



ANNUAL REPORT

2011

 **URALCHEM**  
United Chemical Company

In this Annual Report unless the context requires otherwise, Uralchem, OJSC, its subsidiaries, affiliates, branches, and representative offices are collectively called "URALCHEM," "Company." References to the "Group" are to all URALCHEM Holding P.L.C. subsidiaries taken together.

Except when otherwise specified, all information and data contained in this Annual Report are as of December 31, 2011.

The financial information refers to the activities of the "Group."

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

# KEY INFORMATION

In 2011 in Russia URALCHEM was:

## FIRST

in production of ammonium nitrate and its derivatives

## SECOND

in production of ammonia and nitrogen fertilizers

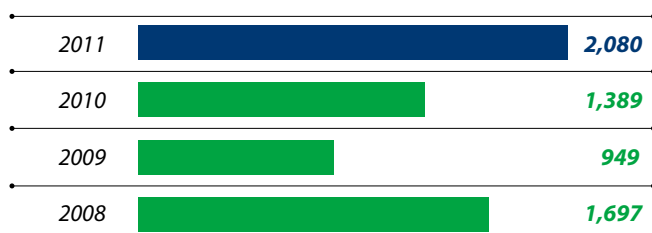
## THIRD

in production of nitrogen-phosphorous fertilizers

# FINANCIAL INDICATORS

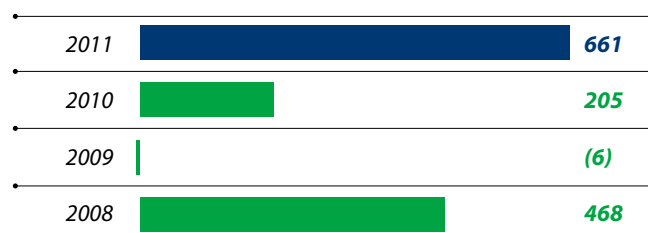
Revenue

**2,080**  
million US dollars



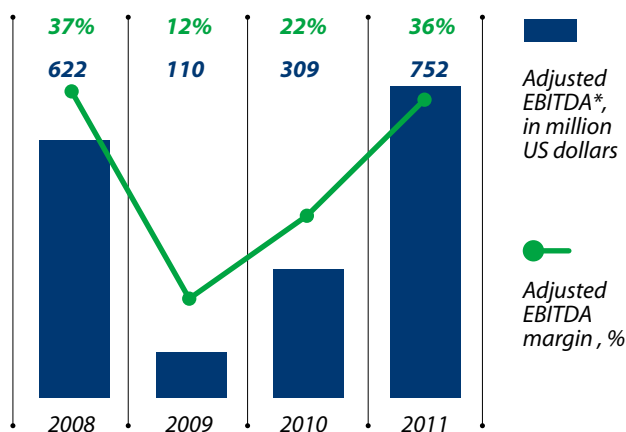
Operating profit

**661**  
million US dollars



Adjusted EBITDA

**752**  
million US dollars

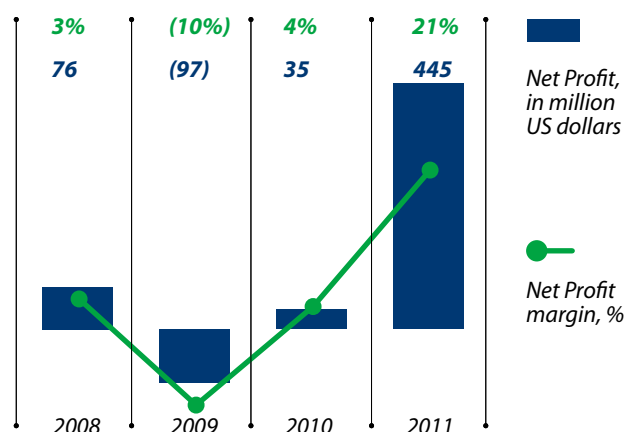


Adjusted EBITDA margin

**36%**

Net Profit

**445**  
million US dollars



Net Profit margin

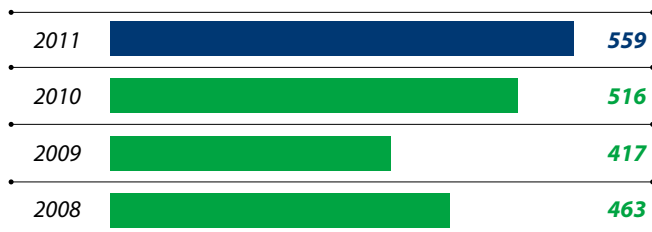
**21%**

\* Adjusted EBITDA refers to operating profit before taking into account depreciation and amortization, and financial gain/loss on operations with financial derivatives.

