets of associates** | | **12,917** | **3,113** |
| Fair value of net assets of associates acquired | 6 | **–** | 25,875 |
| Associate reclassified to subsidiary | 6 | **–** | (11,926) |
| Revaluation loss at the date of acquisition | | **–** | (913) |
| Loss from disposals of associate | | **(129)** | – |
| Fair value of disposed associate | | **(642)** | – |
| Effect of translation to presentation currency | | **741** | (3,586) |
| **Carrying amount at 31 December** | | **12,887** | **12,563** |

## 14. Inventories

Inventories consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Raw materials | **115,713** | 106,247 |
| Finished products | **115,236** | 120,245 |
| Work in progress | **2,204** | 1,105 |
| Other inventories | **9,014** | 16,006 |
| **Total inventories** | **242,167** | **243,603** |

As of 31 December 2012 inventories of US$ 4,339 were pledged as security for bank loans (31 December 2011: US$ 2,353) (Note 21).

Other inventories mainly represent the residential buildings, which are constructed by SST (Note 6).

## 15. Trade and other receivables

| | 2012 | 2011 |
|---|---|---|
| Trade receivables | **420,995** | 299,729 |
| Other accounts receivable | **16,214** | 39,281 |
| Less: provision for impairment of trade and other receivables | **(9,576)** | (8,389) |
| **Total financial receivables** | **427,633** | **330,621** |
| VAT recoverable | **42,011** | 93,064 |
| Other taxes receivable | **60,166** | 16,532 |
| Advances to suppliers | **25,033** | 27,465 |
| Insurance expenses prepaid | **626** | 317 |
| Other prepayments | **5,388** | – |
| **Total trade and other receivables** | **560,857** | **467,999** |

As of 31 December 2012 trade receivables of US$ 349,509 (31 December 2011: US$ 268,640), net of provision for impairment, were denominated in foreign currencies. 93% of this balance was denominated in US$ (31 December 2011: 85%) and 7% was denominated in Euro (31 December 2011: 15%). Management believes that the fair value of accounts receivable does not differ significantly from their carrying amount.

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

### 15. Trade and other receivables (continued)

Movements of the provision for impairment of trade and other receivables were as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Trade receivables** | **Other receivables** | Trade receivables | Other receivables |
| **As of 1 January** | **(6,121)** | **(2,268)** | (3,741) | (3,117) |
| Provision accrued | **(1,833)** | **(2,927)** | (3,351) | (1,877) |
| Provision reversed | **1,126** | **2,927** | 471 | 2,600 |
| Provision written-off | **–** | **–** | 52 | 1 |
| Effect of translation to presentation currency | **(347)** | **(133)** | 448 | 125 |
| **As of 31 December** | **(7,175)** | **(2,401)** | **(6,121)** | **(2,268)** |

The accrual and reversal of the provision for impairment of receivables have been included in other operating expenses in the consolidated statement of income (Note 30). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

Analysis by credit quality of trade and other receivables is as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Trade receivables** | **Other receivables** | Trade receivables | Other receivables |
| Current and not impaired | | | | |
| Customers from developed (IMF) countries | **42,077** | **165** | 89,181 | – |
| Customers from developing (IMF) countries | **226,190** | **–** | 106,119 | – |
| Domestic customers | **3,918** | **7,606** | 56,757 | 25,994 |
| **Total current and not impaired** | **272,185** | **7,771** | **252,057** | **25,994** |
| | | | | |
| Past due but not impaired | | | | |
| less than 45 days overdue | **123,675** | **4,952** | 34,885 | 10,539 |
| 45 to 90 days overdue | **16,857** | **33** | 5,307 | – |
| over 90 days overdue | **–** | **955** | – | 281 |
| **Total past due but not impaired** | **140,532** | **5,940** | **40,192** | **10,820** |
| | | | | |
| Determined to be impaired (gross) | | | | |
| 45 to 90 days overdue | **2,206** | **198** | 2,719 | 397 |
| over 90 days overdue | **6,072** | **2,305** | 4,761 | 2,070 |
| **Total gross amount of impaired accounts receivable** | **8,278** | **2,503** | **7,480** | **2,467** |
| **Total financial receivables (gross)** | **420,995** | **16,214** | **299,729** | **39,281** |
| | | | | |
| Less impairment provision | **(7,175)** | **(2,401)** | (6,121) | (2,268) |
| **Total financial receivables** | **413,820** | **13,813** | **293,608** | **37,013** |

As of 31 December 2012 and 31 December 2011 no trade and other receivables were pledged as collateral.

### 16. Other financial assets at fair value through profit or loss

Other financial assets at fair value through profit and loss are represented by highly liquid US$ denominated corporate bonds neither past due nor impaired at 31 December 2012 and 31 December 2011.

Analysis by credit quality of other financial assets at fair value through profit and loss held at 31 December 2012 is as follows:

| Rating agency | Rating | **2012** | 2011 |
|---|---|---|---|
| Fitch Ratings | BBB- | **18,526** | 21,455 |
| Fitch Ratings | BBB | **14,535** | 13,643 |
| Fitch Ratings | BB | **–** | 6,205 |
| Moody's/Fitch Ratings | Baa1/BBB | **83,286** | 97,086 |
| Moody's | Ba2 | **–** | 28,109 |
| Moody's/Standard & Poor's | Baa3/BBB- | **17,594** | 18,005 |
| Moody's | Ba3 | **–** | 5,227 |
| **Total other financial assets at fair value through profit or loss** | | **133,941** | **189,730** |

Coupon income from corporate bonds in the amount of US$ 12,227 is included in interest income for the year ended 31 December 2012 (for the year ended 31 December 2011: US$ 14,521) (Note 31).

## 17. Cash and cash equivalents

Cash and cash equivalents comprise the following:

| | Interest rates | 2012 | 2011 |
|---|---|---|---|
| **Cash on hand and bank balances** | | | |
| RR denominated cash on hand and bank balances | nil (2011: nil) | **251,479** | 58,626 |
| US$ denominated bank balances | | **235,693** | 367,045 |
| EUR denominated bank balances | | **7,688** | 13,706 |
| Other currencies denominated balances | | **890** | 1,498 |
| **Term deposits** | | | |
| US$ term deposits | from 0.15% to 4.5 % p.a. (2011: 0.35% p.a.) | **816,165** | 21,978 |
| EUR term deposits | 0.20% (2011: nil) | **14,322** | – |
| RR term deposits | from 5.6% p.a. to 10.2% p.a. (2011: from 4.95% p.a. to 7.97% p.a.) | **60,007** | 140,995 |
| Dual currency deposits | from 3.1% to 3.54% p.a. (2011: from 3.8% to 6% p.a.) | **137,000** | 405,602 |
| **Total cash and cash equivalents** | | **1,523,244** | **1,009,450** |
| Restricted cash | | | |
| Cash restricted as collateral in accordance with interest rate swap agreement | 0.09% p.a. (2011: nil) | **3,576** | – |
| Irrevocable bank deposits with maturity from four to five months (2011: from four to five months) | from 7.8% to 8.5% p.a. (2011: from 6% to 7.67% p.a.) | **142,332** | 8,169 |
| **Total restricted cash** | | **145,908** | **8,169** |
| **Total cash and cash equivalents and restricted cash** | | **1,669,152** | **1,017,619** |

As at 31 December 2012 and 31 December 2011, term deposits, except those included in restricted cash, have various original maturities but may upon request be withdrawn without any restrictions.

At 31 December 2012, non-current restricted cash in the amount of US$ 3,576 consists of cash kept on bank accounts as collateral in accordance with interest rate swap agreement expired at 22 November 2014 (at 31 December 2011: nil).

## 18. Shareholders' equity

| | Number of ordinary shares (in millions) | Ordinary shares | Treasury shares | Total |
|---|---|---|---|---|
| At 1 January 2011 | 2,124 | 20,387 | (440) | 19,947 |
| Issue of new shares | 970 | 17,251 | – | 17,251 |
| Treasury shares purchased | – | – | (306) | (306) |
| At 1 January 2012 | 3,094 | 37,638 | (746) | 36,892 |
| Cancellation of treasury shares | (158) | (1,876) | 1,876 | – |
| Treasury shares purchased | – | – | (1,188) | (1,188) |
| **Treasury shares purchased** | **2,936** | **35,762** | **(58)** | **(35,704)** |

In May 2011 the Company issued new shares in conjunction with the statutory merger with OJSC Silvinit (Note 6) in the total amount of 970,247,905 ordinary shares with a nominal value per share of 1.778 US cents (0.5 RR).

The number of unissued authorised ordinary shares is 1,730 million (31 December 2011: 1,730 million) with a nominal value per share of 1.646 US cents (0.5 RR (31 December 2011: 1.553 US cents (0.5 RR))). All shares stated in the table above have been issued and fully paid.

In July 2012 the Group finalized its internal legal restructuring. The Company's authorized share capital decreased from 3,094,637,905 to 2,936,015,891 ordinary shares resulting from the cancellation of treasury shares owned by CJSC IK Silvinit-Resource, CJSC JV Kama, Enterpro Services Ltd. and the Company.

**Treasury shares.** Treasury shares as of 31 December 2012 comprise 3,671,000 ordinary shares of the Company were owned by Enterpro Services Ltd., a wholly owned subsidiary of the Group. Treasury shares as of 31 December 2011 comprising 24,919,729 ordinary shares of the Company owned by CJSC JV Kama, a wholly owned subsidiary of the Group, 49,521,048 ordinary shares of the Company owned by Enterpro Services Ltd., a wholly owned subsidiary of the Group, 11,453,502 ordinary shares of the Company owned by CJSC IK Silvinit-Resource, a wholly owned subsidiary of the Group.

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

### 18. Shareholders' equity (continued)

**Profit distribution.** In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves. The Company's statutory accounting reports are the basis for profit distribution and other appropriations. Russian law identifies net profit as the basis of distribution. For the year ended 31 December 2012, the current period net statutory profit for the Company, as reported in the published annual statutory reporting forms, was US$ 1,578,486 (for the year ended 31 December 2011: US$ 1,448,567) and the closing balance of the accumulated profit including the current period net statutory profit totalled US$ 1,767,316 (31 December 2011: US$ 2,466,993). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes, at present, that it would not be appropriate to disclose the amount of the distributable reserves in these consolidated financial statements.

In 2011 the Board of Directors approved a new dividend policy which allows the Company to distribute, as dividends, not less than 50% of net profit, as determined in the IFRS consolidated financial statements, at least twice a year.

**Dividends.** In December 2012 the General Meeting of Shareholders of the Company approved interim dividends amounting to US$ 449,703 (15 US cents per share).

In June 2012 the General Meeting of Shareholders of the Company approved dividends (based on the financial results for the year ended 31 December 2011) amounting to US$ 377,523 (12 US cents per share).

In December 2011 the General Meeting of Shareholders of the Company approved interim dividends amounting to US$ 397,335 (13 US cents per share).

In June 2011 the General Meeting of Shareholders of the Company approved dividends (based on the financial results for the year ended 31 December 2010) amounting to US$ 498,670 (16 US cents per share).

The total amount of dividends attributable to treasury shares has been eliminated. All dividends are declared and paid in RR.

### 19. Provisions

| | Note | Legal provision | Provision for filling cavities | Restructuring provision | Total |
|---|---|---|---|---|---|
| **Carrying amount at 1 January 2011** | | – | – | – | – |
| Additions through acquisition of subsidiaries | 6 | 60,528 | 58,812 | – | 119,340 |
| Additions charged to profit or loss | | – | 5,417 | 20,334 | 25,751 |
| Utilisation of provision | | – | (10,016) | – | (10,016) |
| Effect of translation to presentation currency | | (7,659) | (7,606) | (1,772) | (17,037) |
| **Current liabilities** | | **52,869** | **8,639** | **4,775** | **66,283** |
| **Non-current liabilities** | | **–** | **37,968** | **13,787** | **51,755** |
| **Carrying amount at 31 December 2011** | | **52,869** | **46,607** | **18,562** | **118,038** |
| **Carrying amount at 1 January 2012** | | **52,869** | **46,607** | **18,562** | **118,038** |
| Changes in estimates adjusted against property, plant and equipment | 9 | – | 35,736 | – | 35,736 |
| Reversal of provision | 30 | (54,739) | – | – | (54,739) |
| Utilisation of provision | | – | (12,442) | (4,856) | (17,298) |
| Unwinding of the present value discount and effect of changes in discount rates | 31 | – | 8,941 | 2,187 | 11,128 |
| Effect of translation to presentation currency | | 1,870 | 3,568 | 1,051 | 6,489 |
| **Current liabilities** | | **–** | **9,680** | **5,004** | **14,684** |
| **Non-current liabilities** | | **–** | **72,730** | **11,940** | **84,670** |
| **Carrying amount at 31 December 2012** | | **–** | **82,410** | **16,944** | **99,354** |

**Legal provision.** In January 2011 A.G. Lomakin filed a claim in the Perm Territory Arbitrage (Commercial) Court against OJSC Silvinit and CJSC Komputersher Registrator (a company that kept the share register of OJSC Silvinit) seeking compensation of damages in the amount of US$ 60,528. A.G. Lomakin claimed that shares of OJSC Silvinit belonging to him were unlawfully transferred from his account in the register without his consent. After the merger the Company became OJSC Silvinit's legal successor. The Perm Territory Arbitrage (Commercial) Court sustained the claim of A.G. Lomakin and recovered the damages jointly from the Company and CJSC Komputersher Registrator in the amount of US$ 60,528. The court of appellate and cassation instances upheld the decision of the Perm Territory Arbitrage (Commercial) Court. In April 2012 the claimed amount was paid to A.G. Lomakin by CJSC Komputersher Registrator. The provision was reversed in the consolidated financial statements for the year ended 31 December 2012.

## 19. Provisions (continued)

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

A technical program for mining operations was agreed with the local State mine supervisory body in 1997-1998. Based on this framework program, the Group prepares annual mining plans and agrees them with the local state mine supervisory body.

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

During the year ended 31 December 2012 the Group reassessed the estimate of provision for filling cavities due to changes in volume of cavities to be filled. Therefore, the amount of provision for filling cavities was recalculated and the appropriate changes were disclosed as a change in estimates.

**Restructuring provision.** In 2011 the Board of Directors decided to abandon the ore-treatment plant and carnallite plant at Berezniki 1. The decision to abandon the plants was driven by the lack of the raw materials base due to the flooding of Mine 1. This allowed the Company to reduce operational costs. The Company ceased production at the plants at the end of 2011 and commenced dismantling them. The dismantling is expected to be completed in 2018.

## 20. Mine flooding

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Balance at 1 January** | 5 | **31,060** | **32,811** |
| Accrual of provision for compensation | 32 | **–** | 16,979 |
| Utilisation of provision | | **–** | (17,551) |
| Effect of translation to presentation currency | | **1,864** | (1,179) |
| **Balance at 31 December** | 5 | **32,924** | **31,060** |

## 21. Borrowings

| | 2012 | 2011 |
|---|---|---|
| Bank loans | **3,925,691** | 3,282,071 |
| Long-term company loans | **–** | 1,449 |
| Finance lease payable | **16,655** | 15,730 |
| Total borrowings | **3,942,346** | **3,299,250** |

As of 31 December 2012 and 31 December 2011 the fair value of the current and non-current borrowings is not materially different from their carrying amounts.

The Group does not apply hedge accounting. The Group entered into cross-currency interest rate swap agreements in order to decrease interest rate payments (Note 23).

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Balance at 1 January** | | **3,282,071** | **369,230** |
| Bank loans received, denominated in US$ | | **560,000** | 1,425,000 |
| Bank loans received, denominated in RR | | **495,329** | 1,709,676 |
| Bank loans repaid, denominated in US$ | | **(143,138)** | (1,438,272) |
| Bank loans repaid, denominated in RR | | **(378,461)** | (5,627) |
| Interest accrued | | **218,564** | 104,919 |
| Interest paid | | **(215,183)** | (97,063) |
| Acquisition of subsidiaries | 6 | **–** | (39,319) |
| Recognition of syndication fees and other financial charges | | **(13,873)** | 1,328,594 |
| Amortisation of syndication fees and other financial charges | 31 | **21,179** | 4,619 |
| Capitalisation of syndication fees | | **–** | 16,703 |
| Foreign exchange gain/(loss), net | | **(120,235)** | 237,798 |
| Effect of translation to presentation currency | | **219,438** | (334,187) |
| **Balance at 31 December** | | **3,925,691** | **3,282,071** |

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

## 21. Borrowings (continued)

The table below provides interest rates as of 31 December 2012 and 31 December 2011 and the split of the bank loans into short-term and long-term.

| Short-term borrowings | Interest rates | 2012 | 2011 |
|---|---|---|---|
| Bank loans in US$: floating interest | From 1 month Libor +1.8 to 1 month Libor +2.95% (31 December 2011: from 1 month Libor +1.8% to 1 month Libor +3.5%) | **457,741** | 92,838 |
| Bank loans in US$: fixed interest | From 1.45% to 1.5% (31 December 2011: nil) | **130,104** | – |
| Bank loans in RR: floating interest | From MosPrime Rate 3M+1.5% to MosPrime Rate 3M+1.9% (31 December 2011: from MosPrime 3M+1.5% to MosPrime 3M+1.9%) | **123,562** | 178,619 |
| Bank loans in RR: fixed interest | From 8.05% to 11.5% (31 December 2011: from 7.3% to 10.0%) | **410,668** | 10,638 |
| **Total short-term bank loans** | | **1,122,075** | **282,095** |

| Long-term borrowings | Interest rates | 2012 | 2011 |
|---|---|---|---|
| Bank loans in US$: floating interest | From 1 month Libor +1.8% to 1 month Libor +3.1% (31 December 2011: from 1 month Libor +1.8% to 1 month Libor +3.5%) | **1,505,877** | 1,584,113 |
| Bank loans in RR: floating interest | MosPrime 3M +1.5% (31 December 2011: from MosPrime 3M +1.5% to MosPrime 3M +1.9%) | **270,928** | 370,177 |
| Bank loans in RR: fixed interest | 9.05% (31 December 2011: from 7.3% to 10.0%) | **1,026,811** | 1,045,686 |
| Total long-term bank loans | | **2,803,616** | **2,999,976** |

As of 31 December 2012 and 31 December 2011, loans (including short-term borrowings) were guaranteed by collateral of property, plant and equipment (Note 9) and other inventories (Note 14).

Bank loans of US$ 2,674,981 (31 December 2011: US$ 1,676,950) were collateralised by future sales proceeds of the Group, under export contracts with certain customers acceptable to the banks.

The Group's bank borrowings mature as follows:

| | 2012 | 2011 |
|---|---|---|
| – within 1 year | **1,122,075** | 282,095 |
| – between 2 and 5 years | **2,803,616** | 2,999,976 |
| **Total bank loans** | **3,925,691** | **3,282,071** |

In December 2009, OJSC BBT entered into a new financial lease agreement with Federal State Unitary Enterprise Rosmorport ("FSUE Rosmorport") for 49 years. Under this agreement, BBT has leased berth No. 106 and renegotiated the lease terms for berth No. 107. As of 31 December 2012, the leased berths were included in property, plant and equipment with a net book value of US$ 14,651 (31 December 2011: US$ 17,307).

Minimum lease payments under finance leases and their present values are as follows:

| | 2012 | 2011 |
|---|---|---|
| – within 1 year | **1,613** | 1,522 |
| – between 2 and 5 years | **6,453** | 6,090 |
| – after 5 years | **66,178** | 63,945 |
| **Minimum lease payments at the end of the year** | **74,244** | **71,557** |
| Less future finance charges | **(57,589)** | (55,827) |
| **Present value of minimum lease payments** | **16,655** | **15,730** |

## 22. Bonds issued

In February 2011, the Group issued US$ 1.03 billion 3-year RR-denominated bonds (approx. RR 30 billion) with an annual coupon of 8.25% for the purpose of financing the acquisition of the 20% stake in Silvinit Group (Note 6). Simultaneously with the exchange-traded bond placement, the Company entered into a cross-currency interest rate swap transaction, converting its RR-denominated bond obligations into US$ (Note 23).

On 22 August 2011, the Company bought back all previously issued bonds for US$ 1.06 billion (approx. RR 30.9 billion), which equalled 103% of their nominal value.

Following the bond buyback, the cross-currency interest rate swap transaction was also terminated (Note 23).