# OPERATING INDICATORS

Commercial ammonia production

**559**  
'000 tonnes



Production of AN/SAN, CAN/CNS

**2,655**  
'000 tonnes



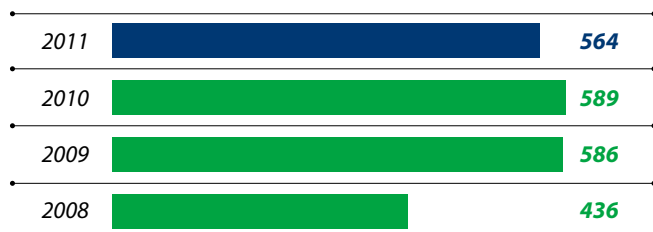
Urea production

**499**  
'000 tonnes



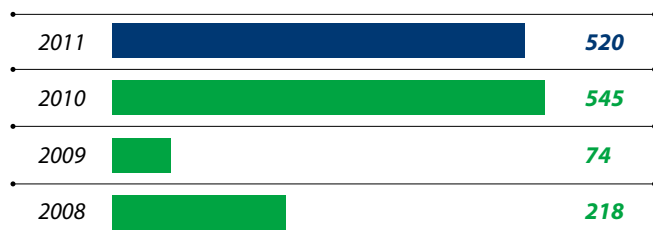
Production of NPK/NPKS

**564**  
'000 tonnes



Production of DAP/MAP

**520**  
'000 tonnes

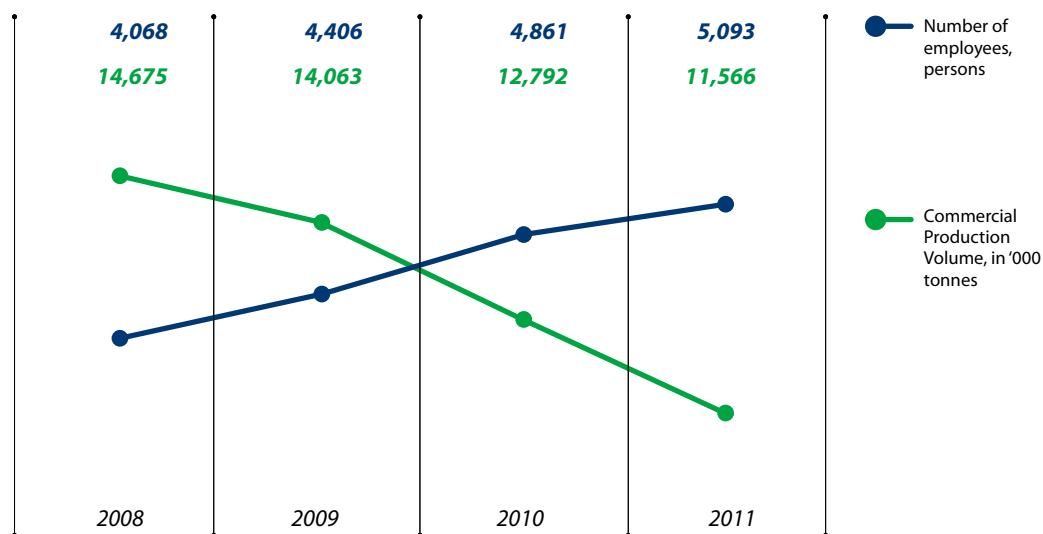


Number of Employees

**11,566**  
persons

Production Volume

**5,093**  
'000 tonnes



# ABOUT THE COMPANY

URALCHEM is one of the largest producers of fertilizers in Russia, the CIS, and Eastern Europe. URALCHEM Group is the largest ammonium nitrate producer and the second largest nitrogen fertilizer producer in Russia.

The main objective of the Company is to actively develop and expand its strategic positions in Russian and international fertilizer markets with a view to providing the consumers with high quality products at competitive prices.

The Company continues to strengthen its position in fertilizer market acquiring, inter alia, new strategic assets. The current asset structure of the Company breaks new strategic ground for its leadership position in nitrogen-phosphorous fertilizer market. The merger of the enterprises contributes to increasing efficiency of cash flow management within the Group, substantially cuts general and administrative expenses, and increases investment attractiveness of the entire URALCHEM Group. Having completed in early January 2012 the acquisition of majority share of stock of Perm Mineral Fertilizers, the Company will strengthen its position in the nitrogen segment and will rank second in Russia in urea production.

**THE MAIN OBJECTIVE OF THE COMPANY IS TO ACTIVELY DEVELOP AND EXPAND ITS STRATEGIC POSITIONS IN RUSSIAN AND INTERNATIONAL FERTILIZER MARKETS WITH A VIEW TO PROVIDING THE CONSUMERS WITH HIGH QUALITY PRODUCTS AT COMPETITIVE PRICES.**

URALCHEM focuses on those lines of development which provide for the growth of Company's financial figures. The flexibility of operations makes it possible to meet the requirements of the market and shift to the production of those fertilizers which are in greatest demand by consumers and can therefore maximize revenue.

In 2011, the Company successfully worked toward its goals and achieved good results.

URALCHEM produces a wide line of products, including specially developed fertilizer grades designed for specific countries, markets and their segments. Today the production portfolio of the Company consists of more than 30 different products, thereby satisfying specific demands of a wide range of clients.

**THE COMPANY IS COMMITTED TO THE CONCEPT OF SUSTAINABLE DEVELOPMENT, I.E. THE MOST COMPLEMENTARY HARMONY OF ECONOMIC, SOCIAL, AND ENVIRONMENTAL COMPONENTS IN THE BUSINESS STRATEGY.**

Client-oriented policy is the priority for the Company.

URALCHEM provides consumers with a special set of services including year round "hot line" to get in touch with Company's representatives, IT services for Russian agricultural clients, which allow to track orders online, provide financial services for client's accounting department, offer a variety of optimal logistics solutions.

URALCHEM is one of those companies in the industry that carries out its strategy putting emphasis on innovations. The Company increases the productivity of labor to release resources and direct them toward development and introduction of new technologies and extension of the product line by creating new and innovative products.

The Company is committed to the concept of sustainable development, i.e. the most complementary harmony of economic, social, and environmental components in the business strategy.

URALCHEM continues to improve its management system by clearly defining key goals both for the entire Company and each employee. In 2012 two key indicators are singled out as a corporate-wide goal – growth of equivalent production volume and growth of net profit.

All the developments and accomplishments over the years of the Company's existence are due to the people who work for it. The Company has a team of young, ambitious and energetic professionals capable of effectively meeting the goals set by the shareholders.

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# LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Year 2011 was marked by high results for URALCHEM. In the beginning of the year we set rather serious goals based on evaluation of our capacity, potential for organic growth and market situation. We have worked hard and realized in six months that we are capable of doing better. We adjusted the annual goals of the Company to make them more ambitious, and I am happy to note that all of them were successfully implemented.

In 2011, the Company achieved a number of record-high operating and financial results, outlined in the Company's Annual Report.

However I wouldn't like to evaluate our Company's performance by the figures alone. Everything that has been achieved today and will be achieved in future is a result of the efforts of the Company's individual employees, their teams, project groups, production facilities, workshops, enterprises. The main factor of the Company's success is its people. We are the team, i.e. we have common goals, we strive ahead together, share responsibility, and grow as professionals and individuals.

I thank all Company's employees for excellent work and their personal contribution toward achieving the overall result.

**IN JANUARY 2012 A TRANSACTION TO ACQUIRE PERM MINERAL FERTILIZERS WAS COMPLETED. THE INTEGRATION OF THIS ENTERPRISE INTO URALCHEM GROUP IS UNDERWAY. IT IS AN ASSET WHICH STRENGTHENS OUR LEADERSHIP POSITION IN THE NITROGEN MARKET.**

Another important factor of the Company's efficiency was the right choice of the strategy we followed in 2011. It was directed at production growth, optimization of product line in accordance with the market requirements, increase of sales profit margin, expansion of the Company's market presence and realization of the service programs for the clients. Of course, our Company attached great importance in its strategy to its manpower development – occupational training, tutoring, team work and productivity of labour. I consider investments into Human resources as a guarantee for further Company's long-term sustainable growth and prosperity.

Our team has recently been complemented by new member – in January 2012 a transaction to acquire Perm Mineral Fertilizers was completed. The integration of this enterprise into URALCHEM Group is underway. It is an asset which strengthens our leadership position in the nitrogen market. It is important to note that the transaction was carried out with the Company's own monies without any credit.

We have set new goals now. They reflect still more accurately the Company's strategy, priorities, and business needs. The Company keeps re-enforcing its positions in nitrogen segment of fertilizer market. It is important for us to focus on increasing efficiency of resource utilization against the backdrop of global recession. At the same time during the post-crisis years we managed to lay the foundation with a view to carrying out large scale investment program, which in 2012 is to exceed \$150 million. These funds will be financed out of operating cash flow and directed primarily at upgrading production capacity.

In 2012, I entrusted the management with a task to improve the Company's management system. This is a complex task which includes optimization of all business processes, i.e. to increase production control, implement flexible production portfolio policy, upgrade technology, increase products' quality, increase commercial activities' efficiency, develop information technology.

We keep making rapid strides. It is not easy to be a leader, but we look forward to this goal and we are confident in our abilities.

**Dmitry Mazepin**

Chairman of the Board of Directors  
of URALCHEM



# LETTER FROM THE CHIEF EXECUTIVE OFFICER

You will find below URALCHEM Annual Report for the year 2011.

In 2012 we will celebrate the 5th anniversary of the establishment of our Company. We can already be proud of our important achievements. In such a short span of time URALCHEM has managed to become not only one of the largest producers and major players in the industry, but also an innovative, highly efficient and profitable, vertically integrated company, understanding the changing requirements of its clients and capable of meeting such requirements.

2011 was a very successful year for us against the background of favorable situation in the world markets and the markets of the former Soviet Union, including the Russian market. While 2010 was a period of post-crisis recovery for the URALCHEM Group, the last year was marked by the breakthrough both in production and sales. For the first time we exceeded the target of 5 million tonnes of annual production which is a 5% increase compared to the previous year. The production of our main product, ammonium nitrate and its derivatives, was growing at outstripping rate and amounted to 2.65 million tonnes, i.e. increased by 6% over the year. Total revenue exceeded \$2 billion and increased by 50% as compared to the total revenue of 2010. We managed to significantly improve EBITDA, which grew by 143% and reached \$752 million.

I would like to stress that high results were achieved on already available production facilities and are due to improved production efficiency, well developed production and logistics infrastructure, well balanced production flows among the plants, well balanced product line that consists of basic and premium products, and an increase in our sales both in the Russian market and in more than 47 countries around the world.

**IN 2011 URALCHEM GROUP WAS THE NUMBER ONE PRODUCER OF AMMONIUM NITRATE AND ITS DERIVATIVES AND THE SECOND LARGEST AMMONIA AND NITROGEN FERTILIZER PRODUCER IN RUSSIA.**

In 2011 URALCHEM Group was the number one producer of ammonium nitrate and its derivatives and the second largest ammonia and nitrogen fertilizer producer in Russia.

As a quick response to the market requirements, we reduced production of diammonium phosphate in favor of increasing production of more marketable monoammonium phosphate, which grew by 131%.

We are developing long-term and mutually beneficial co-operation with our key partners – suppliers of natural gas, our main raw material for nitrogen fertilizer production. To reduce any risks related to raw materials URALCHEM has long-term contracts with Gazprom and NOVATEK for gas supplies.

The main “bottleneck” in the Company’s development is worn-out equipment being used by the enterprises, the major part of which was installed back in Soviet times. We continue investing significant funds both into maintenance and modernization of equipment to increase productivity of labor, power- and resource efficiency.