## 23. Derivative financial assets and liabilities

At 31 December 2012, the derivative financial assets and liabilities were represented by the cross-currency interest rate swaps, entered in conjunction with RR-denominated loans in notional amount US$ 2,209,451 (31 December 2011: US$ 1,605,120):

| | 2012 | 2011 |
|---|---|---|
| **Assets** | | |
| Current | **1,181** | – |
| Non-current | **27,590** | – |
| **Liabilities** | | |
| Current | **17,560** | 21,501 |
| Non-current | **13,906** | 75,981 |
| **Net derivative liabilities** | **2,695** | **97,482** |

The Group pays US$ at fixed rates varying from 2.85% to 4.00% (for the year ended 31 December 2011: 2.20% to 5.07%) and receives RR at rates varying from 8.05% to 9.31% (for the year ended 31 December 2011: 7.30% to 9.12%). Maturity of the swaps is linked to loans redemption.

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

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Opening balance as at 1 January** | | **97,482** | – |
| Cash proceeds from derivatives | 31 | **93,714** | 35,733 |
| Cash paid for derivatives | | **(18,613)** | (43,826) |
| Changes in the fair value | 31 | **(173,067)** | 114,338 |
| Effect of translation to presentation currency | | **3,179** | (8,763) |
| **Closing balance as at 31 December** | | **2,695** | **97,482** |

## 24. Trade and other payables

| | 2012 | 2011 |
|---|---|---|
| Trade payables | **66,984** | 66,622 |
| Accrued liabilities | **15,069** | 10,046 |
| Dividends payable | **84,056** | 135,153 |
| Other payables | **18,751** | 18,007 |
| **Total financial payables** | **184,860** | **229,828** |
| Accrued liabilities | **35,805** | 22,648 |
| Advances received | **13,513** | 11,530 |
| Deferred consideration for acquisition of subsidiary | **4,576** | 4,317 |
| Other payables | **27,693** | 24,572 |
| **Total trade and other payables** | **266,447** | **292,895** |

## 25. Revenues

| | 2012 | 2011 |
|---|---|---|
| **Export** | | |
| Potassium chloride | **2,210,088** | 2,186,959 |
| Potassium chloride (granular) | **1,090,328** | 894,768 |
| **Domestic** | | |
| Potassium chloride | **528,494** | 322,851 |
| Other | **60,972** | 37,640 |
| **Transportation and other revenues** | **59,911** | 53,671 |
| **Total revenues** | **3,949,793** | 3,495,889 |

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

## 26. Cost of sales

| | Note | 2012 | 2011 |
|---|---|---|---|
| Depreciation | | **263,700** | 219,083 |
| Labour costs | 29 | **219,454** | 180,508 |
| Amortisation of licences | 11 | **151,252** | 128,178 |
| Materials and components used | | **144,732** | 115,610 |
| Fuel and energy | | **130,701** | 126,177 |
| Repairs and maintenance | | **59,906** | 65,098 |
| Transportation between mines by railway | | **10,462** | 11,493 |
| Change in work in progress, finished goods and goods in transit | | **4,918** | (24,327) |
| Utilities | | **822** | 808 |
| Cost of finished goods acquired in a business combination | 6 | **–** | 67,515 |
| Change in provision for filling cavities | | **–** | (5,417) |
| Other costs | | **4,852** | 3,472 |
| **Total cost of sales** | | **990,799** | **888,198** |

Costs of finished goods acquired in business combination represent the fair value finished goods received in a business combination (Note 6) and sold during the year ended 31 December 2011.

## 27. Distribution costs

| | Note | 2012 | 2011 |
|---|---|---|---|
| Railway tariff | | **330,849** | 298,908 |
| Freight | | **241,014** | 196,950 |
| Transport repairs and maintenance | | **54,320** | 35,806 |
| Transshipment | | **34,552** | 31,841 |
| Commissions | | **23,898** | 7,626 |
| Depreciation | | **16,688** | 12,740 |
| Labour costs | 29 | **16,324** | 9,267 |
| Customs fees | | **1,738** | 3,977 |
| Travel expenses | | **1,351** | 841 |
| Other costs | | **49,930** | 33,050 |
| **Total distribution costs** | | **770,664** | **631,006** |

## 28. General and administrative expenses

| | Note | 2012 | 2011 |
|---|---|---|---|
| Labour costs | 29 | **112,266** | 107,223 |
| Consulting, audit and legal services | | **18,721** | 28,146 |
| Security | | **10,954** | 8,407 |
| Materials and fuel | | **9,520** | 6,899 |
| Depreciation | | **9,164** | 10,660 |
| Mine-rescue crew | | **8,106** | 6,646 |
| Insurance | | **5,264** | 6,373 |
| Repairs and maintenance | | **4,937** | 7,790 |
| Amortisation of intangible assets | 11 | **3,674** | 1,860 |
| Communication and information system services | | **3,610** | 2,478 |
| Travel expenses | | **3,591** | 3,866 |
| Bank charges | | **1,949** | 1,864 |
| Other expenses | | **39,619** | 27,275 |
| **Total general and administrative expenses** | | **231,375** | **219,487** |

## 29. Labour costs

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Labour costs – Cost of sales** | 26 | **219,454** | **180,508** |
| Wages, salaries, bonuses and other compensations | | **164,242** | 134,113 |
| Contribution to social funds | | **42,721** | 40,165 |
| Post employment benefits | 34 | **12,491** | 6,230 |
| **Labour costs – Distribution costs** | 27 | **16,324** | **9,267** |
| Wages, salaries, bonuses, other compensations and contribution to social funds | | **16,324** | 9,267 |
| **Labour costs – General and administrative expenses** | 28 | **112,266** | **107,223** |
| Wages, salaries, bonuses and other compensations | | **87,524** | 94,145 |
| Contribution to social funds | | **21,719** | 11,067 |
| Post employment benefits | 34 | **3,023** | 2,011 |
| **Total labour costs** | | **348,044** | **296,998** |

## 30. Other operating income and expenses

| | Note | 2012 | 2011 |
|---|---|---|---|
| Impairment of fixed assets reclassified to non-current assets held for sale | 9 | **30,941** | – |
| Net loss on disposals of property, plant and equipment | | **22,543** | 8,250 |
| Social cost and charity | | **20,234** | 16,943 |
| Write-down of non-current assets held for sale to fair value less costs to sell | 9 | **19,971** | – |
| Litigation settlements | 36 | **12,750** | – |
| Property, plant and equipment write-off | 9 | **9,391** | 8,822 |
| Accrual of provision for impairment of receivables | 15 | **2,115** | 2,157 |
| Loss/(gain) on sale of other goods and services | | **189** | (499) |
| Reversal of legal provision | 19 | **(54,739)** | – |
| Restructuring provision | 19 | **–** | 20,334 |
| Loss on disposal of subsidiaries | 6 | **–** | 4,344 |
| Gain on sale of Silvinit goods | | **–** | (656) |
| Income from assignment of accounts receivable and loans issued | | **–** | (16,077) |
| Other expenses/(income), net | | **2,679** | (5,678) |
| **Total other operating income and expenses** | | **66,074** | **37,940** |

The Group entered into a sales agreement with BPC to process the sales of Belaruskali goods through Uralkali Trading SA in 2012 and 2011 to overcome certain drawbacks of Belarussian export legislation. Gain in the amount of US$ 243 was recognized for the year ended 31 December 2012 (for the year ended 31 December 2011: gain in the amount of US$ 499).

The Group entered into a sales agreement with Silvinit Group to process the sales through BPC in 2011 prior to the acquisition of Silvinit Group. Gain in amount of US$ 656 was recognized for the year ended 31 December 2011.

Income from assignment of accounts receivable and loans issued represents income from the sale of accounts receivable and loans issued which were acquired in the course of acquisition of Silvinit Group (Note 6).

## 31. Finance income and expense

The components of finance income and expense were as follows:

| | Note | 2012 | 2011 |
|---|---|---|---|
| Fair value gain on derivative financial assets and liabilities | 23 | **79,353** | – |
| Interest income | | **70,244** | 32,042 |
| Foreign exchange income | | **16,624** | – |
| Dividend income | | **659** | 295 |
| Fair value gain on investments | | **–** | 11,961 |
| Other financial income | | **–** | 4,470 |
| **Finance income** | | **166,880** | **48,768** |

| | | 2012 | 2011 |
|---|---|---|---|
| Interest expense | | **26,240** | 49,671 |
| Syndication fee and other financial charges | 21 | **21,179** | 4,619 |
| Unwinding of the present value discount and effect of changes in discount rates | 19 | **11,128** | – |
| Letters of credit fees | | **9,622** | 2,608 |
| Fair value losses on investments | | **9,061** | – |
| Finance lease expense | | **1,558** | 1,650 |
| Foreign exchange loss | | **–** | 135,862 |
| Fair value loss on derivative financial assets and liabilities | 23 | **–** | 150,071 |
| Loss on early redemption of bonds | 22 | **–** | 31,172 |
| **Finance expenses** | | **78,788** | **375,653** |

The interest expense was reduced by the income received from currency-interest rate swap transactions in the total amount of US$ 93,714 (for the year ended 31 December 2011: US$ 35,733) (Note 23).

Coupon income from corporate bonds classified as other financial assets at fair value through profit or loss in the amount of US$ 12,227 is included in interest income (for the year ended 31 December 2011: US$ 14,521).

Interest expense in the total amount of US$ 98,612 was capitalised in the cost of property, plant and equipment and intangible assets for the year ended 31 December 2012 (for the year ended 31 December 2011: US$ 77,458). The capitalisation rate was 6.20% (for the year ended 31 December 2011: 5.93%).

Foreign exchange income includes the loss on conversion of dual currency deposits in amount of US$ 21,100 (for the year ended 31 December 2011: US$ 979).

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

## 32. Mine flooding costs

Mine flooding costs relate to flooding at Mine 1 (Note 5, 20):

| | Note | 2012 | 2011 |
|---|---|---|---|
| Monitoring costs | | 3,534 | 2,582 |
| Filling of sinkhole | | – | 6,883 |
| Change in provision for compensations | 20 | – | 16,979 |
| **Total mine flooding costs** | | **3,534** | **26,444** |

## 33. Income tax expense

| | 2012 | 2011 |
|---|---|---|
| Current income tax expense | 8,806 | 299,591 |
| Adjustments recognised in the period for current income tax of prior periods | – | (54,323) |
| Deferred income tax | 330,990 | (93,008) |
| **Income tax expense** | **339,796** | **152,260** |

In 2011 the Group deducted mine flooding costs recognized in 2008 financial statements as adjustments recognised in the period for prior year current income tax in amount of US$ 54,323.

In 2012 the Group utilized deferred tax assets in respect of tax losses carried forward in the amount of US$ 299,394. The amount mainly related to the mining licence for Polovodovskiy plot acquired in the course of Silvinit Group business combination. The tax losses were recognized at OJSC Kamskaya Gornaya Kompania ("KGK"), wholly owned subsidiary of the Group till July 2012, and were utilized by the Company after internal legal restructuring.

Income before taxation and non-controlling interests for financial reporting purposes is reconciled to tax expense as follows:

| | 2012 | 2011 |
|---|---|---|
| **Profit before income tax** | **1,936,407** | **1,337,345** |
| Theoretical tax charge at statutory rate of 15.5% (2011: 15.5%) | 300,143 | 207,288 |
| Tax effect of items which are not deductible or assessable for taxation purposes | 29,912 | 7,504 |
| Effect of different tax rates in countries in which the Group operates | 2,870 | (27,244) |
| Adjustments recognised in the period for current income tax of prior periods | – | (54,323) |
| Deferred tax recognised on prior period adjustments to current income tax | – | 15,033 |
| Other | 6,871 | 4,002 |
| **Consolidated tax charge** | **339,796** | **152,260** |

In 2012 and 2011 most companies of the Group were registered in the Russian Federation, Perm region and were taxed at the rate of 15.5% on taxable profits. In 2012 and 2011, foreign operations were taxed applying respective national income tax rates.

The tax effect of the movements in the temporary differences for the year ended 31 December 2012 is following:

| | 31 December 2011 | (Charged)/ credited to profit or loss | Effect on translation to presentation currency | 31 December 2012 |
|---|---|---|---|---|
| **Tax effects of taxable and deductable temporary differences:** | | | | |
| Property, plant and equipment | (188,413) | 3,642 | (11,223) | (195,994) |
| Intangible assets | (866,028) | 10,318 | (51,746) | (907,456) |
| Inventories | 26,388 | (16,026) | 1,205 | 11,567 |
| Borrowings | (1,319) | 1,526 | (42) | 165 |
| Accounts receivable | 14,487 | (12,791) | 570 | 2,266 |
| Derivative financial assets and liabilities | 15,110 | (15,487) | 536 | 159 |
| Accounts payable | 6,689 | (2,160) | 350 | 4,879 |
| Tax loss carry forward | 304,317 | (299,394) | 11,169 | 16,092 |
| Provision for filling cavities | 9,535 | 2,604 | 634 | 12,773 |
| Other | 2,289 | (3,222) | 61 | (872) |
| **Net deferred tax liability** | **(676,945)** | **(330,990)** | **(48,486)** | **(1,056,421)** |
| **Reflected in the consolidated statement of financial position as follows:** | | | | |
| Deferred income tax asset | 39,289 | | | 23,465 |
| Deferred income tax liability | (716,234) | | | (1,079,886) |
| **Deferred income tax liability, net** | **(676,945)** | | | **(1,056,421)** |

## 33. Income tax expense (continued)

The tax effect of the movements in the temporary differences for the year ended 31 December 2011 is following:

| | 31 December 2010 | Business combination (Note 6) | (Charged)/ credited to profit or loss | Effect on translation to presentation currency | 31 December 2011 |
|---|---|---|---|---|---|
| **Tax effects of taxable and deductable temporary differences:** | | | | | |
| Property, plant and equipment | (18,211) | (179,068) | (16,212) | 25,078 | (188,413) |
| Intangible assets | – | (1,000,962) | 9,062 | 125,872 | (866,028) |
| Inventories | (1,805) | (7,356) | 38,984 | (3,435) | 26,388 |
| Borrowings | 2,625 | – | (4,895) | 951 | (1,319) |
| Accounts receivable | 230 | 2,909 | 13,814 | (2,466) | 14,487 |
| Derivative financial assets and liabilities | – | – | 16,554 | (1,444) | 15,110 |
| Accounts payable | 1,673 | 1,626 | 2,963 | 427 | 6,689 |
| Tax loss carry forward | 2,789 | 314,810 | 29,262 | (42,544) | 304,317 |
| Provision for filling cavities | – | 9,383 | 1,467 | (1,315) | 9,535 |
| Other | (65) | 1,369 | 2,009 | (1,024) | 2,289 |
| **Net deferred tax liability** | **(12,764)** | **(857,289)** | **93,008** | **100,100** | **(676,945)** |
| **Reflected in the statement of financial position as follows:** | | | | | |
| Deferred income tax asset | 8,465 | | | | 39,289 |
| Deferred income tax liability | (21,229) | | | | (716,234) |
| **Deferred income tax liability, net** | **(12,764)** | | | | **(676,945)** |

The tax effects on intangible assets mainly relates to the fair value of the licenses acquired in the course of Silvinit Group acquisition (Note 6), which are amortized on a unit of production method (Note 11).

The Group has not recognised a deferred income tax assets and liability in respect of temporary differences associated with investments in subsidiaries in the amount of US$ 439,562 (31 December 2011: US$ 240,425). The Group controls the timing of the reversal of these temporary differences and does not expect their reversal in the foreseeable future.

## 34. Post employment benefits obligations

In addition to statutory pension benefits, the Group also has several post-employment benefit plans, which cover most of its employees.

The Company provides financial support of a defined benefit nature to its pensioners. The plans provide for the payment of retirement benefits starting from the statutory retirement age, which is currently 55 for women and 60 for men. The amount of the benefit depends on a number of parameters, including the length of service in the Company at retirement. The benefits do not vest until, and are subject to, the employee retiring from the Company on or after the above ages. This plan was introduced in the Collective Bargaining Agreement concluded in 2007. The Company further provides other long-term employee benefits such as lump-sum payments upon death of its current employees and pensioners and a lump-sum payment upon retirement of a defined benefit nature.

As of 31 December 2012 and 31 December 2011 the net liabilities of the defined benefit plan and other post-employment benefit plans comprised the following:

| | 2012 | 2011 |
|---|---|---|
| **Present value of defined benefit obligations** | **38,107** | 23,944 |
| Present value of obligations | **38,107** | 23,944 |
| Unrecognised past service cost | **(298)** | (494) |
| **Post employment benefits obligations, unfunded** | **37,809** | 23,450 |

The amount of net expense for the defined benefit pension plans recognised in the consolidated statement of income (Note 29) was as follows:

| | 2012 | 2011 |
|---|---|---|
| Current service cost | **2,706** | 1,630 |
| Interest cost | **1,749** | 863 |
| Net actuarial losses recognised during the year | **4,925** | 5,369 |
| Amortisation of past service cost | **220** | 379 |
| Immediate of vested period service cost | **5,914** | – |
| **Post employment benefits** | **15,514** | **8,241** |

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

### 34. Post employment benefits obligations (continued)

The movements in the liability for post-employment benefit plans were as follows:

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Present value of defined benefit obligations as of 1 January** | | **23,944** | **11,583** |
| Service cost | | **2,706** | 1,630 |
| Interest cost | | **1,749** | 863 |
| Actuarial loss | | **4,925** | 5,369 |
| Liabilities assumed in a business combination | 6 | **–** | 12,486 |
| Past service cost | | **5,914** | (1,506) |
| Benefits paid | | **(2,863)** | (4,085) |
| Effect of translation to presentation currency | | **1,732** | (2,396) |
| **Present value of defined benefit obligations as of 31 December** | | **38,107** | **23,944** |

As of 31 December 2012 and 2011, respectively, the principal actuarial assumptions for the post-employment benefit plans were as follows:

| | 2012 | 2011 |
|---|---|---|
| Discount rate | **7.10%** | 8.30% |
| Salary increase | **6.00%** | 7.71% |
| Inflation | **5.60%** | 5.60% |
| Benefits increase (fixed-amount) | **5.60%** | 5.60% |
| Mortality tables | **Russia (1986-87)** | Russia (1986-87) |

Net deficit on the post-employment benefit plans and the number of experience adjustments were as follows:

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Present value of defined benefit obligations (DBO) | **38,107** | 23,944 | 11,583 | 10,812 | 12,287 |
| **Deficit in plan** | **38,107** | **23,944** | **11,583** | **10,812** | **12,287** |
| Losses arising of experience adjustments on plan liabilities | **4,672** | 7,071 | 856 | (1,554) | (749) |

### 35. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares (Note 18). The Company has no dilutive potential ordinary shares: therefore, the diluted earnings per share equal the basic earnings per share.

| | 2012 | 2011 |
|---|---|---|
| Net profit attributable to owners of the Company | **1,600,807** | 1,184,032 |
| Weighted average number of ordinary shares in issue (millions) | **2,964** | 2,698 |
| **Earnings per share (expressed in US cents per share)** | **54.01** | **43.88** |

### 36. Contingencies, commitments and operating risks

#### (i) Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, the management is of the opinion that there are no current legal proceedings or other claims outstanding that could have a material effect on the results of operations or financial position of the Group which have not been accrued or disclosed in these consolidated financial statements.

Between September and November 2008, a number of purported class action lawsuits were filed in US federal district courts in Minnesota and Illinois. Class actions are civil lawsuits typically filed by a plaintiff seeking monetary damages on behalf of the named plaintiff and all others who are similarly situated. The plaintiffs in the suits filed in Minnesota and Illinois are various corporations and individuals who have filed the suits purportedly on behalf of all direct and indirect purchasers of potash from one of the defendants in the United States. The complaint alleges price fixing violations of the US Sherman Act since 1 July 2003. The Company and BPC (Note 12) were listed among the defendants, as well as certain other potash producers. The plaintiffs in the suits have not claimed any specific amount in damages, and it is premature at this time to assess the Group's potential exposure to the plaintiffs' claims.

On 20 September 2012 the Company signed settlement agreements to exit the US antitrust case. The agreements were signed with direct and indirect plaintiffs for US$ 10,000 and US$ 2,750 respectively and shall come into effect after final approval of the US federal district court for the Northern District of Illinois. Under the settlement agreements, the Company would be released from any liability in connection with the plaintiffs' claims. BPC as a defendant would be also released as well as another Company's trader – Uralkali Trading SA. The Company did not admit any liability in the settlement agreements. The Company believe that these settlements are in the best interest of the Company to avoid the burdens, costs and distraction of protracted litigation.