In 2011 the Company continued optimizing its transportation and building its own port capacities. In order to form a single operation point for the Group's railway transportation we started to transfer our railway units under the control of Uralchem-Trans – one of our subsidiaries engaged in logistics.

We expect that favorable factors and growth drivers in fertilizer sector, characteristic for 2011, such as high prices and high demand for mineral fertilizers will remain unchanged in 2012, too. The Company intends to increase production volumes and reach the target of 6 million tonnes by 2013. Based on the analysis of consumer demand we will increase production of the most efficient and marketable products, which bring us additional profit. New projects are planned for the Company's enterprises to increase capacity of existing production facilities and to set up new ones.

URALCHEM has ambitious goals and plans for the future. We have a lot of interesting work to do. We are confident that we can successfully realize the set goals and achieve high results.

**Dmitry Konyaev**

URALCHEM CEO



# MARKETS OVERVIEW

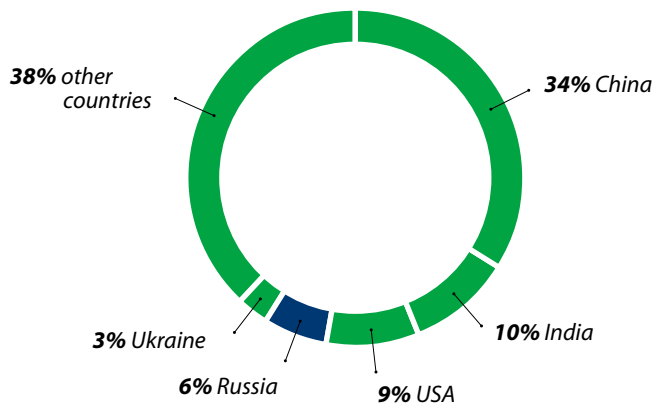
## INTERNATIONAL MINERAL FERTILIZER MARKET OVERVIEW AND TRENDS

The international mineral fertilizer market has been maintaining fast economic growth for the last few decades due to growth of global economy in general and agriculture in particular. As a result in less than 30 years its volume increased fivefold to over \$70 billion with stable average annual growth of about 3% over many years.

The global mineral fertilizer industry is characterized by a number of specific features:

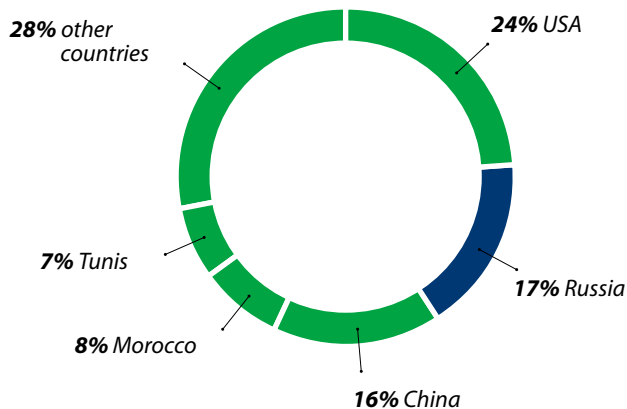
- The main raw material sources for mineral fertilizer production are natural gas, phosphate ore, and potash salts, whose deposits are limited to a few regions of the world;
- Stable price increases of energy resources and raw materials make significant impact on the price level of mineral fertilizers due to their high energy intensity and dependence on raw materials;
- Production facilities are defined by a high CAPEX level and are concentrated mainly near raw material sources, seaports or key markets;
- A considerable export share is typical for the industry due to concentration of production facilities and their geographical remoteness from the regions with high mineral fertilizer consumption.

**GLOBAL PRODUCTION OF NITROGEN FERTILIZERS, BY COUNTRY**



Source: IFA

**GLOBAL PRODUCTION OF PHOSPHATE FERTILIZERS, BY COUNTRY**

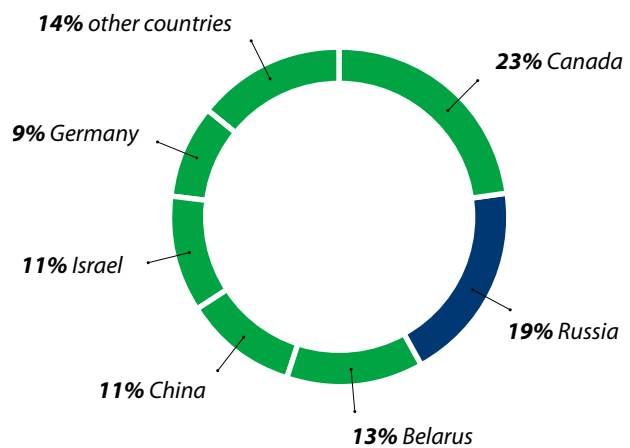


Source: IFA

#### Key Growth Factors of Global Fertilizer Consumption:

- Growth in the world population results in the increased demand for staple food, while agricultural areas per capita are concurrently reduced. This has led to a need for new technologies in agriculture and thus to higher demand for mineral fertilizers and adjustments in their qualitative characteristics as well;
- Over the last years unfavorable weather conditions have negatively affected crop production in most producer countries, and have led to a constant decrease in the world crop stocks, which in turn leads to a higher demand for mineral fertilizers;
- Increase in per capita income in countries with developing economies leads to an improvement in food rations. Increased meat and dairy product consumption leads to demand for additional plant cultivation, and therefore a higher demand for mineral fertilizers;
- The demand for biofuel (bio ethanol, bio diesel) is increasing, thereby creating additional demand for technical crops and fertilizers as well.

#### GLOBAL CONSUMPTION OF POTASSIUM FERTILIZERS, BY COUNTRY



Source: IFA

In 2011, nitrogen fertilizer consumption in the world grew faster (3.6%) than consumption of phosphate fertilizer (2.5%), but slower than consumption of potassium fertilizer (6.4%). According to International Fertilizer Industry Association (IFA) forecast, the largest gains in fertilizer consumption would be in the countries of East and South Asia (1.4 million tonnes each) and Latin America (1.3 million tonnes). It is anticipated that in the next five years main increase in world nitrogen and phosphate fertilizer consumption will come from East Asia – 28% and 33% of the world demand, respectively.

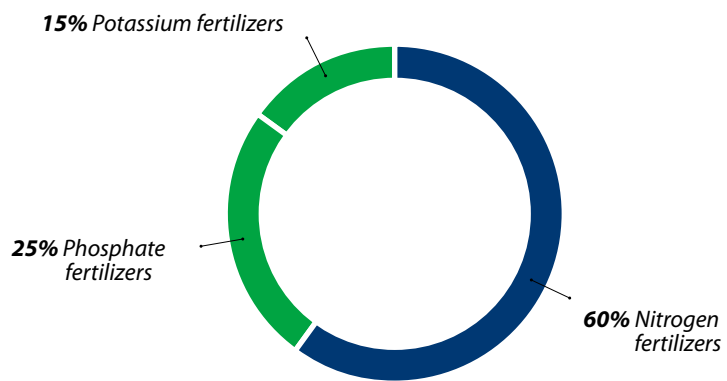
**Fertilizer Market Overview, 2011**

After a sharp market contraction in 2008-2009, global mineral fertilizer industry was characterized by strong recovery of global fertilizer demand and even by growth of some products over pre-crisis level. This contributed to growth of both mineral fertilizer production and sales.

Regionally, fertilizer consumption increased in almost all the world regions but Eastern Europe and Central Asia where it remained stable, and West Asia where it declined by 3%. The largest increases were seen in North (10%) and South America (12%), South Asia (4.5%), and Western and Central Europe (5.2%), while in Africa they were lower (3.4%).

Overall, global fertilizer consumption increased by 5% in 2011.

**GLOBAL FERTILIZER CONSUMPTION IN 2011**



**GLOBAL FERTILIZER CONSUMPTION (IN NUTRIENT VALUE), IN MILLION TONNES**



Source: IFA

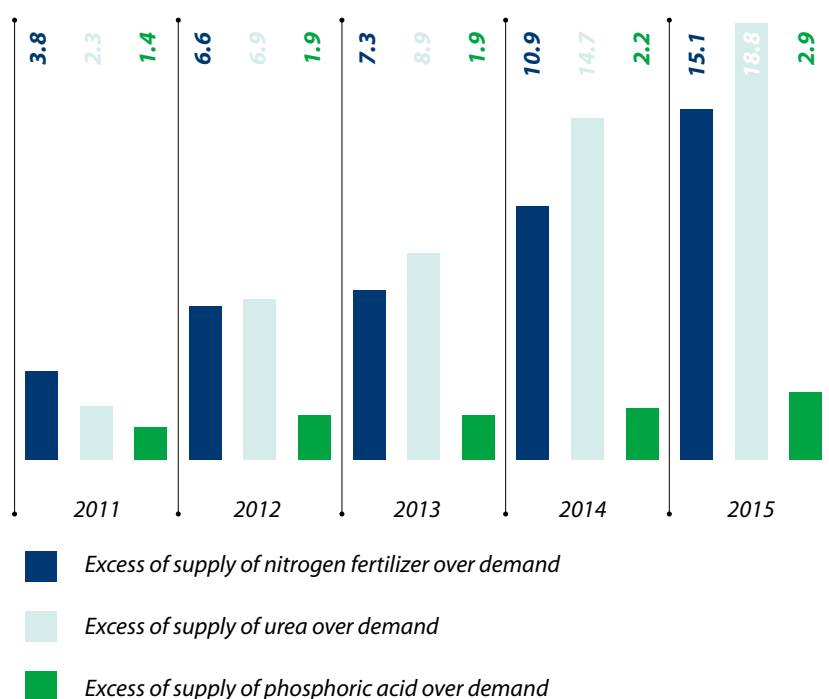
**OVERALL, GLOBAL FERTILIZER CONSUMPTION INCREASED BY 5% IN 2011.**

Global capacity in 2011 was growing slower than projected, with an average operating rate in the industry of 83%, being 98% in nitrogen and 96% in phosphoric acid segments, which accounted for high price level of these products.

**Main Factors of the Mineral Fertilizer Industry Development in 2011:**

- World economic growth has slowed down since Q2 of 2011 due to US and Euro area debt crisis, earthquake in Japan and unrest in North Africa and the Middle East;
- Fertilizer prices have been growing until Q3 of 2011 due to high food and agricultural produce, as well as energy prices.
- World nitrogen fertilizer demand increased by almost 4% and has fully recovered after crisis. Phosphate fertilizer demand increased by almost 9%, having exceeded its record set in 2007-2008. After two disastrous years, potassium fertilizer demand increased by 18%, but failed yet to reach pre-crisis level;
- Mineral fertilizer market has fully recovered after crisis in most regions except two: Western and Central Europe and West Asia where consumption has not yet reached pre-crisis level.