In February 2011 OJSC Acron and several other Silvinit's minority shareholders filed a claim against the Company and Silvinit in the Perm Territory Arbitrage (Commercial) Court seeking to invalidate decisions of the Board of Directors and Extraordinary General Shareholders Meeting of Silvinit held on 4 February 2011, and the merger agreement entered into by the Company and Silvinit. The Group successfully defended its position in the Perm Territory Arbitrage (Commercial) Court, the courts of appellate and cassation instances and the Higher Arbitrage Court. Based on this management believes that the claim has no merit.

## 36. Contingencies, commitments and operating risks (continued)

Therefore, the existing court decisions regarding OJSC Acron and several other minority shareholders' claims confirmed that Uralkali and Silvinit merger was completed without violation of shareholders' rights, and that such claims have no merit.

### (ii) Tax legislation

Russian tax, currency and customs law are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such laws as applied to the Group's transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated. However, if challenged, it may be significant to the financial position and/or the overall operations of the Group.

The Group's management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency legislation and customs positions will be sustained. Accordingly, as of 31 December 2012 and 31 December 2011, no provision for potential tax liabilities had been recorded. Management will continue to monitor the situation as legislation and practice evolve in the jurisdictions in which the Group operates.

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of US$ 4,445 (31 December 2011: US$ 4,193). These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in these financial statements if these are challenged by the authorities.

### (iii) Insurance policies

The Company generally enters into insurance agreements when it is required by statutory legislation. The insurance agreements do not cover the risks of damage to third parties' property resulting from the Group's underground activities and the risks reflected in Note 5.

### (iv) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage due to legal requirements except for those mentioned in Note 5. The Company's mining activities and the recent mine flooding may cause subsidence that may affect the Company's facilities, and those of the cities of Berezniki and Solikamsk, state organisations and others.

### (v) Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject varying interpretation.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period (Note 10). The future economic and regulatory situation may differ from management's current expectations.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

### 36. Contingencies, commitments and operating risks (continued)

#### (vi) Capital expenditure commitments

As of 31 December 2012 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for US$ 379,576 (31 December 2011: US$ 88,195). As of 31 December 2012, the Group had contractual commitments for the purchase of property, plant and equipment from related parties for US$ 47,711 (31 December 2011: US$ 18,815).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar such commitments.

#### (vii) Operating lease commitments

As of 31 December 2012 the Group leased property, plant and equipment. The future minimum lease payments under non-cancellable operating leases are as follows:

| | 2012 | 2011 |
|---|---|---|
| Not later than 1 year | **3,698** | 2,058 |
| Later than 1 year and not later than 5 years | **18,490** | 10,289 |
| Later than 5 years | **65,494** | 5,144 |
| **Total operating lease commitments** | **87,682** | **17,491** |

### 37. Financial risk management

#### 37.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Overall risk management procedures adopted by the Group focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is different from the functional currency of the companies of the Group.

The Group operates internationally and exports approximately 78% of potash fertilizers produced. As a result the Group is exposed to foreign exchange risk arising from various currency exposures. Export sales are primarily denominated in US$ or Euro. The Group maintains a balance between US$ and Euro sales in order to mitigate the risk of US$/Euro exchange rate fluctuations. The Company is exposed to the risk of RR/US$ and RR/Euro exchange rates fluctuations. The Group benefits from the weak exchange rate of the RR against the US$ and Euro, since all the Group major expenses are denominated in RR.

As of 31 December 2012, if the RR had weakened/strengthened by 10% against the US$ and Euro with all other variables held constant, the post-tax profit for the year would have been US$ 230,426 lower/higher (31 December 2011: US$ 173,096 lower/higher), mainly as a result of foreign exchange gains/losses on the translation of US$ and Euro denominated trade receivables, cash in bank, deposits, foreign exchange losses/gains on the translation of US$ denominated borrowings and changes of fair value of derivative financial assets and liabilities.

(ii) Price risk

The Group is not exposed to commodity price risk, since the Group does not enter in any operations with financial instruments whose value is exposed to the value of commodities traded on the public market.

(iii) Interest rate risk

The Group's income and operating cash flows are exposed to market interest rates changes. The Group is exposed to fair value interest rate risk through market value fluctuations of interest bearing short- and long-term borrowings, whose interest rates comprise a fixed component. Borrowings issued at variable rates expose the Group to cash flow interest rate risk (Note 21). The Group has interest-bearing assets which are at fixed interest rates (Note 16).

The objective of managing interest rate risk is to prevent losses due to adverse changes in market interest rate level. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, the renewal of existing positions and alternative financing.

For the year ended 31 December 2012, if LIBOR rates on US$ and MosPrime rates on RR denominated borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been US$ 14,968 (year ended 31 December 2011: US$ 7,216) and US$ 4,184 (year ended 31 December 2011: US$ 1,717) lower/higher respectively, mainly as a result of higher/lower interest expense on floating rate borrowings and changes of fair value of derivative financial assets and liabilities with floating rates terms.

## 37. Financial risk management (continued)

### (b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. The objective of managing credit risk is to prevent losses of liquid funds deposited or invested in such counterparties. Financial assets, which potentially subject Group entities to credit risk, consist primarily of trade receivables, other financial assets at fair value through profit or loss, derivative financial assets, cash and bank deposits. The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets – US$ 2,266,717 (31 December 2011: US$ 1,543,559).

The Group is exposed to concentrations of credit risk. As of 31 December 2012 the Group had twenty seven counterparties (31 December 2011: eighteen counterparties) with aggregated receivables balances above US$ 3,292. The total aggregate amount of these balances was US$ 427,712 (31 December 2011: US$ 294,675) or 98% of the gross amount of financial trade and other receivables (31 December 2011: 87%). Cash and short-term deposits are placed in banks and financial institutions, which are considered at the time of deposit to have minimal risk of default. The Group has no other significant concentrations of credit risk.

Trade receivables are subject to a policy of active credit risk management which focuses on an assessment of ongoing credit evaluation and account monitoring procedures. The objective of the management of trade receivables is to sustain the growth and profitability of the Group by optimising asset utilisation while at the same time maintaining risk at an acceptable level.

The effective monitoring and controlling of credit risk is performed by the Group's corporate treasury function. The credit quality of each new customer is analysed before the Group enters into contractual agreements. The credit quality of customers is assessed taking into account their financial position, past experience, country of origin and other factors. The management believes that the country of origin is one of the major factors affecting a customer's credit quality and makes a corresponding analysis (Note 15). Most customers from developing countries are supplied on secured payment terms. These terms include deliveries against opened letters of credit and arrangements with banks on non-recourse discounting of promissory notes received from customers. Only customers from developed countries with a high reputation are supplied on a credit basis.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 15).

The table below shows the credit quality of cash, cash equivalents and letters of credit balances neither past due nor impaired on the reporting date, based on the credit ratings of independent agencies (for the cash balances held on accounts in Russia the locally tailored ratings are used) as of 31 December 2012 and 2011, if otherwise not stated in table below:

| Rating | 2012 | 2011 |
|---|---|---|
| **Moody's** | | |
| A2 | **16,983** | 287,141 |
| Aaa.ru | **522,289** | 216,397 |
| Aa3 | **248,243** | 171,466 |
| Baa2.ru | **146,956** | 40,192 |
| A3 | **48,547** | 22,516 |
| A1 | **2,744** | 12,026 |
| Aa1 | **–** | 1,389 |
| Baa3.ru | **227,098** | – |
| B2 | **175,000** | – |
| **Standard&Poor's** | | |
| B+ | **–** | 236,006 |
| C | **–** | 3,152 |
| A | **678** | – |
| ruAAA | **10,554** | – |
| BBB- | **95,515** | – |
| **Fitch** | | |
| B- | **7,952** | – |
| B | **100,000** | – |
| Unrated* | **66,593** | 37,763 |
| **Total cash not past due nor impaired** | **1,669,152** | **1,028,048** |

[1] Unrated balance contains cash on hand and other cash equivalents.

# Notes to the Consolidated Financial Statements (continued)

**For the year ended 31 December 2012 (in thousands of US dollars, unless otherwise stated)**

### 37. Financial risk management (continued)

(c) Liquidity risk

In accordance with prudent liquidity risk management, the management of the Group aims to maintain sufficient cash in order to meet its obligations. Group treasury aims to maintain sufficient level of liquidity based on monthly cash flow budgets, which are prepared for the year ahead and continuously updated during the year.

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the time remaining from the reporting to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows at spot rates.

| | Note | Less than 1 year | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| **As of 31 December 2012** | | | | |
| Trade and other payables | 24 | 184,860 | – | – |
| Borrowings | | 1,300,440 | 2,957,323 | – |
| Provisions | | 15,310 | 63,218 | 75,898 |
| Finance leasing | 21 | 1,613 | 6,453 | 66,178 |
| Derivative financial liabilities | | 101,394 | 65,873 | – |
| **As of 31 December 2011** | | | | |
| Trade and other payables | 24 | 229,828 | – | – |
| Borrowings | | 455,509 | 3,321,634 | – |
| Provisions | | 66,190 | 52,227 | 24,904 |
| Finance leasing | 21 | 1,522 | 6,090 | 63,945 |
| Derivative financial liabilities | | 52,095 | 24,290 | – |

### 37.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital. The Group considers total capital to be total equity as shown in the consolidated statement of financial position.

Starting from 2011, the Group monitors capital using capital employed ratio calculated as the sum of long- and short-term bank borrowings divided by the sum of long- and short-term bank borrowings and total equity.

The capital employed ratios as of 31 December 2012 and 31 December 2011 were as follows:

| | **31 December 2012** | 31 December 2011 |
|---|---|---|
| Total bank borrowings (Note 21) | **3,925,691** | 3,282,071 |
| Total equity and bank borrowings | **12,690,278** | 11,341,681 |
| **Capital employed ratio** | **31%** | **29%** |

As of 31 December 2012 and 31 December 2011 management has set a level of 30% capital employed ratio as a long-term strategic goal.

### 38. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions, and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

**Financial assets and liabilities carried at fair value.** Derivatives and other financial assets at fair value through profit or loss are carried on the consolidated statement of financial position at their fair value.

Fair value of corporate bonds and shares was determined based on prices quoted in an active market. Fair values of derivative financial assets and liabilities were determined using valuation technique with inputs observable in markets.

**Financial assets carried at amortised cost.** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of trade and other financial receivables approximate fair values. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

## 38. Fair value of financial instruments (continued)

**Liabilities carried at amortised cost.** The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Estimated fair values of borrowings are presented in Note 21.

## 39. Events after reporting date

The Company prolonged operating licences which expired on 1 April 2013 for the extraction of potassium, magnesium and sodium salts from the Bereznikovskiy, Durimanskiy, Bigelsko-Troitsky, Solikamskiy (north and south parts) and Novo-Solikamskiy plots of the Verkhnekamskoye field. These licences have been prolonged till 2018-2021 at nominal cost.

Subsequent to the year end, the Group has set up a wholly foreign-owned limited liability company Uralkali Trading Beijing Co., Ltd. in Beijing, China with share capital amounted to US$ 12,000 as of 4 February 2013. The purpose of new subsidiary will be promoting Uralkali's Group business in China by buying potash from Chinese importers and further directly distributing it to end customers.

# Directors' responsibility statement

We confirm that to the best of our knowledge:

– the consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

– this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board, which approved the making of the responsibility statement for the Company at a Board Meeting on 25 April 2013.

# Information on compliance with the recommendations of the UK corporate governance code

Uralkali is the first Russian chemical company to have gone public, which is the reason why we strive to abide by the best international corporate governance standards and practices. The securities of the Company are traded on the London Stock Exchange, therefore, we consider the requirements of the UK Corporate Governance Code (hereinafter the UK Code) to be the best practice. Despite the fact that Uralkali is not obliged to comply with the UK Code, we are guided by it in our attempts to improve the corporate governance in the Company. In this Annual Report we have decided to describe how our Company complies with the recommendations of the UK Code.

In the preamble to the UK Code it is stated that the purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company. At the same time, it is important to remember that the UK Code is not set in stone and may be adapted to the ever-changing economic and social conditions.

These key provisions have been reflected in the Corporate Governance Policy of OJSC "Uralkali" which was approved by the Board of Directors in December 2012. By adopting this Policy the Company publicly stated its principles and goals in corporate governance, described the ways to achieve these goals http://www.uralkali.com/upload/iblock/892/policy_cg_en.pdf and declared that Uralkali understands corporate governance as an ongoing process where there may not be any permanently fixed rules. Guided by these main principles, we do our best to improve the corporate governance in the Company on a continuous basis.

As each company is unique in its own way, we believe that even the very best practices should be implemented with care. The company must be ready for change and serious consideration should be given to the potential consequences of the implemented changes and practices in order to understand if a certain practice will really work or whether this will just be a formality. Besides this, it is important to remember that the Russian legislation imposes its own specific rules and obligations. This is why when we talk about how Uralkali complies with the recommendations of the UK Code or why we do not use certain practices, we abide by one of the key principles of the UK Code – "comply or explain".

| Provisions of the UK Code of Corporate Governance | Information in compliance with the main principles and provisions of the Code |
|---|---|
| **Underlying provisions** | |
| Attention must be paid to the spirit of the code. | In accordance with Uralkali's Policy in corporate governance we understand corporate governance as an ongoing process where there may not be any permanently fixed rules. Guided by the key principles of corporate governance, we seek to develop and improve the corporate governance in the Company. We are confidently moving forward and we will do our best to achieve the goals set before us, such as:<br>– maintaining and increasing the level of shareholders' and stakeholders' trust;<br>– compliance with the applicable legislation and other regulations;<br>– implementation of the best corporate governance practices in order to meet the highest international standards. |
| Improve impact of shareholder interaction in monitoring the code by facilitating increased interaction with the Board. | See page 91 of the Integrated Report, section "Shareholder relations". |
| Leadership of the Chairman: personal report covering section A&B of the code (role and effectiveness of the Board). | See page 6 of the Integrated Report, section "Chairman Statement". |
| Annual re-election of directors. | Par. 9.5 of the Charter. |
| Comply or explain. | See page 155 of the Integrated Report on the "comply or explain" principle. |
| **Section A – Leadership** | |
| **A1 – Role of the Board** | |
| **A1.1:** The board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management. | See page 90 of the Integrated Report, section "Work planning and distribution of time", page 90 section "Activities of the Board of Directors in 2012", page 100 "CEO and Management Board". |
| **A1.2:** The annual report should identify the Chairman, the deputy Chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the board committees. It should also set out the number of meetings of the board and its committees and individual attendance by directors. | See page 89 of the Integrated Report, section "Composition of the Board of Directors". |
| **A1.3:** The company should arrange appropriate insurance cover in respect of legal action against its directors. | See page 92 of the Integrated Report, section "General meetings". |

| Provisions of the UK Code of Corporate Governance | Information in compliance with the main principles and provisions of the Code |
|---|---|
| **A2 – Division of responsibilities** | |
| **A3 – The Chairman** | |
| (1) The Chairman is responsible for setting the board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. | Par 4.3 of the Regulations on the Board of Directors of OJSC "Uralkali", par. 5.10 of the Code of Corporate Governance of OJSC "Uralkali". |
| (2) The Chairman should also promote a culture of openness and debate by facilitating the effective contribution of nonexecutive directors in particular and ensuring constructive relations between executive and non-executive directors. | See page 89 of the Integrated Report, section "Performance review", par. 5.10-5.11 of the Code of Corporate Governance of OJSC "Uralkali". |
| (3) The Chairman is responsible for ensuring that the directors receive accurate, timely and clear information. The Chairman should ensure effective communication with shareholders. | See page 90 of the Integrated Report, section "Distribution of functions", par. 4.3 of the Regulations on the Board of Directors of OJSC "Uralkali", par.5.5 of the Code of Corporate Governance of OJSC "Uralkali". |
| **A3.1:** The Chairman should on appointment meet the independence criteria set out in B1.1 below. A chief executive should not go on to be Chairman of the same company. If, exceptionally, a board decides that a chief executive should become Chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report. | The Chairman meets the required criteria.<br>The roles of the Chairman and CEO are separated, see page 89 of the Integrated Report, section "Composition of the Board of Directors" and page 90 section "Distribution of functions". |
| **A4 – Non executive Directors** | |
| Main Principle | |
| (a) As part of their role as members of a unitary board, non executive directors should constructively challenge and help develop proposals on strategy. | See page 91 of the Integrated Report, section "Strategic session". |
| (b) Non executive directors should scrutinize the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. | See page 92 of the Integrated Report, section "Committees of the Board of Directors" |
| (c) They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning. | See page 97 of the Integrated Report, section "Risk management and internal control in the development of financial statements", page 92 section "Committees of the Board of Directors". |
| **A4.1:** The board should appoint one of the independent non executive directors to be the senior independent director to provide a sounding board for the Chairman and to serve as an intermediary for the other directors when necessary. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of Chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate. | See page 89 of the Integrated Report, section "Composition of the Board of Directors". |
| **A4.2:** The Chairman should hold meetings with the non executive directors without the executives present. Led by the senior independent director, the non executive directors should meet without the Chairman present at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate. | See page 89 of the Integrated Report, section "Performance review". |
| **A4.3:** Where directors have concerns which cannot be resolved about the running of the company or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, a nonexecutive director should provide a written statement to the Chairman, for circulation to the board, if they have any such concerns. | Par. 8.5 of the Regulations on the Board of Directors of OJSC "Uralkali". |
| **Section B – Effectiveness** | |
| **B1 – Composition of the Board** | |
| The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. | See pages 86-87 of the Integrated Report, page 89, section "Composition balance". |
| **B1.1:** Identification of independent NEDs, reference to character & judgment and possible relationships which could affect judgment. | See pages 86-87 of the Integrated Report, page 89, section "Composition of the Board of Directors". |
| **B1.2:** At least half the board should be made up of independent NEDs. | See page 89 of the Integrated Report, section "Composition of the Board of Directors". |

| Provisions of the UK Code of Corporate Governance | Information in compliance with the main principles and provisions of the Code |
|---|---|
| **B2 – Appointments to the Board** | |
| Board should be satisfied that plans are in place or orderly succession. | See page 90 of the Integrated Report, section “Work planning and distribution of time” and page 89 sections “Changes in the composition” and “Composition balance”. |
| **B2.1:** There should be a Nomination Committee which should lead the process for board appointments and make recommendations to the board. A majority of members of the Nomination Committee should be independent non executive directors. The Chairman or an independent non executive director should chair the committee, but the Chairman should not chair the Nomination Committee when it is dealing with the appointment of a successor to the Chairmanship. The Nomination Committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. | See page 92 of the Integrated Report, section “Committees of the Board of Directors”, page 89 section “Composition of the Board of Directors” and Regulations on the Appointments and Remuneration Committee. |
| **B2.2:** The Nomination Committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. | See page 92 of the Integrated Report, section “Committees of the Board of Directors”, Regulations on the Appointments and Remuneration Committee. |
| **B2.3:** Non executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director. Any term beyond six years for a non executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board. | The current Russian legislation does not indicate any special (maximum) term in office for a non-executive director serving on the Board. Pursuant to par. 9.5 of the Charter, the Board of Directors is elected annually in compliance with the established procedure after which the status of each director elected to the Board is determined. The current procedure of evaluation of the Board of Directors makes it possible to evaluate each member of the Board of Directors on the annual basis. |
| **B2.4:** A separate section of the annual report should describe the work of the Nomination Committee, including the process it has used in relation to board appointments. An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a Chairman or a non executive director. | See page 92 of the Integrated Report, section “Committees of the Board of Directors”. |
| **B3 – Commitment** | |
| **B3.1:** For the appointment of a Chairman, the Nomination Committee should prepare a job specification, including an assessment of the time commitment expected, recognizing the need for availability in the event of crises. A Chairman’s other significant commitments should be disclosed to the board before appointment and included in the annual report. Changes to such commitments should be reported to the board as they arise, and their impact explained in the next annual report. | Par. 4.3 of the Regulations on the Board of Directors of OJSC “Uralkali”. |
| **B3.2:** The terms and conditions of appointment of non executive directors should be made available for inspection. The letter of appointment should set out the expected time commitment. Non executive directors should undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments should be disclosed to the board before appointment, with a broad indication of the time involved and the board should be informed of subsequent changes. | Par. 3.3 of the Regulations on the Board of Directors of OJSC “Uralkali”, existence of Letters of Appointment for the Board members, page 90 of the Integrated Report, section “Directors’ induction and training”. |
| **B3.3:** The board should not agree to a full time executive director taking on more than one non executive directorship in a FTSE 100 company nor the Chairmanship of such a company. | There have been no such appointments. |
| **B4 – Development** | |
| Chairman should ensure directors update their skills and the knowledge and familiarity with the company required to fulfill their role on the board and on committees. | See page 89 of the Integrated Report, section “Performance review”, page 90 of the Integrated Report, section “Directors’ induction and training”. |
| **B4.1:** The Chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors should avail themselves of opportunities to meet major shareholders. | See page 92 of the Integrated Report, section “Committees of the Board of Directors”, page 90 of the Integrated Report, section “Directors’ induction and training”. |
| **B4.2:** The Chairman should regularly review and agree with each director their training and development needs. | The duties mentioned above are performed by the Corporate Secretary based on instructions of the Chairman. |

| Provisions of the UK Code of Corporate Governance | Information in compliance with the main principles and provisions of the Code |
|---|---|
| **B5 – Information and Support** | |
| Supporting Principles:<br>– The Chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Management has an obligation to provide such information but directors should seek clarification or amplification where necessary. Under the direction of the Chairman, the company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and nonexecutive directors, as well as facilitating induction and assisting with professional development as required. | Organisational issues regarding the Board, including information support, pertain to the competence of the Corporate Secretary. The list of documents and information, submitted to directors during preparation for meetings was approved by the Chairman. See page 90 of the Integrated Report, section "Distribution of functions", par.5.5 of the Regulations on the Board of Directors of OJSC "Uralkali". |
| The company secretary should be responsible for advising the board through the Chairman on all governance matters. | Par, 8.2 of the Code of Corporate Governance of OJSC "Uralkali". |
| **B5.1:** The board should ensure that directors, especially non executive directors, have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties. | Par. 3.1. of the Regulations on the Board of Directors of OJSC "Uralkali". We have not received any requests from the Board members on the necessity to attract the independent professional advice so far. This facility will be provided on the request of director. |
| **B5.2:** All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with. Both the appointment and removal of the company secretary should be a matter for the board as a whole. | Par. 8.2 of the Code of Corporate Governance of OJSC "Uralkali". |
| **B6 – Evaluation** | |
| The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. | See page 89 of the Integrated Report, section "Performance review". |
| **B6.1:** The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted. | See page 89 of the Integrated Report, section "Performance review". |
| **B6.3:** The non executive directors, led by the senior independent director, should be responsible for performance evaluation of the Chairman, taking into account the views of executive directors. | See page 89 of the Integrated Report, section "Performance review". |
| **B7 – Re-election** | |
| Directors should be submitted for reelection at regular interval, subject to continued satisfactory performance. | See page 89 of the Integrated Report, section "Composition of the Board of Directors", par. 9.5 of the Charter. |
| **B7.1:** All directors of FTSE 350 companies should be subject to annual election by shareholders. All other directors should be subject to election by shareholders at the first annual general meeting after their appointment, and to reelection thereafter at intervals of no more than three years. Non executive directors who have served longer than nine years should be subject to annual re-election. The names of directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election. | Par. 9.5 of the Charter. |
| **B7.2:** The board should set out to shareholders in the papers accompanying a resolution to elect a non executive director why they believe an individual should be elected. The Chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role. | Until now the company has never evaluated the directors' personal contribution to the work of the Board of Directors. Nevertheless, the existing procedure of evaluation makes it possible to assess personal performance of each director. In accordance with paragraph 8.1.2 of the Regulations on the General Meeting of Shareholders of the Company, the Board of Directors approves the information on candidates for election to the Board of Directors which is provided to the shareholders. This information includes brief biographies of the candidates, information on their most significant achievements and information related to their role as members of Board committees. |

| Provisions of the UK Code of Corporate Governance | Information in compliance with the main principles and provisions of the Code |
|---|---|
| **Section C – Accountability** | |
| Main Principle | |
| The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems. | Par. 39 of the Charter, page 38 of the Integrated Report, section "Risk-management". page 93 section "The Audit Committee report", section 92 "Committees of the Board of Directors". |
| **C1.1:** Responsibility statement from directors in the Annual Report and Accounts should contain a statement by the auditors about their reporting responsibilities. | See page 154 of the Integrated Report, section "Directors' responsibility Statement". |
| **C1.2:** Directors explanation regarding preservation of value over the long term and strategy to deliver objectives. | See page 6 of the Integrated Report, section "Chairman Statement". |
| **C1.3:** Directors should report in half-yearly financial statements that the business is a going concern with the necessary supporting evidence. | Annually, at the beginning of September, the Board approves the financial statements (consolidated condensed financial information), prepared in compliance with IFRS, which contains the relevant statement. |
| **C2 – Risk Management and Internal Control** | |
| Main Principle | |
| The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain approach to sound risk management and internal control systems. | Par.39 of the Charter, page 38 of the Integrated Report, section "Approach to Risk-management", page 93 section "The Audit Committee report", section 92 "Committees of the Board of Directors". |
| **C2.1:** The board should, at least annually, conduct a review of the effectiveness of the company's risk management and internal control systems and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls. | See page 38 of the Integrated Report, section "Approach to Risk-management". |
| **C3 – Audit Committee and Auditors** | |
| Main Principle | |
| The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor. | See page 90 of the Integrated Report, section "Work planning and distribution of time", page 92 of the Integrated Report, section "Committees of the Board of Directors", page 93 section "The Audit Committee report". |
| Code Provisions | |
| **C3.1:** The board should establish an Audit Committee of at least three, or in the case of smaller companies, two, independent non executive directors. The board should satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience. | See page 89 of the Integrated Report, section "Composition of the Board of Directors", page 93 section "The Audit Committee Report". |
| **C3.2:**<br>(a) The main role and responsibilities of the Audit Committee should be set out in written terms of reference and should include: to monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;<br><br>(b) to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems;<br><br>(c) to monitor and review the effectiveness of the company's internal audit function;<br><br>(d) to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;<br><br>(e) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;<br><br>(f) to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken. | Regulations on the Audit Committee of Directors of OJSC "Uralkali". |

| Provisions of the UK Code of Corporate Governance | Information in compliance with the main principles and provisions of the Code |
|---|---|
| **C3 – Audit Committee and Auditors (continued)** | |
| Code Provisions (continued) | |
| **C3.3:** The terms of reference of the Audit Committee, including its role and the authority delegated to it by the board, should be made available. A separate section of the annual report should describe the work of the committee in discharging those responsibilities. | Regulations on the Audit Committee. |
| **C3.4:** The Audit Committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Audit Committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. | Regulations on the Audit Committee. |
| **C3.5:** The Audit Committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the Audit Committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report. | See page 93 of the Integrated Report. Section "The Audit Committee report", page 92 section "Board Committees', Regulations on the Board of Directors of OJSC "Uralkali". |
| **C3.6:** The Audit Committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditor. If the board does not accept the Audit Committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the Audit Committee explaining the recommendation and should set out reasons why the board has taken a different position. | See page 93 of the Integrated Report. Section "Audit Committee report", page 92 section "Committees of the Board of Directors', Regulations on the Board of Directors of OJSC "Uralkali". |
| **C3.7:** The annual report should explain to shareholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded. | Regulations on the Audit Committee of OJSC "Uralkali", page 93 of the Integrated Report, section "The Audit Committee report". |
| **Section D – Remuneration** | |
| **D1 – The Level and Components of Remuneration** | |
| Main Principle | |
| Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance. | See page 92 of the Integrated Report, section "Directors' remuneration", page 101, section "Remuneration of the Management Board". |
| Code Provisions | |
| **D1.1:** In designing schemes of performance-related remuneration for executive directors, the Remuneration Committee should follow the provisions in Schedule A to this Code. | Compliant. |
| **D1.2:** Where a company releases an executive director to serve as a nonexecutive director elsewhere, the remuneration report should include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is. | Executive directors remuneration paid by other companies has not been disclosed before due to the fact that this is not required by the current Russian legislation and no executive director has an outside appointments. |
| **D1.3:** Levels of remuneration for non executive directors should reflect the time commitment and responsibilities of the role. Remuneration for nonexecutive directors should not include share options or other performance-related elements. If, exceptionally, options are granted, shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the non executive director leaves the board. Holding of share options could be relevant to the determination of a non executive director's independence (as set out in provision B1.1). | Non executive directors remuneration does not include share options. The amount of remuneration paid to non-executive directors is established by the general meeting of shareholders. See par. 9.2 of the Charter of OJSC "Uralkali" and Regulations on Remuneration and Reimbursement of the members of the Board of Directors of OJSC "Uralkali". |
| **D1.4:** The Remuneration Committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The aim should be to avoid rewarding poor performance. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss. | Compliant. |
| **D1.5:** Notice or contract periods should be set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period. | Pursuant to par. 9.5. of the Charter of the Company, Board members are elected for a term until the next annual general meeting of shareholders. |

| Provisions of the UK Code of Corporate Governance | Information in compliance with the main principles and provisions of the Code |
|---|---|
| **D2 – Procedure** | |
| Main Principle | |
| There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration. | See page 101 of the Integrated Report, section “Remuneration of the Management Board” and Regulations on the Appointments and Remuneration Committee. |
| Code Provisions | |
| **D2.1:** The board should establish a Remuneration Committee of at least three, or in the case of smaller companies two, independent non executive directors. In addition the company Chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as Chairman. The Remuneration Committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. Where remuneration consultants are appointed. a statement should be made available of whether they have any other connection with the company. | See pages 86-87 of the Integrated Report, page 92 section “Committees of the Board of Directors”, Regulations on the Appointments and Remuneration Committee. |
| **D2.2:** The Remuneration Committee should have delegated responsibility for setting remuneration for all executive directors and the Chairman, including pension rights and any compensation payments. The committee should also recommend and monitor the level and structure of remuneration for senior management. The definition of ‘senior management’ for this purpose should be determined by the board but should normally include the first layer of management below board level. | Regulations on the Appointments and Remuneration Committee. |
| **D2.3:** The board itself or, where required by the Articles of Association, the shareholders should determine the remuneration of the non executive directors within the limits set in the Articles of Association. Where permitted by the Articles, the board may however delegate this responsibility to a committee, which might include the chief executive. | Par. 9.2 of the Charter, Regulations on Remuneration and Reimbursement of the members of the Board of Directors. |
| **D2.4:** Shareholders should be invited specifically to approve all new long-term incentive schemes (as defined in the Listing Rules 26) and significant changes to existing schemes, save in the circumstances permitted by the Listing Rules. | Not applicable. For more information on remuneration of management see page 101 of the Integrated Report, section “Remuneration of the Management Board”. |
| **Section E – Relations with shareholders** | |
| **E1 – Dialogue with Shareholders** | |
| Main Principle | |
| (a) There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. | See page 91 of the Integrated Report, section “Shareholder relations”. |
| Supporting Principles | |
| (b) Whilst recognising that most shareholder contact is with the chief executive and finance director, the Chairman should ensure that all directors are made aware of their major shareholders’ issues and concerns. | |
| (c) The board should keep in touch with shareholder opinion in whatever ways are most practical and efficient. | |
| Code Provision | |
| **E1.1:**<br>(a) The Chairman should ensure that the views of shareholders are communicated to the board as a whole. | See page 91 of the Integrated Report, section “Shareholder relations”. |
| (b) The Chairman should discuss governance and strategy with major shareholders. | See page 91 of the Integrated Report, section “Strategic Session”. |
| (c) Non executive directors should be offered the opportunity to attend scheduled meetings with major shareholders and should expect to attend meetings if requested by major shareholders. | See page 91 of the Integrated Report, section “Shareholder relations”. |
| (d) The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders. | See page 91 of the Integrated Report, section “Shareholder relations”, page 89 section “Performance review”. |
| **E1.2:** The board should state in the annual report the steps they have taken to ensure that the members of the board, and, in particular, the nonexecutive directors, develop an understanding of the views of major shareholders about the company, for example through direct face-to-face contact, analysts’ or brokers’ briefings and surveys of shareholder opinion. | See page 91 of the Integrated Report, section “Shareholder relations”, page 89 section “Performance review”. |

### B1.1

The board should identify in the annual report each non-executive director it considers to be independent. The board should determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:

– has been an employee of the company or group within the last five years;
– has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
– has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;
– has close family ties with any of the company's advisers, directors or senior employees;
– holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
– represents a significant shareholder; or
– has served on the board for more than nine years from the date of their first election.

### Schedule A: The design of performance-related remuneration for executive directors

| | |
|---|---|
| The remuneration committee should consider whether the directors should be eligible for annual bonuses. | Compliant. |
| If so, performance conditions should be relevant, stretching and designed to promote the long-term success of the company. | Compliant. |
| Upper limits should be set and disclosed. | The company does not pay remuneration in shares. |
| There may be a case for part payment in shares to be held for a significant period. | Compliant. |
| The remuneration committee should consider whether the directors should be eligible for benefits under long-term incentive schemes. Traditional share option schemes should be weighed against other kinds of long-term incentive scheme. | The company does not offer share options. |
| Executive share options should not be offered at a discount save as permitted by the relevant provisions of the Listing Rules. | Compliant. |
| In normal circumstances, shares granted or other forms of deferred remuneration should not vest, and options should not be exercisable, in less than three years. | The company does not offer share options. |
| Directors should be encouraged to hold their shares for a further period after vesting or exercise, subject to the need to finance any costs of acquisition and associated tax liabilities. | Incentive schemes are approved by the Board of Directors. |
| Any new long-term incentive schemes which are proposed should be approved by shareholders and should preferably replace any existing schemes or, at least, form part of a well considered overall plan incorporating existing schemes. The total rewards potentially available should not be excessive. | Compliant. |
| Payouts or grants under all incentive schemes, including new grants under existing share option schemes, should be subject to challenging performance criteria reflecting the company's objectives, including nonfinancial performance metrics where appropriate. Remuneration incentives should be compatible with risk policies and systems. | Compliant. |
| Grants under executive share option and other long-term incentive schemes should normally be phased rather than awarded in one large block. | Compliant. |
| Consideration should be given to the use of provisions that permit the company to reclaim variable components in exceptional circumstances of misstatement or misconduct. | Compliant. |
| In general, only basic salary should be pensionable. The remuneration committee should consider the pension consequences and associated costs to the company of basic salary increases and any other changes in pensionable remuneration, especially for directors close to retirement. | The Company does not have a pension plan. |

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The Board of Directors
Joint Stock Company Uralkali
63 Pyatiletki Street
Berezniki
618426
Perm Territory
Russian Federation

Dear Sirs,

## RE: Review of the Mineral Resources and Ore Reserves of Joint Stock Company Uralkali located in the Russian Federation

### 1. Introduction

This is a letter to confirm that SRK Consulting (UK) Limited (SRK) has reviewed all of the key information on which the most recently (1 January 2013) reported Mineral Resource and Ore Reserve statements for the mining assets of Joint Stock Company Uralkali (Uralkali or the Company) are based. Specifically it sets out SRK's view regarding the tonnes and grade of rock which has the potential to be mined by the existing and planned mining operations (the Mineral Resource), the quantity of product expected to be produced as envisaged by the respective Business Plan (the Ore Reserve) and the work done to derive these.

SRK has not independently re-calculated Mineral Resource and Ore Reserve estimates for Uralkali's operations but has, rather, reviewed the quantity and quality of the underlying data and the methodologies used to derive and classify the estimates as reported by Uralkali and made an opinion on these estimates including the tonnes, grade and quality of the potash planned to be exploited in the current mine plan, based on this review. SRK has then used this knowledge to derive audited resource and reserve statements according to the guidelines and terminology proposed in the JORC Code (2004 version).

This report presents both the existing Uralkali resource estimates according to Russian standard reporting terminology and guidelines and SRK's audited JORC Code statements. All of these estimates are dated as of 1 January 2013. During 2011 Uralkali merged with JSC Silvinit (Silvinit) and these assets now fall under the ownership of Uralkali. SRK has restricted its assessment to the resources and reserves at Berezniki 2, Berezniki 4 and Ust-Yayvinsky (Uralkali's original assets) and Solikamsk 1, Solikamsk 2, Solikamsk 3 and Polovodovsky (the former Silvinit assets now under the ownership of Uralkali).

Table 1 below summarises the current licence status for each of the assets noted above.

**Table 1: Uralkali Licence Summary**

| Deposit | Registration No. | Period (Years) | Expiry Date | Licence Type | Area (ha) |
|---|---|---|---|---|---|
| Berezniki 2 | 01362 | 12 | 1st April 2013 | Mining[2] | 6,725 |
| Berezniki 4 | 01363 | 12 | 1st April 2013 | Mining[1] | 18,360 |
| Ust-Yayvinsky | 12328 | 20 | 1st April 2024 | Exploration and Mining[3] | Not stated |
| Solikamsk 1 | 15231 | 12 | 1st April 2013 | Mining[1] | 4,447 |
| Solikamsk 2 | 15232 | 12 | 1st April 2013 | Mining[2] | 5,038 |
| Solikamsk 3 | 15233 | 12 | 1st April 2013 | Mining[2] | 11,001 |
| Polovodovsky | 14511 | 10 | 1st July 2018 | Exploration and Mining[2] | 27,100 |

[1] Potassium salts, magnesium salts and rock salt.
[2] Potassium salts and rock salt.
[3] Potassium and magnesium salt.

SRK has seen copies of the licences and confirms that the Mineral Resources and Ore Reserves stated in this report fall within the boundaries of such licences. SRK notes that the licences relating to Solikamsk 1, 2 and 3 were originally issued to Silvinit under registration numbers 01439, 01440 and 01441 respectively and we re-issued to Uralkali in October 2011 following the merger of the two companies.

The licenses for the operating and development mines will expire within the term of the 20 year Business Plan, and notably several expire in 2013, even though some of these mines are planned to continue operating beyond this time and have resources and reserves to support this. It should be expected that Uralkali will obtain extensions to these licences in due course on application as long as it continues to fulfil its licence obligations.

## 2. Quantity and quality of data

### 2.1 Original Uralkali Operations

The resource and reserve estimates derived by Uralkali are primarily based on exploration drilling undertaken between 1972 and 1998. A specially laid out drilling programme was developed for each mine with the aim of enabling 10% of the contained resources to be assigned to the A category of resources as defined by the Russian Reporting Code, 20% to the B category and 70% to the C1 category. In 2009, exploration drilling from surface started in the eastern portion of Berezniki 4 with an aim to improve the classification of the resource reported in the C2 category to the C1 category. This work is, however, on-going and has not been incorporated into an updated resource estimate at this stage.

The A category is the highest category in the Russian Reporting Code and only used where the stated tonnage and grade estimates are considered to be known to a very high degree of accuracy. The B, C1 and C2 categories are lower confidence categories, with C2 denoting the least level of confidence in the three categories. All of these categories, apart from C2, are acceptable for use in supporting mining plans and feasibility studies. In the case of Uralkali, blocks are assigned to the A category where the drillhole spacing is less than 1km, to the B category where the drillhole spacing is between 1 and 2km and to the C1 category where the drillhole spacing is 2km. Areas drilled at a larger spacing than this, up to a 4km spacing, are assigned to the C2 category, although only a very small proportion of Uralkali's resources have been categorised as such.

As a result of the above process, each mine is typically drilled on a 2km by 2km grid or less before a decision is taken to develop the mine. This information is, however, then supplemented by underground drilling once the access development is in place. This typically creates a grid of intersections measuring 400m by 200m. Uralkali does not upgrade the categorisation of its resources based on this drilling but rather uses this to optimise the mining layouts.

The drillholes, whether drilled from surface or underground, are sampled at intervals of at least 16cm and the samples are crushed and milled under the control of the geology department to produce an approximate 100g sample prior to submission to the laboratory.

Assaying is carried out at an in-house laboratory. No samples are sent to any independent laboratories, but there is an internal system of check assaying and repeat assaying. Approximately 5% of samples are repeat assayed. All assaying is by classical wet chemistry techniques.

### 2.2 Former Silvinit Operations

These deposits were discovered in 1925 and each has been subjected to a number of exploration and drilling campaigns as follows:

- Solikamsk 1 – 7 phases between 1925 and 1990 (including exploration outside the current mining lease);
- Solikamsk 2 – 7 phases between 1925 and 2002 (including exploration outside the current mining lease); and
- Solikamsk 3 – 7 phases between 1957 and 1975;

The resource and reserve estimates are therefore primarily based on exploration drilling undertaken between 1925 and 2002. There is no exploration drilling currently being undertaken from surface at the operating mines, however, exploration is currently being undertaken at the Polovodovsky prospect. Exploration was generally undertaken by State enterprises based in Solikamsk and Berezniki.