**WORLD FERTILIZER SUPPLY/DEMAND BALANCE FORECAST**



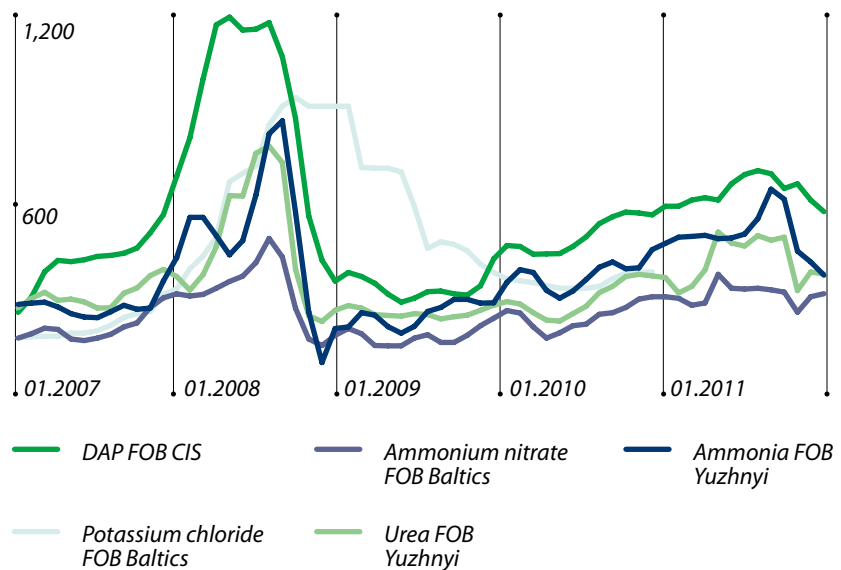
Source: IFA

2012 WILL BE CHARACTERIZED BY ONGOING GLOBAL ECONOMIC INSTABILITY AND VOLATILE FERTILIZER MARKET PRICES, AS WELL AS BY GROWING SPECULATIVE FACTORS IN FERTILIZER PRICE FORMATION.

#### Main Factors of the Mineral Fertilizer Market Development:

- Expected price increase for Russian gas in the Ukraine for industrial producers, resulting in higher minimum acceptable export price for ammonia and nitrogen fertilizers for Ukrainian producers, who determine today the “threshold” price level for nitrogen fertilizers in the world;
- Relatively low natural gas prices in the US increase competitiveness of its ammonia and nitrogen fertilizers (the plans to resume production of ammonia and nitrogen fertilizers are underway);
- High agricultural produce prices will positively affect the fertilizer prices and their consumption in leading agricultural regions;
- High dependence of world prices during off-season period in other regions on the import by limited number of countries, which actually determine market prices (notably, India in the field of phosphate and nitrogen fertilizers);
- There is sustained interest in adding new capacity in large nitrogen consuming countries, with the potential to transform these countries into net exporters in the distant future;

#### PRICE DYNAMICS FOR MAIN TYPES OF FERTILIZERS AND AMMONIA IN 2007-2012, US DOLLARS/TONNE



Source: Fertecon, ICIS, Profercy

- According to the forecast of the International Fertilizer Industry Association (IFA), the global nitrogen, urea, and phosphorous acid supply will be accelerating faster than demand, will lead to growing supply/demand disbalance, and may negatively affect the prices.

### Outlook for Fertilizer Market Development In 2012

2012 will be characterized by ongoing global economic instability and volatile fertilizer market prices, as well as by growing speculative factors in fertilizer price formation.