The total number of exploration holes and metres drilled at each mine/prospect is as follows:

- Solikamsk 1 – 53 holes for some 18,600m;
- Solikamsk 2 – 192 holes for some 5,700m (of which some 95 are from underground);
- Solikamsk 3 – 117 holes for some 45,250m; and
- Polovodovsky – 152 holes for some 50,800m

The diamond drillholes, whether drilled from surface or underground, were drilled with a diameter of either 92mm or 112mm for surface holes and 76mm for underground holes. Holes were sampled at intervals between 10cm and 6m, averaging between 105cm to 130cm. Core recovery through the sylvinite horizons is reported to be good at an average of 84-85%, while the recovery through the carnallite horizon at Solikamsk 1 is reported to be 74%.

Core is split in half with one half retained for reference and the other half crushed, milled and split under the control of the geology department to produce a small sample (100g) for submission to the laboratory for assay.

Assaying is carried out at an in house laboratory using classical wet chemistry techniques. Approximately 5-6% of samples are repeat assayed internally while a similar percentage are sent to an external laboratory for check assaying, which SRK understands to be at the neighbouring Uralkali mine laboratory.

A total of 423 samples have to date been taken for density measurements using the water displacement method.

In the case of these former Silvinit mines, blocks are assigned to the A category where the drillhole spacing is less than 1,200m, to the B category where the drillhole spacing is up to 2,400m and to the C1 category where the drillhole spacing is up to 4,000m. Areas drilled at a larger spacing than this, but on average with a spacing of no less than 4,000m are assigned to the C2 category. Each mine is drilled on an approximate 2.4km by 2.4km grid or less before a decision is taken to develop the mine. This information is, however, then supplemented by underground drilling once the access development is in place. This typically creates a grid of intersections measuring from 100m by 300m or in cases up to 400m by 800m. As is the case with Uralkali, Silvinit did not upgrade the estimation or categorisation of its resources based on this underground drilling on a regular basis but rather used this to optimise the mining layouts.

## 3. Resource estimation

### 3.1 Introduction

The most up to date resource statements produced by Uralkali are those derived for the annual 5GR reports produced earlier this year which give the status as of 1 January 2013. The completion of 5GR reports is a statutory requirement. These estimates were produced using standard classical Russian techniques and are essentially based on calculations made in previous years adjusted for mining during 2012. This section therefore comments primarily on these statements.

The first resource estimates undertaken and approved for each of the former Silvinit operations were as follows:

– Solikamsk 1 and 2 – 1952;
– Solikamsk 3 – 1962; and
– Polovodovsky – 1975

The resource estimates at each of the active mines have undergone various updates since this time, the most recent of which was in 2006. These estimates were approved by the State Committee for Reserves and take into account all surface and underground drilling data available at that time. While exploration is ongoing at Polovodovsky, the first estimate produced in 1975 has not been updated since this time.

### 3.2 Estimation Methodology

Each seam and each mine is treated separately in the resource estimation procedure. In each case the horizons are first divided into blocks such that each sub-divided block has reasonably consistent borehole spacing within it; that is more intensely drilled areas are subdivided from less intensely drilled areas. Each resulting "resource block" is then evaluated separately using the borehole intersections falling within that block only.

Specifically, composited $K_2O$ and MgO grades are derived for each borehole that intersected each block and mean grades are then derived for each block by simply calculating a length weighted average of all of these composited intersections. No top cuts are applied and all intersections are allocated the same weighting.

A separate plan is produced for each seam showing the results of the above calculations, the lateral extent of each sub block, and any areas where the seams are not sufficiently developed. The aerial coverage of each block is then used with the mean thickness of the contained intersections to derive a block volume. The tonnage for each block is then derived from this by applying a specific gravity factor calculated by averaging all of the specific gravity determinations made from samples within that block.

The data for each resulting block is plotted on a Horizontal Longitudinal Projection (HLP). This shows the horizontal projection of the extent of each block as well as its grade and contained tonnage. The HLP also shows the block classification, this being effectively a reflection of the confidence of the estimated tonnes and grade.

### 3.3 Uralkali Resource Statements

Table 2 below summarises SRK's understanding of the sylvinite resource statements prepared by Uralkali to reflect the status of its assets as of 1 January 2013. Uralkali's statements are based on a minimum seam thickness of 2m and a minimum block grade which dependent on the mine varies between 13.2% and 13.9% $K_2O$. Table 3 below summarises SRK's understanding of the carnallite resource statement prepared by Uralkali to reflect the status of its assets as of 1 January 2013. Uralkali's carnallite statements are based on a minimum seam thickness of 2m and a minimum block grade of 7.1% MgO.

**Table 2: Uralkali Sylvinite Mineral Resource Statement at 1 January 2013**

| Category | Tonnage (Mt) | $K_2O$ (%) | $K_2O$ (Mt) |
|---|---|---|---|
| **Berezniki 2** | | | |
| A | 7.7 | 33.7 | 2.6 |
| B | 33.5 | 22.7 | 7.6 |
| C1 | 253.4 | 24.3 | 61.7 |
| **A+B+C1** | **294.6** | **24.4** | **71.9** |
| C2 | – | – | – |
| **Berezniki 4** | | | |
| A | 331.8 | 21.6 | 71.5 |
| B | 431.8 | 22.6 | 97.4 |
| C1 | 1,015.0 | 20.6 | 209.3 |
| **A+B+C1** | **1,778.6** | **21.3** | **378.2** |
| C2 | 310.3 | 26.8 | 83.3 |
| **Ust-Yayvinsky** | | | |
| A | 169.9 | 19.0 | 32.3 |
| B | 311.0 | 19.8 | 61.7 |
| C1 | 809.7 | 19.8 | 160.4 |
| **A+B+C1** | **1,290.6** | **19.7** | **254.4** |
| C2 | – | – | – |
| **Solikamsk 1** | | | |
| A | 115.6 | 17.8 | 20.6 |
| B | 14.7 | 15.4 | 2.2 |
| C1 | 86.0 | 16.3 | 14.0 |
| **A+B+C1** | **216.3** | **17.0** | **36.8** |
| C2 | – | – | – |
| **Solikamsk 2** | | | |
| A | 127.8 | 19.3 | 24.7 |
| B | 82.6 | 13.9 | 11.5 |
| C1 | 275.3 | 18.6 | 51.2 |
| **A+B+C1** | **485.7** | **18.0** | **87.4** |
| C2 | – | – | – |
| **Solikamsk 3** | | | |
| A | 103.8 | 17.5 | 18.1 |
| B | 64.6 | 18.9 | 12.2 |
| C1 | 1,239.6 | 17.4 | 216.0 |
| **A+B+C1** | **1,408.0** | **17.5** | **246.3** |
| C2 | – | – | – |
| **Polovodovsky** | | | |
| A | – | – | – |
| B | 694.1 | 16.7 | 115.8 |
| C1 | 2,386.6 | 17.4 | 415.2 |
| **A+B+C1** | **3,080.7** | **17.2** | **531.0** |
| C2 | 260.8 | 15.3 | 39.8 |
| Summary All Mines | | | |
| A | 856.6 | 19.8 | 169.9 |
| B | 1,632.3 | 18.9 | 308.4 |
| C1 | 6,065.6 | 18.6 | 1,127.8 |
| **A+B+C1** | **8,554.6** | **18.8** | **1,606.1** |
| C2 | 571.1 | 21.6 | 123.1 |

### Table 3: Uralkali Carnallite Mineral Resource Statement at 1 January 2013

| Category | Tonnage (Mt) | MgO (%) | MgO (Mt) |
|---|---|---|---|
| **Solikamsk** | | | |
| A | 133.8 | 10.0 | 13.4 |
| B | 32.2 | 8.8 | 2.8 |
| C1 | – | – | – |
| **A+B+C1** | **166.0** | **9.8** | **16.2** |
| C2 | – | – | – |

### 3.4 SRK Audited Mineral Resource Statements

Table 4 and 5 below present SRK's audited resource statement for sylvinite and carnallite respectively. SRK has re-classified the resource estimates using the terminology and guidelines proposed in the JORC Code. In doing this, SRK has reported those blocks classified as A or B by Uralkali as Measured, those blocks classified as C1 as Indicated and those blocks classed as C2 as Inferred. SRK's audited Mineral Resource statements are reported inclusive of those Mineral Resources converted to Ore Reserves. The audited Ore Reserve is therefore a sub set of the Mineral Resource and should not therefore be considered as additional to this.

SRK has not attempted to optimise Uralkali's Business Plan. Consequently, SRK's audited resource statements are confined to those seams that both have the potential to be mined economically and which are currently being considered for mining only.

### Table 4: SRK Audited Sylvinite Mineral Resource Statement at 1 January 2013

| Category | Tonnage (Mt) | $K_2O$ (%) | $K_2O$ (Mt) |
|---|---|---|---|
| **Berezniki 2** | | | |
| Measured | 41.2 | 24.8 | 10.2 |
| Indicated | 253.4 | 24.3 | 61.7 |
| **Measured + Indicated** | **294.6** | **24.4** | **71.9** |
| Inferred | – | – | – |
| **Berezniki 4** | | | |
| Measured | 763.6 | 22.1 | 168.9 |
| Indicated | 1,015.0 | 20.6 | 209.3 |
| **Measured + Indicated** | **1,778.6** | **21.3** | **378.2** |
| Inferred | 310.3 | 26.8 | 83.3 |
| **Ust- Yayvinsky** | | | |
| Measured | 480.9 | 19.5 | 94.0 |
| Indicated | 809.7 | 19.8 | 160.4 |
| **Measured + Indicated** | **1,290.6** | **19.7** | **254.4** |
| Inferred | – | – | – |
| **Solikamsk 1** | | | |
| Measured | 130.3 | 17.5 | 22.8 |
| Indicated | 86.0 | 16.3 | 14.0 |
| **Measured + Indicated** | **216.3** | **17.0** | **36.8** |
| Inferred | – | – | – |
| **Solikamsk 2** | | | |
| Measured | 210.4 | 17.2 | 36.2 |
| Indicated | 275.3 | 18.6 | 51.2 |
| **Measured + Indicated** | **485.7** | **18.0** | **87.4** |
| Inferred | – | – | – |
| **Solikamsk 3** | | | |
| Measured | 168.4 | 18.0 | 30.3 |
| Indicated | 1,239.6 | 17.4 | 216.0 |
| **Measured + Indicated** | **1,408.0** | **17.5** | **246.3** |
| Inferred | – | – | – |
| **Polovodovsky** | | | |
| Measured | 694.1 | 16.7 | 115.8 |
| Indicated | 2,386.6 | 17.4 | 415.2 |
| **Measured + Indicated** | **3,080.7** | **17.2** | **531.0** |
| Inferred | 260.8 | 15.3 | 39.8 |
| Summary All Mines | | | |
| Measured | 2,489.0 | 19.2 | 478.3 |
| Indicated | 6,065.6 | 18.6 | 1,127.8 |
| **Measured + Indicated** | **8,554.6** | **18.8** | **1,606.1** |
| Inferred | 571.1 | 21.6 | 123.1 |

### Table 5: SRK Audited Carnallite Mineral Resource Statement at 1 January 2013

| Category | Tonnage (Mt) | MgO (%) | MgO (Mt) |
|---|---|---|---|
| **Solikamsk** | | | |
| Measured | 166.0 | 9.8 | 16.2 |
| Indicated | – | – | – |
| **Measured + Indicated** | **166.0** | **9.8** | **16.2** |
| Inferred | – | – | – |

### 3.5 SRK Comments

SRK has reviewed the estimation methodology used by Uralkali to derive the above estimates, and the geological assumptions made, and considers these to be reasonable given the information available. SRK has also undertaken various re-calculations both of individual blocks and seams as a whole and has in all cases found no material errors or omissions.

Overall, SRK considers the resource estimates reported by Uralkali to be a reasonable reflection of the total quantity and quality of material demonstrated to be present at the assets and which has potential to be exploited as of 1 January 2013.

The audited Mineral Resource statement as at 1 January 2013 presented above is different to that presented as at 1 January 2012 primarily as a function of mining activity during 2012 and some minor re-assessments completed during the year by Uralkali.

## 4. Ore reserve estimation

### 4.1 Introduction

Uralkali does not report reserves as these are typically defined by reporting guidelines and terminology developed in Europe, North America and Australia; that is, estimates of the tonnage and grade of total material that is planned to be delivered to the various processing plants over the life of the mine. SRK has therefore derived estimates of such using historical information gained during its site visit regarding the mining losses and dilution experienced during mining to date. SRK has also restricted the resulting estimates to those areas planned to be mined by Uralkali in SRK's adjusted Business Plan during the next 20 years from 2013 to 2032. The Business Plan assumes that Uralkali will successfully re-negotiate its Licences in 2013 (as noted above and shown in Table 1) and the Ore Reserve Statements therefore also assume this will be the case.

### 4.2 Modifying Factors

The Modifying Factors applicable to the derivation of reserves comprise estimates for ore losses and planned and unplanned dilution associated with the separation of the ore and waste. This is normally a function of the orebody characteristics and mining methods selected.

The Modifying Factors considered by SRK to be appropriate for the sylvinite and carnallite being mined at each of the assets are shown below in Table 6 below. The **Tonnage Conversion Factor** takes into account both the percentage of material left behind in pillars and the amount of dilution included when mining the ore and is applied to the in situ resource tonnage to derive the tonnage of material expected to be delivered to the plants. The $K_2O$/MgO **Grade Conversion Factor** accounts for the difference in grade between the in situ resource and the above plant feed tonnage as a result of incorporation within the latter of waste extracted along with this and is therefore applied to the in situ grade to derive the grade of ore expected to be delivered to the plants.

Uralkali undertakes an annual reconciliation to compare the ore tonnes mined each year with the resource that has been sterilized by this mining and it is these figures for the last five to seven years that SRK has reviewed to derive **Tonnage Conversion Factor**. Similarly Uralkali keeps a record of the in situ grade of the material sterilized by mining each year and SRK has compared these with the grade of material reported to have been fed to the plants over the last five to seven years to derive the **Grade Conversion Factor**. Given this, SRK is confident that the Modifying Factors used reflect the geometry of the orebodies being mined and the mining methods currently being used.

#### Table 6: SRK Modifying Factors

| Description | Tonnage Conversion Factor (%) | Grade Conversion Factor (%) |
|---|---|---|
| Solikamsk 1 (sylvinite) | 38% | 93% |
| Solikamsk 1 (carnallite) | 32% | 96% |
| Solikamsk 2 | 48% | 88% |
| Solikamsk 3 | 51% | 87% |
| Berezniki 2 | 38% | 80% |
| Berezniki 4 | 46% | 84% |
| Ust-Yayvinsky | 37% | 85% |

### 4.3 SRK Audited Reserve Statements

As with its audited Mineral Resource statements, SRK's Ore Reserve statements have been re-classified using the terminology and guidelines proposed in the JORC Code. SRK has been provided with actual production and operating cost data for 2009 to 2012 and a revised production forecast for 2013 to 2032 inclusive reflecting Uralkali's current plans regarding the refurbishment of some existing processing facilities and also the installation of additional facilities.

SRK's audited Ore Reserve statement is therefore confined to those seams that are currently being considered for mining within the next 20 years only. Specifically, SRK has classed that material reported in the tables above as a Measured Mineral Resource, and which is planned to be exploited within the first ten years of the Business Plan, as a Proved Ore Reserve; and that material reported in the tables above as an Indicated Mineral Resource, and which is planned to be exploited within the Business Plan, and also that material reported above as a Measured Mineral Resource, but which is planned to be mined during the following 10 years of the Business Plan, as a Probable Ore Reserve. SRK has been informed by Uralkali that no material events have occurred during 2012 which would change Uralkali's mining and processing plans as presented to SRK.

SRK's Ore Reserve statement does not include any material from Polovodovsky, however, has included an Ore Reserve for Ust-Yayvinsky this year for the first time. In the case of Polovodovsky, the feasibility studies are at a relatively early stage and are on-going. In the case of Ust-Yayvinsky, however, the work has been completed to an advanced stage, detailed project documentation has been completed and the necessary permits are in place. Further, the contract for the construction of the shaft has been signed by both parties and work on this contract has commenced. SRK sent a technical team to Berezniki during 2012 to review the Ust-Yayvinsky documentation and hold discussions with Uralkali personnel and considers that sufficient technical and economic assessment has been undertaken to enable Ore Reserves to be reported for Ust-Yayvinsky and SRK has therefore derived estimates of such using information obtained from Uralkali but also taking cognisance of the historical information regarding the mining losses and dilution experienced during mining to date at Uralkali's existing operations.

SRK can confirm that the Ore Reserve defined in Table 7 and 8 below, for sylvinite and carnallite respectively, have been derived from the resource blocks provided to SRK and incorporates sufficient estimates for ore losses and dilution based on actual historical data. The break-even price required to support this statement is USD230/tonne in January 2013 terms. This is calculated as the price required to cover all cash operating costs including distribution. Finally, SRK can also confirm that no Inferred Mineral Resources have been converted to Ore Reserves.

#### Table 7: SRK Audited Sylvinite Ore Reserve Statement at 1 January 2013

| Category | Tonnage (Mt) | $K_2O$ (%) | $K_2O$ (Mt) |
|---|---|---|---|
| **Berezniki 2** | | | |
| Proven | 15.7 | 19.8 | 3.1 |
| Probable | 95.0 | 19.5 | 18.5 |
| **Total** | **110.7** | **19.6** | **21.6** |
| **Berezniki 4** | | | |
| Proven | 185.9 | 18.6 | 34.6 |
| Probable | 175.9 | 18.5 | 32.5 |
| **Total** | **361.8** | **18.6** | **67.1** |
| **Ust- Yayvinsky** | | | |
| Proven | 24.0 | 16.6 | 4.0 |
| Probable | 104.0 | 16.6 | 17.3 |
| **Total** | **128.0** | **16.6** | **21.3** |
| **Solikamsk 1** | | | |
| Proven | 40.3 | 16.3 | 6.6 |
| Probable | 41.8 | 15.4 | 6.4 |
| **Total** | **82.1** | **15.8** | **13.0** |
| **Solikamsk 2** | | | |
| Proven | 101.0 | 15.1 | 15.3 |
| Probable | 129.2 | 16.4 | 21.1 |
| **Total** | **230.2** | **15.8** | **36.4** |
| **Solikamsk 3** | | | |
| Proven | 85.9 | 15.7 | 13.5 |
| Probable | 297.0 | 15.2 | 45.0 |
| **Total** | **382.9** | **15.3** | **58.5** |
| **Polovodovsky** | | | |
| Proven | – | – | – |
| Probable | – | – | – |
| **Total** | **–** | **–** | **–** |
| Summary All Mines | | | |
| Proven | 452.7 | 17.0 | 77.0 |
| Probable | 843.0 | 16.7 | 140.9 |
| **Total** | **1,295.7** | **16.8** | **217.9** |

**Table 8: SRK Audited Carnallite Ore Reserve Statement at 1 January 2013**

| Category | Tonnage (Mt) | MgO (%) | MgO (Mt) |
|---|---|---|---|
| **Solikamsk** | | | |
| Proven | 12.7 | 9.4 | 1.2 |
| Probable | – | – | – |
| **Total** | **12.7** | **9.4** | **1.2** |

The large difference between SRK's audited Mineral Resource statement and its audited Ore Reserve statement is partly a function of the relatively low mining recovery inherent in the Room and Pillar mining method employed. It is also partly a function of the fact that SRK has limited the Ore Reserve statement to that portion of the Mineral Resource on which an appropriate level of technical work has been completed. In this case this relates to the period covered by the remaining 20 years of Uralkali's Business Plan.

Notwithstanding this, SRK considers that the actual life of some of the mines will extend beyond the current 20 year period covered by the Business Plan. In particular, at the current assumed expanded production rates, Berezniki 4 and Solikamsk 3 both have the potential to continue production for in the order of 20 years and 15 years respectively beyond that covered by the current Business Plan. Furthermore, Ust-Yayvsinky is assumed to commence production in 2020 and is therefore operational over 13 years of the 20 years covered by the Business Plan. At the assumed production rates, Ust-Yayvinsky has the potential to also continue production for some 20 years beyond that covered by the current Business Plan.

### 4.4 SRK Comments

The audited Ore Reserve statement as at 1 January 2013 presented above is different to that presented as at 1 January 2012 primarily as a result of mining during 2012, the extension of the Uralkali Business Plan to 2032 and the revisions to the Mineral Resource statements commented upon earlier in this letter. SRK notes, however, that compared to the previous year, the Ore Reserves at Berezniki 4 have decreased by some 33Mt. While part of the reason for this is the result of mining during 2012, the primary reason is because of adjustments made to the Business Plan when the Ust-Yayvinsky mine comes into production, which occurs while Berezniki 2 is still operational. As such between 2020 and 2026, which is when Berezniki 2 is assumed to cease operations due to depletion of the Ore Reserves, processing plant capacity constraints result in a decrease in the assumed mined tonnage over this period from Berezniki 4. While this has a direct impact on reducing the Ore Reserves at Berezniki 4, overall over the 20 year period of the Business Plan, there is an increase in the Ore Reserves due to the inclusion of Ore Reserves at Ust-Yayvinsky, which haven't previously been reported.

The 20 year Business Plan includes a number of expansions to both the Uralkali and former Silvinit operations (the capital costs of which have been taken into account in Uralkali's Business Plan and which SRK has taken account of in determining the economics of the operations) and as such the Ore Reserve reported here takes into account the additional amount of material planned to be mined over this period. SRK notes that the forecast production assumptions are somewhat higher than that actually achieved in the last couple of years but understands that this reduced production rate has primarily been driven by the prevailing market conditions rather than capacity constraints at the various operations. SRK therefore assumes that the forecast increase in production levels at each of the facilities is warranted and justified based on Uralkali's market expectations going forward.

SRK has reviewed the expansions proposed by Uralkali and considers the work proposed and the timeline assumed for the work to be completed to be reasonable and achievable. Further while SRK has not reviewed the capital cost estimates in detail, SRK is confident that these are justified based on Uralkali's current price forecasts. Further, in some cases the expansion projects are already underway and some of the increases to processing capacities are assumed to be achieved by debottlenecking the existing facilities in addition to upgrading and adding new equipment and processing lines. SRK notes that in order to achieve these increases in production, Uralkali will need to ensure that sufficient resources, management and staffing are available given that many of these expansions are forecast to be taking place simultaneously.

### 5. Concluding remarks

In SRK's opinion the Mineral Resource and Ore Reserve statements as included herein are materially compliant with the JORC Code and are valid as at 1 January 2013. SRK considers that should the Ore Reserves as presented herein be re-stated in accordance with the reporting requirements of the United States Securities and Exchange Commission (the "SEC"), specifically Securities Act Industry Guide 7 ("Industry Guide 7"), such Ore Reserves would not be materially different. SRK however notes that certain terms as used in this letter, such as "resources" are prohibited when reporting in accordance with Industry Guide 7.

Yours Faithfully

**Dr Mike Armitage**
Chairman and Corporate Consultant
(Resource Geology)

SRK Consulting (UK) Ltd

**Nick Fox**
Principal Consultant
(Geology/Mineral Economics)

SRK Consulting (UK) Ltd

# Glossary

| | |
|---|---|
| Agrium | Agrium Inc., Canada |
| APC | Arab Potash Company Ltd, Jordan |
| Belaruskali | OJSC Belaruskali, Belorussia |
| ICL | Israel Chemicals Ltd., Israel |
| K+S | K+S Group, Germany |
| Mosaic | The Mosaic Company, USA |
| PotashCorp | Potash Corporation of Saskatchewan, Canada |
| SQM | Mineral fertilisers producing company (Sociedad Química y Minera de Chile), Chile |

| | |
|---|---|
| CFR | "Cost and Freight", title transfers when goods pass the rail of the ship in the port of shipment |
| FCA | "Free Carrier", title transfers when goods are loaded on the first carrier (railway carriages) |
| FOB | "Free On Board", title to goods transfers as soon as goods are loaded on the ship |
| VAT | Value Added Tax |

| | |
|---|---|
| Potassium | Chemical element with the symbol K (from Neo-Latin kalium) and atomic number 19 |
| $K_2O$ | Potassium oxide |
| KCl | Potassium chloride (1KCl=1.61 $K_2O$) |
| NaCl | Sodium chloride |
| NPK | Nitrogen-phosphorus-potassium fertiliser |
| Carnallite | A hydrated potassium magnesium chloride with formula: $KMgCl3{\cdot}6(H_2O)$ |

| | |
|---|---|
| BBT | Baltic Bulk Terminal, St. Petersburg, Russia |
| Berezniki-1,2,3,4 | Potash production mining department at Berezniki |
| BPC | Belarusian Potash Company, marketing joint venture organisation of Uralkali and Belaruskali |
| Production unit | OJSC Uralkali |
| Solikamsk-1,2,3 (SKRU-1,2,3) | Potash production mining department at Solikamsk |
| UKT | Uralkali Trading, S.A. |

| | |
|---|---|
| CIS | Commonwealth of Independent States |
| EMEA | Europe, Middle East and Africa |
| FSU | Former Soviet Union |
| SE Asia | South East Asia |

| | |
|---|---|
| ASBRAER | Brazilian Association of State Agencies for Technical Support and Consumer Education |
| COSO | The Committee of Sponsoring Organizations of the Treadway Commission |
| FAO | Food and Agriculture Organization of the United Nations |
| FAS | Federal Antimonopoly Service of Russia |
| Fertecon | Fertiliser Economic Market Analysis and Consultancy, UK |
| FMB | Fertiliser Market Bulletin, FMB Limited, UK |
| IFA | International Fertiliser Association, France |
| IPNI | International Plant Nutrition Institute, USA |
| IPI | International Potash Institute |
| JORC | Joint Ore Reserves Committee standards for public reporting on mineral resources and mineral (ore) reserves, Australia |
| RAPU | Russian Association of Fertiliser Producers |

| | |
|---|---|
| CUSIP | Committee on Uniform Security Identification Procedures |
| FSA | Financial Services Authority |
| GDP | Gross Domestic Product |
| GDR | Global Depositary Receipt |
| ISIN | International Securities Identification Number |
| LSE | London Stock Exchange |
| MSCI Russia | Morgan Stanley Capital International Russia Index |
| MICEX | Moscow Interbank Currency Exchange Trading Board |
| RTS | Russian Trading System |
| Moscow Exchange | Stock exchange in Russia, officially established on 19 December 2011 through the merger of MICEX and RTS |
| TSR | Total shareholder return |
| Mln pcs. | Million pieces |

| | |
|---|---|
| IFRS | International Financial Reporting Standards |
| RAS | Russian Accounting Standards |
| CAPEX | Capital Expenditures |
| COGS | Cash Cost of Goods Sold |
| EBITDA | Earnings Before Interest, Taxes, Depreciation and Amortisation. Throughout the report EBITDA means adjusted EBITDA – calculated as Operating Profit plus depreciation and amortisation and does not include mine flooding costs and other one-off expenses |
| EBITDA Margin | EBITDA margin is calculated as EBITDA divided by Net revenue |
| LTM EBITDA | Last twelve months' EBITDA |
| Pro-forma basis | Includes financial results of Silvinit starting from 1 January of corresponding year |
| IFRS basis | Includes financial results of Silvinit starting from 17 May 2011, when Silvinit ceased to exist as a legal entity |
| SG&A | Sales, General and Administrative expenses |
| c. | Circa = approximately |
| p.a. | Per annum |

| | |
|---|---|
| bn | billion |
| mln | million |
| Mt | million tonnes |
| RUB | Russian rouble, RF |
| ths. | thousand |
| US$ | US dollar |
| 2013E | Estimated data for 2013 |
| 2014F | Forecast data for 2014 |
| CSR | Corporate Social Responsibility |
| CBA | Collective Bargaining Agreement |
| GRI | Global Reporting Initiative |
| GR | Government Relations |
| HR | Human Resources |
| HSE | Health, Safety and Environment |
| IPS | Integrated payroll system |
| KPI | Key Performance Indicator |
| LTIFR | Lost time injury frequency rate |
| FIFR | Work related fatal injury frequency rate |
| R&D projects | Research and Development projects |
| OHSAS 18001 | An international standard for occupational health and safety management systems |
| ISO 14001 | An international standard for environmental management systems |

| | |
|---|---|
| AGMs | Annual General Meetings |
| The Group | OJSC Uralkali and its subsidiaries |
| RM&IC | Risk Management and Internal Control System |

# Disclaimer

This Annual Report has been prepared on the basis of the information available to the Open Joint Stock Company Uralkali and its subsidiaries (hereinafter, Uralkali) as at the date hereof. This Annual Report contains forward looking statements. All forward looking statements contained herein and all subsequent oral or written forward looking statements attributable to Uralkali or any persons acting on its behalf are expressly qualified in their entirety by the cautionary statements below. All statements included in this Annual Report, other than statements of historical facts, may be forward looking statements. Words such as “forecasts”, “believes”, “expects”, “intends”, “plans”, “prediction”, “will”, “may”, “should”, “could”, “anticipates”, “estimates”, “seeks”, “considers”, “assumes”, “continues”, “strives”, “projects”, or any expression or word with similar meaning or the negative thereof, usually indicate the forward looking nature of the statement. Forward looking statements may include statements relating to Uralkali’s operations, financial performance, earnings, economic indicators, results of operation and production activities, dividend policies, capital expenditures, as well as trends relating to commodity prices, production and consumption volumes, costs, expenses, development prospects, useful lives of assets, reserves, the commencement and completion dates of certain production projects, and the acquisition, liquidation or disposal of certain entities, and other similar factors and economic projections with respect to Uralkali’s business, as well as the industry and markets in which it operates. Forward looking statements are not guarantees of future performance. They involve numerous assumptions regarding the present and future strategies of Uralkali and the environment in which it operates and will operate in the future and involve a number of known and unknown risks, uncertainties and other factors that could cause Uralkali’s or its industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward looking statements. Uralkali provides no assurance whatsoever that its or its industry’s actual results, levels of activity, performance or achievements will be consistent with the future results, levels of activity, performance or achievements expressed or implied by any forward looking statements contained in this Annual Report or otherwise. Uralkali accepts no responsibility for any losses whatsoever that may result from any person’s reliance on any such forward looking statements. Except where required by applicable law, Uralkali expressly disclaims any obligation or undertaking to disseminate or publish any updates or amendments to forward looking statements to reflect any change in expectations or new information or subsequent events, conditions or circumstances.

**V. A. Baumgertner**
CEO

**S.G. Zotova**
Chief Accountant

This Uralkali annual report has been approved by the Uralkali Board of Directors on 25 April 2013 (Minutes of Board of Directors No 277 dated 25.04.2013).

The Uralkali Revision Commission has confirmed the accuracy of the data included in this Annual Report.

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Operating licence to
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Licence number: 10-000-1-00272
Date of issue: 24.12.2002
Date of expiry: Perpetual
Issuing authority: Federal Financial
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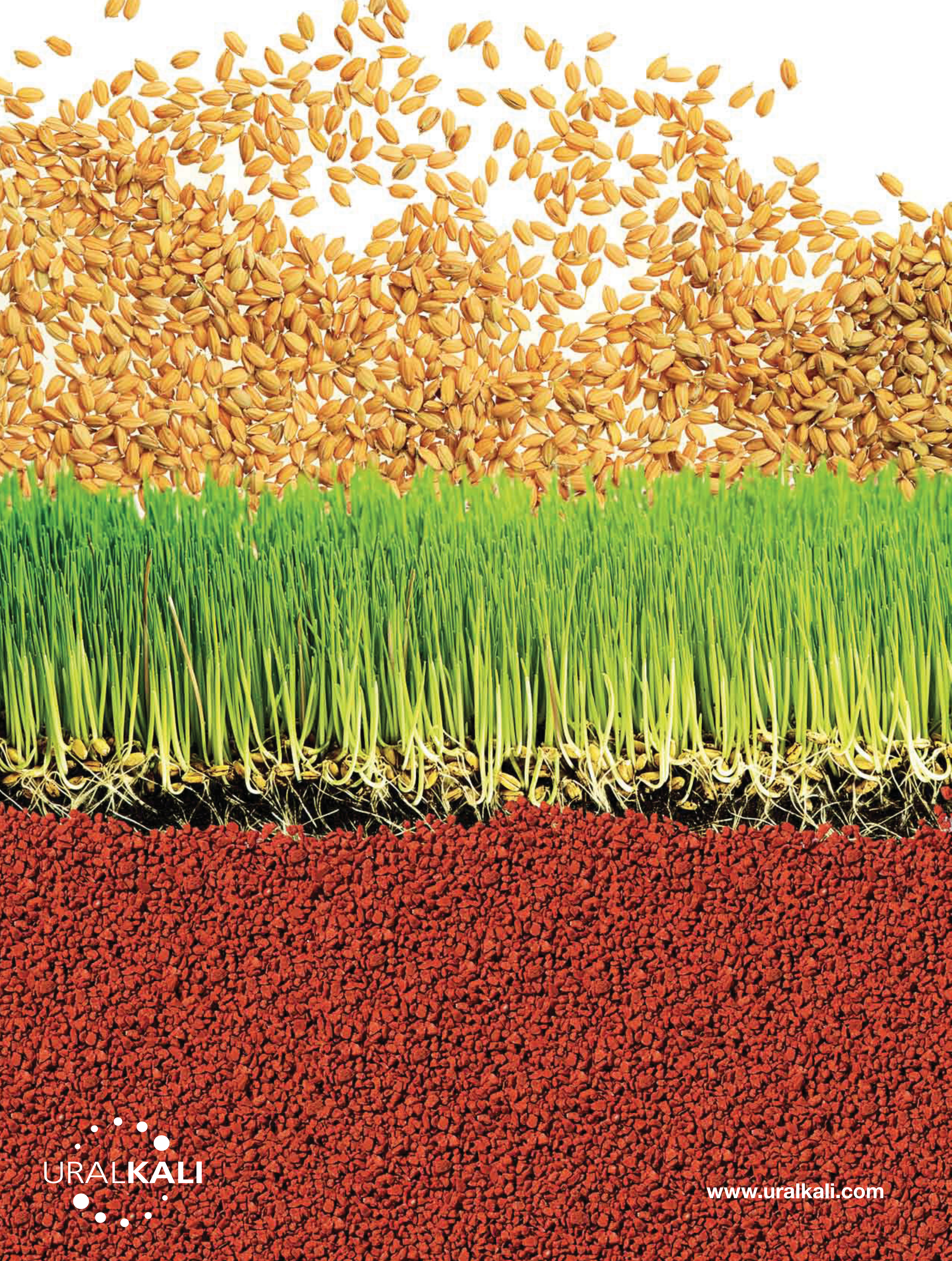
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# GRI TABLES 2012

URALKALI

# Uralkali GRI tables 2012

| Application level | A+ | |
|---|---|---|
| Core indicator<br>Additional indicator | ●<br>◐<br>n/a | reported<br>partially reported<br>not applicable |

## 1. GRI content index

| | | | |
|---|---|---|---|
| 1.1 | Statement from the most senior decision-maker of the organisation. | ● | CEO's Statement |
| 1.2 | Description of key impacts, risks, and opportunities. | ● | 2012 Integrated Report, Risks, 39<br>'Focused on employee safety', 64<br>'Protecting our environment', 68<br>'Committed to our people', 72<br>'Caring for our communities', 76<br>'Stakeholder Engagement', 62 |

### Risk management

Uralkali's risk and internal control management system is based on the principles set out in the Enterprise Risk Management-Integrated Framework[1], which state that Enterprise Risk Management is:

- A process, ongoing and flowing through the entity and effected by people at every level of an organization
- Applied in strategy setting
- Applied across the enterprise, at every level and unit, and includes taking an entity level portfolio view of risk
- Designed to identify potential events that, if they occur, will affect the entity
- Able to provide reasonable assurance to an entity's management and board of directors.

We took all these principles into account when developing our Risk and Internal Control Management Policy, approved by the Board of Directors in September 2012. This policy defines the Group's position on risk management and internal control, and sets out the basic requirements and key principles of the risk management processes and of establishing and maintaining internal control process, as well as the obligations of management and employees in terms of effecting them. In addition, specific actions and measures relating to the system are covered in detail in the Risk and Internal Control Management Standard. Particularly complex and time-consuming risk and internal control management procedures are described separately in the Regulations on Risk Assessment and Control Procedures.

The Board of Directors reviews the risk map every year; from the key risk factors for sustainable development the Company identifies those relating to health, safety and the environment. Risk management action plans are developed and subsequently implemented by the Company's employees.

[1] ERM (Enterprise Risk Management) – the Enterprise Risk Management-Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

## 2. Organisational Profile

| | | | |
|---|---|---|---|
| 2.1 | Name of organisation. | ● | Table GRI, 3 |
| 2.2 | Primary brands, products, and/or services. | ● | 2012 Integrated Report, Why Potash is important, 4 |
| 2.3 | Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures. | ● | 'Group structure': http://www.uralkali.com/about/group_structure/ |
| 2.4 | Location of organisation's headquarters. | ● | Uralkali has its headquarters in the town of Berezniki in the Perm region |
| 2.5 | Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report. | ● | http://www.uralkali.com/upload/pdf/about_en.pdf |
| 2.6 | Nature of ownership and legal form. | ● | http://www.uralkali.com/upload/pdf/about_en.pdf |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries). | ● | 2012 Integrated Report, Where we operate, 8; Sales review, 44<br>'Sales': http://www.uralkali.com/buyers/sale/<br>http://www.uralkali.com/upload/iblock/1ac/Sales%20structure.pdf<br>http://www.uralkali.com/upload/iblock/416/mpvvo%20qjdldw.pdf |
| 2.8 | Scale of the reporting organisation. | ● | 2012 Annual Report, Group Highlights, 2; Operating review, 50. |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership. | ● | No significant changes during the reporting period regarding size, structure, or ownership |
| 2.10 | Awards received in the reporting period. | ● | 'Committed to our people', 72<br>'Caring for our communities', 76<br>'Protecting our environment', 68 |

## 3. Report Parameters

| | | | |
|---|---|---|---|
| 3.1 | Reporting period (e.g. fiscal/calendar year) for information provided. | ● | Table GRI, 3 |
| 3.2 | Date of most recent previous report (if any). | ● | Table GRI, 3 |
| 3.3 | Reporting cycle (annual, biennial, etc.) | ● | Table GRI, 3 |
| 3.4 | Contact point for questions. | ● | Table GRI, 3 |
| 3.5 | Process for defining report content. | ● | Table GRI, 3 |
| 3.6 | Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance. | ● | Table GRI, 3 |
| 3.7 | State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope). | ● | Table GRI, 3 |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations. | ● | Table GRI, 3 |
| 3.9 | Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. | ● | Table GRI, 3 |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g. mergers/acquisitions, change of base years/periods, nature of business, measurement methods). | ● | Table GRI, 3 |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. | ● | Table GRI, 3 |
| 3.12 | Table identifying the location of the Standard Disclosures in the report. | ● | Table GRI, 3 |
| 3.13 | Policy and current practice with regard to seeking external assurance for the report. | ● | Table GRI, 3 |
| 4.12 | Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses. | ● | The Company does not subscribe to any other sustainability-related charters, principles, or initiatives. |

In 2011 OJSC Uralkali (hereinafter “Uralkali” or the “Company”) published its first Sustainability Report. In 2012 the Company published its first Integrated Report, which is supplemented by this GRI table. The Report covers the Company’s activities from 1 January to 31 December 2012, including its approach to achieving goals and meeting objectives, the goals achieved, and plans for the future.

Uralkali’s Sustainable Development Report 2011 is available in Russian and English at http://www.uralkali.com/ru/development/.

### Principles and standards

The Report has been prepared in accordance with the Global Reporting Initiative (GRI) G3.1 Sustainability Reporting Guidelines, including the Mining and Metals Sector Supplement. The report has been prepared in line with GRI A+ disclosure level.

### Content and materiality

In defining the content of sustainability information in the Report, Uralkali complied with the GRI approach and principles, including the principles of materiality, stakeholder inclusiveness, sustainability context and completeness. Applying the GRI reporting framework enables the Company to present its activities and results in the most complete form, yet concisely and clearly, to all key stakeholders, and ensures that the provided information can be compared with reports produced by other leading international companies.

The Report includes not only the Company’s achievements in the reporting period, but also discusses the challenges it faced. To ensure a more comprehensive and more complete disclosure, Uralkali is working to improve its system for gathering non-financial information.

The priority topics and key issues disclosed in the Report have been selected based on the following criteria:

- The significance to the implementation of the Company's strategy and policies
- The effect on the Company's performance or business model
- The Company's understanding of stakeholder expectations and interests
- The economic, social and environmental impact on local communities and the regions where the Company operates.