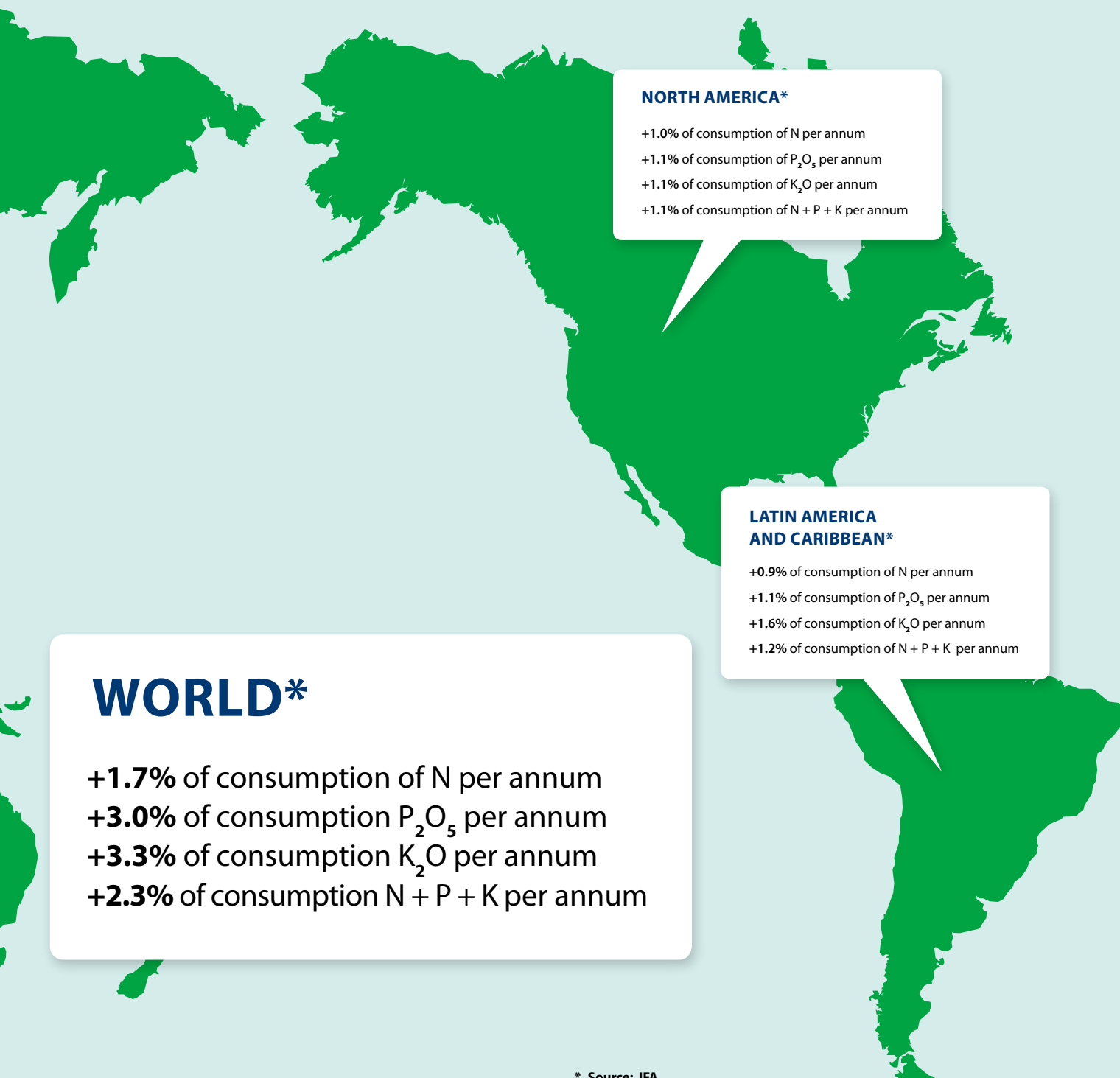
The shift in the roles as a mineral fertilizer power house from traditional markets of Europe and the United States to rapidly developing Asian and Latin American markets.

Some important macroeconomic factors of 2012 affecting, inter alia, mineral fertilizer market are as follows:

- Forecast for deteriorating financial and investment situation in the world, including leading importer countries;
- Unrest in Arab countries playing an important role in the fertilizer market.



## WORLD FERTILIZER CONSUMPTION FORECAST FOR 2012/13



\* Source: IFA

**WESTERN AND CENTRAL EUROPE\***

+0.1% of consumption of N per annum  
 +0.4% of consumption of  $P_2O_5$  per annum  
 +0.6% of consumption of  $K_2O$  per annum  
 +0.2% of consumption of N + P + K per annum

**EAST AND CENTRAL ASIA\***

+4.1% of consumption of N per annum  
 +5.3% of consumption of  $P_2O_5$  per annum  
 +2.8% of consumption of  $K_2O$  per annum  
 +4.1% of consumption of N + P + K per annum

**EAST ASIA\***

+1.5% of consumption of N per annum  
 +4.2% of consumption of  $P_2O_5$  per annum  
 +4.8% of consumption of  $K_2O$  per annum  
 +2.6% of consumption of N + P + K per annum

**WEST ASIA\***

+2.7% of consumption of N per annum  
 +1.9% of consumption of  $P_2O_5$  per annum  
 +5.1% of consumption of  $K_2O$  per annum  
 +2.6% of consumption of N + P + K per annum

**SOUTH ASIA\***

+2.4% of consumption of N per annum  
 +3.1% of consumption of  $P_2O_5$  per annum  
 +7.1% of consumption of  $K_2O$  per annum  
 +3.1% of consumption of N + P + K per annum

**AFRICA\***

+4.0% of consumption of N per annum  
 +2.4% of consumption of  $P_2O_5$  per annum  
 +1.7% of consumption of  $K_2O$  per annum  
 +3.3% of consumption of N + P + K per annum

**OCEANIA\***

+3.1% of consumption of N per annum  
 +11.7% of consumption of  $P_2O_5$  per annum  
 +3.4% of consumption of  $K_2O$  per annum  
 +6.6% of consumption of N + P + K per annum

## RUSSIAN MINERAL FERTILIZER MARKET OVERVIEW AND TRENDS

Production of mineral fertilizers holds a special place among Russian processing industries. Solution of various important Russian economic problems depends on the level and vector of development of this large segment of chemical industry. First of all it is market saturation with food stuffs produced in this country, creation of requisite conditions for Russian food security and sustainable development of related industries.

Mineral fertilizer industry accounts for over 20% of the commercial output of Russian chemical and petrochemical industry.

Russia is a major world exporter of all kinds of mineral fertilizers. Agrochemical products rank third in Russian export volumes after fuel and energy sector and metallurgy.