The Report covers a wide range of issues, including key events in the reporting period, health and safety, environmental protection, HR development, social investment and charity, regional development and stakeholder engagement.

### Scope

In defining the scope of the sustainability information disclosed in the Report and the performance indicators, Uralkali followed principles of materiality and completeness. Whereas the 2011 Sustainable Development Report included only data on OJSC Uralkali and OJSC Silvinit, the Integrated Report 2012 covers OJSC Uralkali and all the subsidiaries and related entities in the Uralkali Group in 2012.

The term "Uralkali Group" (the "Group"), when used in the quantitative disclosures, refers to OJSC Uralkali and its subsidiaries. The term "OJSC Uralkali", when used in the quantitative disclosures, refers to the individual entity with production sites at Berezniki and Solikamsk. The terms "Uralkali" and the "Company", when used in the qualitative disclosures, refer to OJSC Uralkali and its subsidiaries jointly.

The terms "Uralkali" and the "Company", when used in the qualitative disclosures regarding corporate governance, refer to OJSC Uralkali.

### Data presentation

Uralkali employs its own, internal system for gathering and compiling information. The system is based on the principles and approaches of the GRI G3.1 Guidelines, and makes it possible to collect data on all the Company's entities.

The Company's financial indicators are expressed in US dollars and presented in accordance with its consolidated financial statements for the year ended 31 December 2012. The employment figures are based on the headcount as at 31 December 2012.

Performance figures for HSE, social investment and HR management are presented for OJSC Uralkali and the Group separately.

### Restatements and significant changes

The data measurement techniques used in this Report are not significantly different from those used in the 2011 Sustainability Report. However, the scope of the Integrated Report 2012 is considerably broader: data is now provided not only on the parent company, but also on the main subsidiaries and related entities.

### Assurance

To improve the reliability and accuracy of the non-financial information in the Integrated Report, Uralkali engages audit firms to assess and review sustainability information.

The Report has been reviewed by an independent auditor under the ISAE 3000 standard and was prepared in line with GRI A+ disclosure level.

You can read more about the scope and subject matter of the assurance in the Independent Assurance Report section.

### Contacts

Uralkali welcomes any feedback on the Report and the information contained in it. The views of its stakeholders –both internal and external– are highly important to the Company's future sustainability reporting and planning.

Please use the feedback form at
http://www.uralkali.com/ru/investors/reporting_and_disclosure/development/

You can also use the contact details below:

OAO Uralkali
63 Ulitsa Pyatiletki, Berezniki, Perm Krai, Russia, 618426
T: +7 (342) 429 61 35
F: +7 (342) 429 61 00
uralkali@uralkali.com

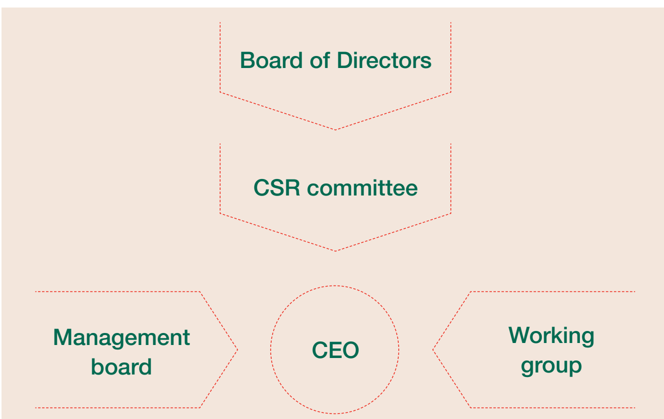
## 4. Governance, Commitments, and Engagement

| | | | |
|---|---|---|---|
| 4.1 | Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight. | ● | 2012 Integrated Report, Governance review, 70 |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer. | ● | 2012 Integrated Report, Governance review, 70 |
| 4.3 | For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members. | ● | 2012 Integrated Report, Governance review, 70 |

### Our management structure

Uralkali's management and control structure complies with applicable Russian law. In addition, in line with our Corporate Governance Policy, we are developing and adding to our management structure by creating special consultative and advisory bodies to provide expert guidance on key issues, drawing on global best practices in corporate governance. For example, at the end of 2011 the Board of Directors set up a special committee –the Corporate Social Responsibility Committee of the Board of Directors ("the CSR Committee"), which deals with health, safety and environmental issues and a range of social projects on a regular basis. At the start of 2012, we established the Health, Safety, Environment and Corporate Social Responsibility Committee under the Chief Executive Officer (the Working Group), which monitors CSR-related information and oversees the performance of goals and objectives.

### Our sustainable development management structure




### Board of Directors

The Board of Directors has overall control of Uralkali's activities. It makes decisions on key development strategy issues and approval of the Uralkali's public reports, and regularly management's work in key areas, not least sustainable development.

For example, in 2012 the Board of Directors approved Uralkali's 2011 Sustainable Development Report, its Corporate Social Responsibility Policy and its Corporate Governance Policy. The Board of Directors is also responsible for determining the make-up and number of people on the CSR Committee, which was reviewed twice in 2012. As of 31 December 2012, the CSR Committee comprises six directors, including three independent directors.

### CSR Committee of the Board of Directors

In 2012, the CSR Committee did a considerable amount of work on the issues within its remit, and met all its goals for the year. You can read more about the CSR Committee on page 64 of the 2012 Integrated Report and on page 94 of the "Corporate governance report". In particular, the Committee monitored preparation of Uralkali's first sustainable development report, approved by the Board of Directors in September 2012, helped to develop the HSE and CSR policies, and reviewed the functional strategies in these areas. In 2013, the Committee plans to continue its work in these areas and to focus on developing a stakeholder relations strategy covering aspects of Uralkali's activities.

### Management Board and CEO

Uralkali's executive bodies are the Management Board (its collective executive body) and the Chief Executive Officer (its single-person executive body). Apart from the CEO, the Management Board comprises 12 executives who report directly to the CEO and head the Company's main functions.

The Management Board met 10 times in 2012; the issues dealt with included the establishment and organisation of the Working Group, implementation of the Health and Safety Cardinal Rules, approval of the HSE Policy, and aspects of sustainable development reporting.

You can read more on the make-up, remit and activities of the Board of Directors, its committees and the Management Board from page 89 of the 2012 Integrated Report and in the "Corporate governance report".

### Working Group

The Working Group was established by the Management Board in February 2012. It includes senior officials from the main areas of sustainable development: the HSE Director (who is also the Deputy Chair of the Working Group), the HR Director, the Chief Engineer, the Chief Operating Officer, the Director of Legal and Corporate Affairs, and the Head of Government Relations.

The Group was set up to provide an initial review of sustainability-related matters and to perform further work on them. Led by the CEO, the Group regularly reviews HSE statistics, develops recommendations on long-term key performance indicators for HSE. It also analyses the potential risks and plans to mitigate them.

| | | | |
|---|---|---|---|
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. | | |

Feedback channels reflect Uralkali Group's commitment to openness, mutual respect and teamwork. The CEO holds regular briefings for employee groups to provide updates on new developments and to answer questions. The feedback system also includes an on-line feedback service and a telephone hotline. The Group conducts surveys to identify bottlenecks in the Company's work and to determine which aspects of HR management to invest in to ensure higher employee engagement.

| | | | |
|---|---|---|---|
| 4.5 | Linkage between compensation for members of the highest governance body, senior managers, and executives and organization's performance. | | 2012 Integrated Report, ,Governance review, 78 |
| 4.6 | Processes in place for the highest governance body to ensure conflicts of interest are avoided. | | Regulations on corporate conflicts resolution, The Code of Corporate Culture of OJSC Uralkali. http://www.uralkali.com/about/corporate_governance/regulatory_documents/ |
| 4.7 | Process for determining the composition, qualifications and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity. | | 2012 Integrated Report, Governance review, 73 |
| 4.8 | Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation. | | 2012 Integrated Report, Inside front cover |

### Business ethics

In 2012, a new edition of Uralkali's Code of Corporate Culture took effect. For the first time, it included the Company's business ethics rules. Given that we work on a regular basis with various stakeholders, and bearing in mind the high standards expected of us as a public company, the largest firm in the region where we operate, and one of the world's leading potash producers, we have established various standards and principles in the Code, which underpin our relationships with our stakeholders. Our key objectives in this area are: to comply with legislation; to meet the requirements of stock exchanges; to adhere to the Universal Declaration of Human Rights; and to reject corruption. With this in mind, we maintain a constant dialogue with stakeholders. We look for mutually acceptable solutions, taking every angle and viewpoint into consideration. We keep track of important changes in areas relating to Uralkali's activities, taking account of global best practices. In doing so, we are building better relationships with our stakeholders.

| | | | |
|---|---|---|---|
| 4.9 | Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles. | | Integrated Report 2012, Sustainability, 60 |
| 4.11 | Explanation of whether and how the precautionary approach or principle is addressed by the organisation. | | The precautionary approach is not addressed by the Company.<br>The Company's approach to risk management is described below and in the 2012 Integrated Report (Risks, 39). |

## Elements of the sustainable development management system

### Risk management

Uralkali's risk and internal control management system is based on the principles set out in the Enterprise Risk Management-Integrated Framework[1], which state that Enterprise Risk Management is:

- A process, ongoing and flowing through the entity and effected by people at every level of an organization
- Applied in strategy setting
- Applied across the enterprise, at every level and unit, and includes taking an entity level portfolio view of risk
- Designed to identify potential events that, if they occur, will affect the entity
- Able to provide reasonable assurance to an entity's management and board of directors.

We took all these principles into account when developing our Risk and Internal Control Management Policy, approved by the Board of Directors in September 2012. This policy defines the Group's position on risk management and internal control, and sets out the basic requirements and key principles of the risk management processes and of establishing and maintaining internal control process, as well as the obligations of management and employees in terms of effecting them. In addition, specific actions and measures relating to the system are covered in detail in the Risk and Internal Control Management Standard. Particularly complex and time-consuming risk and internal control management procedures are described separately in the Regulations on Risk Assessment and Control Procedures.

The Board of Directors reviews the risk map every year; from the key risk factors for sustainable development the Company identifies those relating to health, safety and the environment. Risk management action plans are developed and subsequently implemented by the Company's employees.

| | | | |
|---|---|---|---|
| 4.10 | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance. | ● | 2012 Integrated Report, Governance, 74 |
| 4.13 | Memberships in associations (such as industry associations) and/or national/international advocacy organisations. | ● | |

#### Membership of associations

With the goal of increasing the amount of fertiliser supplied to the Russian agro-industry, Uralkali is collaborating with the Russian Association of Fertiliser Producers (RAFP) in order to coordinate work with leading companies in the industry. RAFP serves as a strategic vehicle for coordinating and collectively promoting the Company's interests in its dealings with state authorities.

Uralkali is a member of the Russian Union of Industrialists and Entrepreneurs, and takes part in the work of specialist commissions and committees. In addition, representatives of the Company take part in the work of the Federal Antimonopoly Service's Expert Council on the Chemical Industry, helping to develop regulatory documents aimed at preventing discrimination in the fertiliser market.

Uralkali is also a member of the Council of Directors of Companies in Solikamsk and Solikamsk District. This is a not-for-profit partnership and important non-governmental organisation, representing the biggest companies operating in the district. Coordination between the organisation and the local authorities enables a quick and effective resolution of issues related to the district's socio-economic development.

Uralkali is also a member of the following associations and organisations:

- The Mining Association of the Urals
- The Western Urals Energy Industry Association
- Russian Mining Operators
- The International Fertilizer Industry Association
- The Interregional Association of Builders
- The Interregional Association of Specialised Construction Design Organisations
- The Construction Engineering Surveys Association
- The Stroganovsky Club of Industrialists and Financiers
- The International Plant Nutrition Institute
- The Perm Chamber of Commerce and Industry
- The Upper Kama Chamber of Commerce and Industry
- The Perm Region Club of Financial Directors
- The International Potash Institute and others

[1] ERM (Enterprise Risk Management) – the Enterprise Risk Management-Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

| | | | |
|---|---|---|---|
| 4.14 | List of stakeholder groups engaged by the organisation. | ● | 'Stakeholder Engagement', 62 |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage. | ● | 'Stakeholder Engagement', 62 |
| 4.16 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group. | ● | 'Stakeholder Engagement', 62 |
| 4.17 | Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting. | ● | 'Stakeholder Engagement', 62 |

## Economic

| | | | |
|---|---|---|---|
| EC1<br>COMM | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. | ● | 2012 Integrated Report, Group Highlights, 2 |
| EC2 | Financial implications and other risks and opportunities for the organisation's activities due to climate change. | ● | The Company did not assess the potential risks due to climate change and their financial implications. |
| EC3 | Coverage of the organisation's defined benefit plan obligations. | ● | Pensions are paid on the basis of Federal Law FZ-173 of 17 December 2001.<br>Insurance contributions to the Russian Pension Fund are made pursuant to Federal Law 212-FZ of 24 July 2009.<br>Contributions to the Pension Fund made up 12% of the Company's wage bill in 2012. |
| EC4 | Significant financial assistance received from government. | ● | Tax concessions provided in Perm Krai Tax concessions provided in Perm Krai<br>Under Article 15.1 of Perm Oblast Law 1685-296, 'On taxation in Perm Krai' (30 August 2001), the corporate tax rate is 15.5% (a regional rate of 13.5% plus the federal rate of 2%). No other financial assistance is received. |
| EC5 | Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation. | ◐ | Federal Law 82-FZ, 'On the minimum wage', of 19 June 2000<br>The Civil Code of the Russian Federation, Chapter 21, Article 133.1 |

Standard entry level wage in Uralkali is higher than the minimum wage in Perm region.

| | | | |
|---|---|---|---|
| EC6 | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. | ● | |

In an effort to reduce imports and support local manufacturers, the Company tests new products made by domestic manufacturers. One of the pre-qualification criteria for some tenders is for the producer to have its own manufacturing base in one of the cities or the region. In 2012, foreign imports made up 11.5% of all Uralkali's purchases.

| | | | |
|---|---|---|---|
| EC7<br>COMM | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. | ● | |

The Company has production facilities in two towns in the Perm region: Berezniki and Solikamsk. 99% of employees, and 85% of managers, are locals. In exceptional circumstances, and only where there are no local candidates with the necessary skill set and experience, the Company hires specialists and managers from other regions.

| | | | |
|---|---|---|---|
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. | ● | 'Caring for our communities', 76 |

### Social investments by OJSC Uralkali (US$ million)

**$29.1 mln**


## Environmental

| | | | |
|---|---|---|---|
| EN1 | Materials used by weight or volume. | ● | In 2012, 36,033,600 tonnes of sylvinite and 499,700 tonnes of carnallite were used. |
| EN2 COMM | Percentage of materials used that are recycled input materials. | ● | The Company did not use recycled input materials in the reporting period. |
| EN3 | Direct energy consumption by primary energy source. | ● | |
| EN4 | Indirect energy consumption by primary source. | ● | |
| EN5 | Energy saved due to conservation and efficiency improvements. | ● | |

### Consumption of primary energy sources at the Group in 2011-2012

| | | 2012 | 2011 | | 2012 | 2011 |
|---|---|---|---|---|---|---|
| Natural gas | $m^3$ | 351,657,134.0 | 287,719,429.0 | GJ | 13,718,144.8 | 11,223,934.9 |
| Associated petroleum gas | $m^3$ | 76,692,427.0 | 36,481,069.0 | GJ | 2,991,771.6 | 1,423,126.5 |
| Diesel | Tonnes | 8,023.1 | 2,212.0 | GJ | 347,640.9 | 95,846.0 |
| Gasoline | Tonnes | 933.1 | 364.2 | GJ | 41,802.9 | 16,316.2 |
| Other | Tonnes | 6,097.0 | 6,708.0 | GJ | 273,145.6 | 300,518.4 |

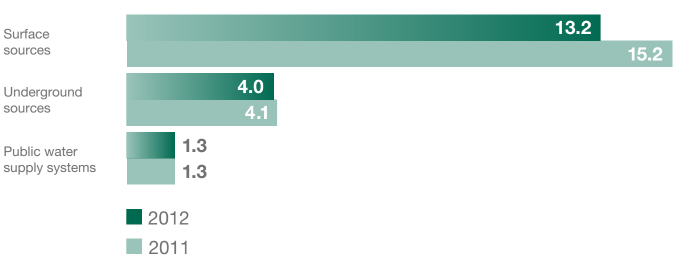
### Amount of electricity and heating purchased at the Group in 2011-2012

| | Electricity | | Heat power | |
|---|---|---|---|---|
| Year | Million kWh | GJ | Million Gcal | GJ |
| 2012 | 1,365.4 | 4,915,500.3 | 0.1 | 321,617.0 |
| 2011 | 1,428.8 | 5,143,501.2 | 0.2 | 997,328.0 |

### Energy saved by replacing equipment at the Group

| | Electricity | | Heat power | |
|---|---|---|---|---|
| Year | Million kWh | GJ | Million Gcal | GJ |
| 2012 | 24.5 | 88,131.6 | 81,483.0 | 341,152.6 |
| 2011 | 20.1 | 72,291.6 | 55,273.0 | 231,416.7 |

### Water intake for industrial needs and utility services at OJSC Uralkali facilities (million $m^3$)

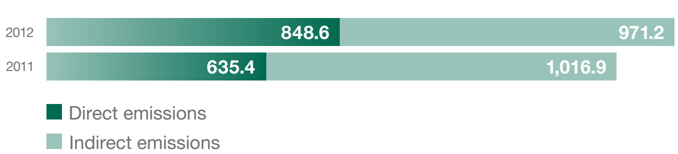


| | | | |
|---|---|---|---|
| EN8 | Total water withdrawal by source. | ● | |
| EN9 | Water sources significantly affected by withdrawal of water. | ● | |

The Company has three water intake points from surface sources: one from the Kama river reservoir (SKRU-2), and two from the Verkhne-Zyryan water reservoir (BKPRU-2 and BKPRU-4).

| | | | |
|---|---|---|---|
| EN10 | Percentage and total volume of water recycled and reused. | ◐ | 'Protecting our environment', 68 |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. | ● | 'Protecting our environment', 68 |
| EN12<br>COMM | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. | ● | The Company's facilities are not located on land in or adjacent to protected areas. |
| MM1<br>COMM | Amount of land (owned or leased, and managed for production activities or extractive use) disturbed or rehabilitated. | ● | The Company extracted ore by closed method, the disturbed land comprised only the land with the extraction waste. The Company pays all obligatory environmental charges and partly performs filling of waste cavities works.<br>Every year, Uralkali takes part in environmental campaigns as part of All-Russia Days of Protection from Environmental Hazards, held in accordance with a resolution of the government of Perm Krai with the aim of improving the state of the environment. |
| EN13<br>COMM | Habitats protected or restored. | ● | The Company extracted ore by closed method, the disturbed land comprised only the land with the extraction waste. The Company pays all obligatory environmental charges and partly performs filling of waste cavities works.<br>Every year, Uralkali takes part in environmental campaigns as part of All-Russia Days of Protection from Environmental Hazards, held in accordance with a resolution of the government of Perm Krai with the aim of improving the state of the environment. |
| EN14<br>COMM | Strategies, current actions and future plans for managing impacts on biodiversity. | ◐ | 'Protecting our environment', 68 |
| MM2 | The number and percentage of total sites identified as requiring biodiversity management plans according to stated criteria, and the number (percentage) of those sites with plans in place. | ◐ | 'Protecting our environment', 68<br>The Company has not yet developed a document on biodiversity management. |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. | ● | The Company believes there are no such species in the region where its production facilities are located. |
| EN16 | Total direct and indirect GHG emissions by weight. | ● | |
| EN17 | Other relevant indirect GHG emissions by weight. | ● | |

## $CO_2$ emissions by the Group in 2011-2012 (thousand tonnes (%))

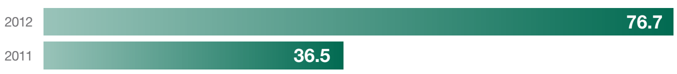


## Greenhouse gas emissions

| | | | |
|---|---|---|---|
| EN18 | Initiatives to reduce greenhouse gas emissions and reduction achived. | ◐ | Use of associated petroleum gas,<br>The Company has no other special initiatives. |

### Consumption of associated petroleum gas by the Group (million $m^3$)

76.7




| | | | |
|---|---|---|---|
| EN19 | Emissions of ozone-depleting substances by weight. | ● | The Company does not use industrial equipment contributing to emissions of ozone-depleting substances. |
| EN20<br>COMM | NOx, SOx, and other significant air emissions by type and weight. | ● | 'Protecting our environment', 68 |

## Emissions into the atmosphere

| Gross pollutant emissions at OJSC Uralkali facilities, thousand tonnes | 2012 | 2011 |
|---|---|---|
| Solid | 1.08 | 1.20 |
| Carbon monoxide (CO) | 1.14 | 0.77 |
| Nitrogen oxides (converted into $NO_2$) | 1.03 | 1.10 |
| Sulphur dioxide ($SO_2$) | 0.25 | 0.20 |
| Volatile organic compounds (VOC) | 0.04 | 0.03 |
| Other substances + particulate matters | 0.08 | 0.10 |

The total amount of carbon monoxide emissions into the atmosphere remained insignificant and increased compared to 2011, due to carrying out an inventory and the addition of new sources of pollutant emissions in the reconstruction of BKPRU-3 and BKPRU-4.

| | | | |
|---|---|---|---|
| EN21 | Total water discharge by quality and destination. | ● | 'Protecting our environment', 68 |

## Water resources

Waste-water discharges in 2012 remained at the same level as in 2011, totalling 10.4 million $m^3$. An insignificant increase compared to 2011 in the total discharge of untreated waste water was attributable to an increase in the output at the carnallite ore treatment plant (SKRU-1). The Company discharges water into the following water intake points: Chornaya River, Usolka River, Lenva River, Kama River, Popovka River and Bygel River.

### Waste water discharges by treatment method at OJSC Uralkali facilities (million $m^3$/year )

| | | | |
|---|---|---|---|
| EN22<br>COMM | Total weight of waste by type and disposal method. | ● | |
| MM3 | Total amounts of overburden, rock, tailings, and sludges and their associated risks. | ● | |
| EN23<br>COMM | Total number and volume of significant spills. | ● | In 2012 no significant spills of chemicals, oils or fuels were identified. |
| EN24 | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. | ● | ‘Protecting our environment’, 68 |

### Waste management

In the reporting period the disposal of hazardous waste at dumps doubled to 10.8 thousand tonnes, as a result of the reconstruction of buildings and facilities at subdivisions and an increase in construction waste from dismantled buildings.

#### Hazardous waste (I–IV hazard class) by treatment method at Uralkali facilities, tonnes

| | 2012 | 2011 |
|---|---|---|
| Disposal at dumps[1] | 10,756 | 5,182 |
| Use | 184 | 949 |
| Recovery | 410 | 256 |

The volume of recovered non-hazardous waste contracted from 149.1 to 4.1 tonnes, as the figure for 2011 included waste from auxiliary farm holdings. The volume of waste dumped at facilities increased by 10% and totalled 44.4 thousand tonnes, which was in part attributable to the reconstruction of buildings and facilities at subdivision sites.

#### Non-hazardous waste (hazard class V) by treatment method at Uralkali facilities, tonnes

| | 2012 | 2011 |
|---|---|---|
| Storage (protracted) at the Company’s sites (salt and slime dumps) | 17,666,532 | 20,669,450 |
| Use | 10,206,043 | 9,958,915 |
| Disposal at dumps[1] | 44,398 | 39,897 |
| Recovery | 4 | 149 |

In 2012, Uralkali produced 2.1 million tonnes of sludge and 24.7 million tonnes of tailings (halite waste from sylvinite treatment plants and the carnallite treatment plant). 42% of halite waste from the sylvinite ore treatment plants was used during the year. 100% of halite waste and sludge from the carnallite ore treatment plant was used in backfilling.

[1] Municipal budget-funded unitary enterprise SDW Landfill, city of Berezniki, Municipal budget-funded unitary enterprise Municipal Services, city of Solikamsk.

| | | | |
|---|---|---|---|
| EN26 | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. | n/a | The Company's products do not have a significant adverse impact on the environment and are not reclaimed by the company for recovery, reuse or recycling. |
| EN27 | Percentage of products sold and their packaging materials that are reclaimed by category. | n/a | Integrated Report 2012, Why potash is important, 4. The Company's products do not have a significant adverse impact on the environment and are not reclaimed by the company for recovery, reuse or recycling. |
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. | ● | 'Protecting our environment', 68 |
| EN30 | Total environmental protection expenditures and investments by type. | ● | |

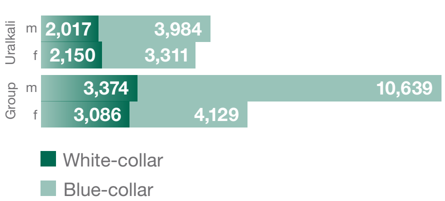
### Investments by OJSC Uralkali in environment protection measures in 2012 (US$ million)


- Processing and disposal of waste ........ 93.4%
- Treatment of emissions and discharges ........ 6.1%
- Miscellaneous ........ 0.5%

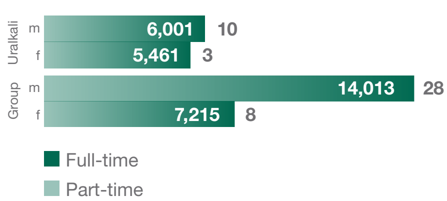
## Social: Labour Practices and Decent Work

| | | | |
|---|---|---|---|
| LA1 | Total workforce by employment type, employment contact, and region broken down by gender. | ● | |

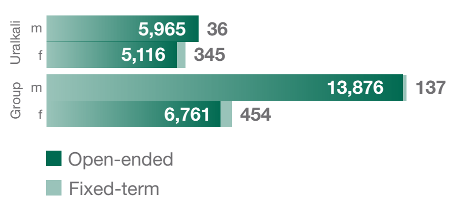
### Breakdown of blue-collar and white-collar employees




### Total workforce by employment status

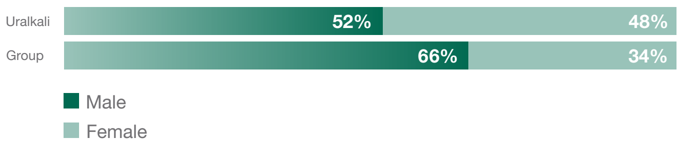



### Total workforce by type of employment contract




Due to the nature of the industry, most of Uralkali's employees deployed in mining are men. Both men (66%) and women (34%) are employed in the production process and at the Company's subsidiaries. The use of female labour for heavy manual work and work in harmful and/or dangerous conditions, as well as in underground work other than non-physical work or work in sanitary and domestic services, is restricted under the Russian Labour Code.

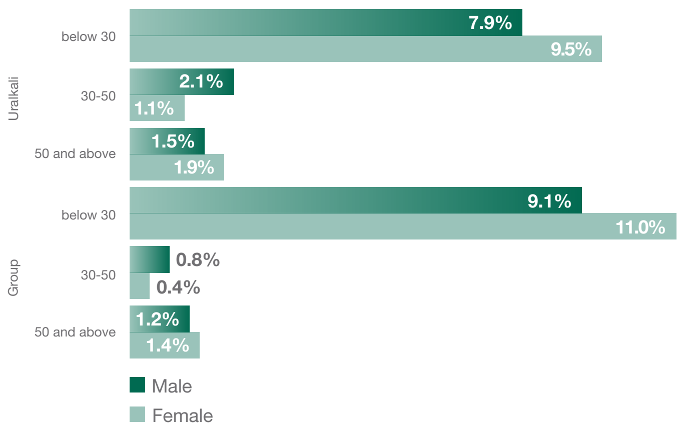
## Employee gender breakdown (%)




| | | | |
|---|---|---|---|
| LA2 | Total number and rate of new employee hires and employee turnover by age group, gender, and region. | ● | 'Committed to our people', 72 |

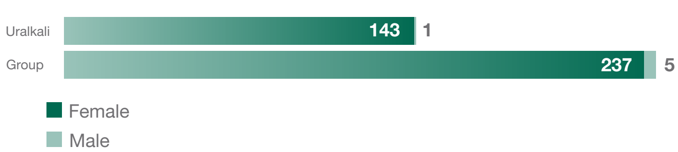
The Company monitors personnel turnover and analyses the factors affecting it. Uralkali's employee turnover rate in 2012 was 9.21%, which is in line with the industry average of 7–15%.

## Proportion[1] of employees leaving the entity in the reporting period (%)

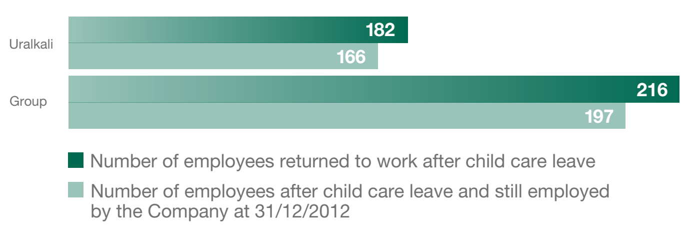



| | | | |
|---|---|---|---|
| LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. | ◐ | 'Committed to our people', 72 |
| LA15 | Return to work and retention rates after parental leave, by gender. | ● | |

## Number of employees on child care leave




## Number of employees returning to their jobs after child care leave




[1] The indicator is based on the number of employees hired by the Company for the first time.

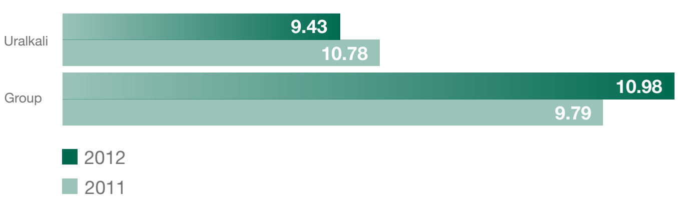
| | | | |
|---|---|---|---|
| LA4 | Percentage of employees covered by collective bargaining agreements. | ● | |

### Employees covered by collective bargaining agreements

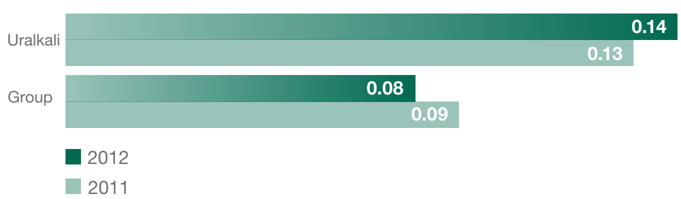

| | | | |
|---|---|---|---|
| LA5 | Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements. | ● | Pursuant to Russian law, the Company gives its employees official notice in advance of any changes. Additional information is provided via the Company's internal media channels. The minimum notice period regarding significant operational changes is two months and is defined by the Russian Labour Code. |
| MM4 | Number of strikes and lock-outs exceeding one week's duration, by country. | ● | There were no strikes and lock-outs at the Company in the reporting year. |
| LA7 COMM | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and gender. | ● | 'Focused on employee safety', 64 Three employees (all men) died in accidents in 2012. |

## Performance indicators

### Lost day rate (LDR)[1]




### Occupational disease rate (ODR)[2]




The occupational disease rate at Uralkali, which carries out main production activities, is higher than at its subsidiaries due to the fact that they mostly comprise service and transportation companies.

| | | | |
|---|---|---|---|
| LA8 | Education, training, counseling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases. | ● | The Company does not operate in areas with a high risk of serious diseases. |
| LA9 | Health and safety topics covered in formal agreements with trade unions. | ● | 'Focused on employee safety', 64 |
| LA10 | Average hours of training per year per employee by gender and by employee category. | ● | 'Committed to our people', 72 |

[1] LDR is calculated based on the total number of work days lost per 200,000 hours worked.

[2] ODR is calculated based on the total number of newly diagnosed incidents of occupational diseases per 200,000 hours worked.

## Average hours of training per year per employee

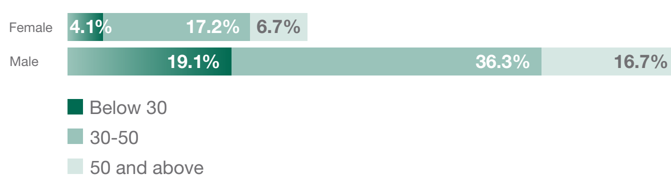
| | White-collar | | Blue-collar | |
|---|---|---|---|---|
| | Male | Female | Male | Female |
| Uralkali | 85 | 33 | 64 | 32 |
| The Group | 73 | 26 | 39 | 27 |

The average number of training hours per employee at Uralkali is higher due to the fact that the Group subsidiaries mostly comprise service and transportation companies and their employees do not require as much training as those occupied in the main production activities.

| | | | |
|---|---|---|---|
| LA11 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. | ◐ | ‘Committed to our people’, 72 |
| LA12 | Percentage of employees receiving regular performance and career development reviews by gender. | ◐ | ‘Committed to our people’, 72 |
| LA13 | Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. | ● | |

### Group’s management bodies gender and age breakdown for 2012 (number of people)


### Group’s workforce gender and age breakdown for 2012 (number of people)




| | | | |
|---|---|---|---|
| LA14 | Ratio of basic salary of men to women by employee category. | ● | |

Uralkali is committed to the principle of equal pay for men and women. In accordance with internal regulations, the same salary and rates are set for employees – irrespective of gender – who work in one unit and perform work of an equal level of difficulty that requires the same skills.

## Social: Human Rights

| | | | |
|---|---|---|---|
| HR1 | Percentage and total number of significant investment agreements and contracts that include human rights clauses or that have undergone human rights screening. | ● | Uralkali regards any violation of the rights of its employees and other stakeholders as unacceptable. This stance applies to the Group as a whole, and is made clear to partners and contractors before entering into contracts with them. |
| HR2 | Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening and actions taken. | ● | Uralkali regards any violation of the rights of its employees and other stakeholders as unacceptable. This stance applies to the Group as a whole, and is made clear to partners and contractors before entering into contracts with them. No special screening is done. |
| HR3 | Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. | ● | 'Committed to our people', 72 |
| HR4 | Total number of incidents of discrimination and corrective actions taken. | ● | Uralkali does not practice discrimination with regard to its own employees and other stakeholders, and regards any discrimination as unacceptable. |
| HR5 COMM | Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. | ● | Uralkali supports the right to exercise freedom of association and collective bargaining. This stance also applies to the Company's subsidiaries. |
| HR6 | Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour. | ● | Uralkali regards the use of child labour as totally unacceptable. This stance also applies to the Group's subsidiaries and is made clear to the Company's counterparties before entering into contracts with them. |
| HR7 | Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour. | ● | Uralkali regards the use of forced or compulsory labour as totally unacceptable. This stance also applies to the Group's subsidiaries and is made clear to the Company's counterparties before entering into contracts with them. |
| MM5 | Total number of operations taking place in or adjacent to Indigenous Peoples' territories, and number and percentage of operations or sites where there are formal agreements with Indigenous Peoples' communities. | n/a | On the basis of Russian Government Resolution 255, 'On the official list of indigenous minorities of the Russian Federation', of 24 March 2000, Perm Krai, the region where the Company operates, is not on the list of constituent members of the Russian Federation where indigenous minorities live. |
| HR10 | Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments. | ● | Uralkali regards human rights violations as totally unacceptable. This stance also applies to the Group's subsidiaries and is made clear to the Company's counterparties before entering into contracts with them. |
| HR11 | Number of grievances related to human rights filed, addressed, and resolved through formal grievance mechanisms. | ● | The Company fully complies with Russian legislation. No grievances were filed through formal grievance mechanisms in 2012. |

## Social: Society

| | | | |
|---|---|---|---|
| SO1 COMM | Percentage of operations with implemented local community engagement, impact assessments, and development programmes. | ◐ | ‘Caring for our communities’, 76 |
| SO9 | Operations with significant potential or actual negative impacts on local communities. | ● | ‘Caring for our communities’, 76<br>‘Protecting our environment’, 68 |
| SO10 | Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities. | ● | ‘Caring for our communities’, 76<br>‘Protecting our environment’, 68 |
| MM6 | Number and description of significant disputes relating to land use, customary rights of local communities and Indigenous Peoples. | n/a | On the basis of Russian Government Resolution 255, ‘On the official list of indigenous minorities of the Russian Federation’, of 24 March 2000, Perm Krai, the region where the Company operates, is not on the list of constituent members of the Russian Federation where indigenous minorities live. |
| MM7 | The extent to which grievance mechanisms were used to resolve disputes relating to land use, customary rights of local communities and Indigenous Peoples, and the outcomes. | n/a | On the basis of Russian Government Resolution 255, ‘On the official list of indigenous minorities of the Russian Federation’, of 24 March 2000, Perm Krai, the region where the Company operates, is not on the list of constituent members of the Russian Federation where indigenous minorities live. |
| MM8 | Number (and percentage) or company operating sites where artisanal and small-scale mining (ASM) takes place on, or adjacent to, the site; the associated risks and the actions taken to manage and mitigate these risks. | n/a | No artisanal and small-scale mining takes place at the Company’s operating sites. |
| MM9 | Sites where resettlements took place, the number of households resettled in each, and how their livelihoods were affected in the process. | ● | ‘Caring for our communities’, 76<br>‘Protecting our environment’, 68 |
| MM10 | Number and percentage of operations with closure plans. | ● | There are no closure plans. |
| SO2 | Percentage and total number of business units analyzed for risks related to corruption. | ● | |
| SO3 | Percentage of employees trained in organisation’s anti-corruption policies and procedures. | ● | ‘Committed to our people’, 72 |
| SO4 | Actions taken in response to incidents of corruption. | ● | |

### Fraud and corruption prevention

Since 2011 Uralkali has had an Anti-Fraud Programme ("Programmme") in place, which is aimed at establishing a comprehensive approach towards preventing, identifying and responding to fraud and corrupt practices.

The Company adopted an implementation schedule for the Programme, laying down a road map for 2012-2014.

In 2011, the Company launched a pilot project focusing on Procurement as part of the Programme. As part of the project, Uralkali analysed all aspects of business-processes, and identified particular sub-processes where fraud schemes may be realized. Based on the analysis, the Company elaborated a number of internal regulatory documents and corrective actions aimed at Fraud risk mitigation. The hotline service was upgraded, as well as the procedure for verifying and investigating information on fraud and corruption. Following the inspections, information is sent to the CEO, the executive director to whom the employee at fault reports, and the HR Director. Should an employee of the Company be found to have committed an administrative or criminal offence, all relevant materials are submitted to the law enforcement agencies. In 2012, Uralkali conducted various scheduled investigations that resulted in a number of measures, including dismissals and penalties.

As part of the Programme implementation, the business-processes at all the Company's units were analysed to ascertain fraud and corruption risks. Area matrices were created, specifying business-units, business-processes, risk factors, fraud scheme features, and statistics on uncovered instances of fraud and corruption.

Based on the analysis of the created matrices, the development and implementation of particular actions focusing on Fraud risk mitigation is planned for 2013.

The Company implements on an ongoing basis measures aimed at preventing, exposing and responding to fraud and corruption. These include employee dismissal and the submission of relevant materials to law enforcement agencies. Conducting inspections in the event of a number of violations helps to prevent and mitigate losses.

The Company takes employees' training in anti-corruption policies and procedures very seriously. Employees regularly undergo training in these areas, in accordance with a pre-agreed schedule.

About 3.4% of managers received training on the Company's anti-corruption policies and procedures.

| | | | |
|---|---|---|---|
| SO5 | Public policy positions and participation in public policy development and lobbying. | ● | 'Caring for our communities', 76 |
| SO7 | Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes | ● | In 2012, Uralkali settled its part of a lawsuit in the USA in which it was accused of being part of a cartel of global potash producers. Under the settlement, Uralkali is to pay the plaintiffs 12,750,000 US$. The Final Approval Hearing will be held on 6 June 2013. In January 2021, in connection with an anti-trust probe, the Russian Federal Antimonopoly Service asked Uralkali to provide an explanation for the increase in the price of potash in January 2012. Having received the explanation, the FAS decided not to bring an antitrust suit. |
| SO8 COMM | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. | ◐ | The Company was not subject to any significant fines and non-monetary sanctions in the reporting period for noncompliance with laws and regulations. |

### Social: Product Responsibility

| | | | |
|---|---|---|---|
| MM11 | Programmes and progress relating to materials stewardship. | n/a | An effective and conscientious approach to materials stewardship is not required for the type of products in question. |
| PR1 | Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. | n/a | The Company's products do not have life cycle stages at which significant health and safety impacts are possible. |
| PR3 | Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements. | n/a | There are no such information requirements for the Company's products. |
| PR6 | Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. | n/a | Marketing communications are not generally used to sell the Company's products. |
| PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. | ◐ | The Company was not subject to any significant fines in the reporting period for noncompliance with laws and regulations. |