Today Russian mineral fertilizer industry is characterized as follows:

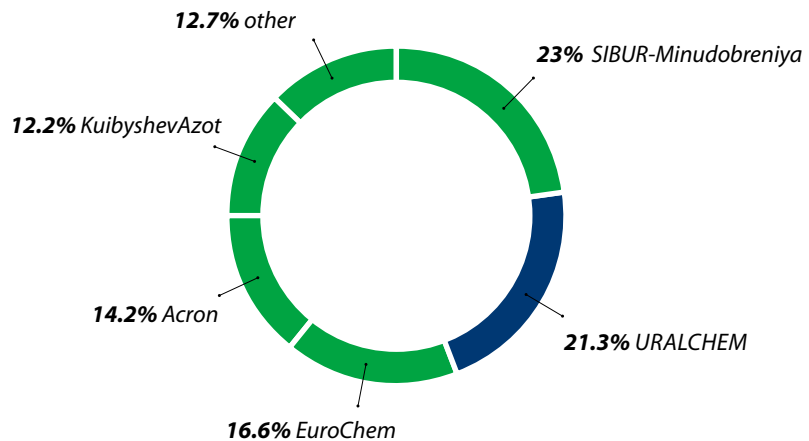
- Unique raw materials deposits. Russia has all kinds of raw materials, and first of all natural gas, phosphate rock, potash ore, and sulphur. Vast regions and even continents are deprived of these raw materials;
- Export orientation: From 60% (nitrogen) to 80% (phosphate and potassium) of mineral fertilizer products are exported;
- High competitive strength and significant share in world import: 16% - in nitrogen and phosphate fertilizers, and 30% in potassium fertilizers;
- Production is concentrated in the hands of large holdings;

### SALES VOLUME OF MINERAL FERTILIZERS TO RUSSIAN AGRICULTURAL SECTOR, IN MILLION TONNES



Source: "AzotEcon Plus" LLC and "Chem-Courier" magazine

### LARGEST AMMONIUM NITRATE SUPPLIERS TO THE DOMESTIC MARKET IN 2011



Source: "Metal-Courier" Information Agency

Russia accounts for

**10%**

of world mineral fertilizer production

Russia accounts

**1.8%**

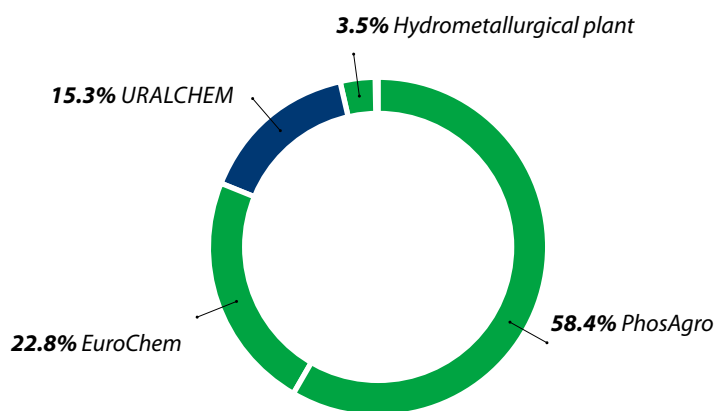
of world mineral fertilizer consumption

- Financial soundness;
- Relatively low sales to the domestic market, especially in phosphate and potassium fertilizer sectors;
- Actual lack of imported fertilizers in the domestic market.

According to research group "AzotEcon Plus" and "Chem-Courier" magazine, in 2011 the historical maximum in the production of most kinds of fertilizers was reached. Russian production of mineral fertilizers in 2011 was 17.8 million tonnes in nutrient value (+5% compared to 2010).

Sales volume of mineral fertilizers to Russian agricultural sector increased compared to 2010 by 5.2% to 2.5 million tonnes.

**LARGEST MONOAMMONIUM PHOSPHATE (MAP) SUPPLIERS TO THE DOMESTIC MARKET IN 2011**



Source: "Metal-Courier" Information Agency

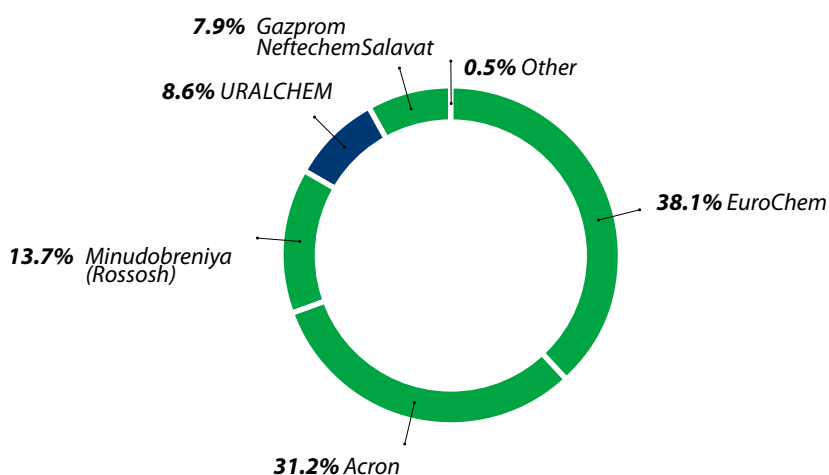
## Market Development Trends

Further development of the industry will to a large extent depend on solution of the production problems facing the industry, and home market development. It is now especially important for Russian nitrogen fertilizer producers to upgrade the production facilities and reduce power and resource consumption. The inflow of less expensive products produced in the regions with cheap natural gas and transportation costs keeps increasing in the market, and they become more competitive compared to the products of a number of Russian producers located in the remote areas, far from borders and export sea ports.

The key factor affecting the demand for mineral fertilizers in Russia is a purchasing power of agricultural producers and the amount of government grants available to them for purchases of agrochemicals. In January 2010 "The Doctrine of Russian Food Security" was adopted, which calls, inter alia, for increase of soil fertility and crop yield, as well as envisages expansion of cultivated areas under crop through enhancement of idle arable land. Thus within forthcoming years the agricultural production is projected to significantly increase with active government support, which will trigger the expansion of the mineral fertilizer market.

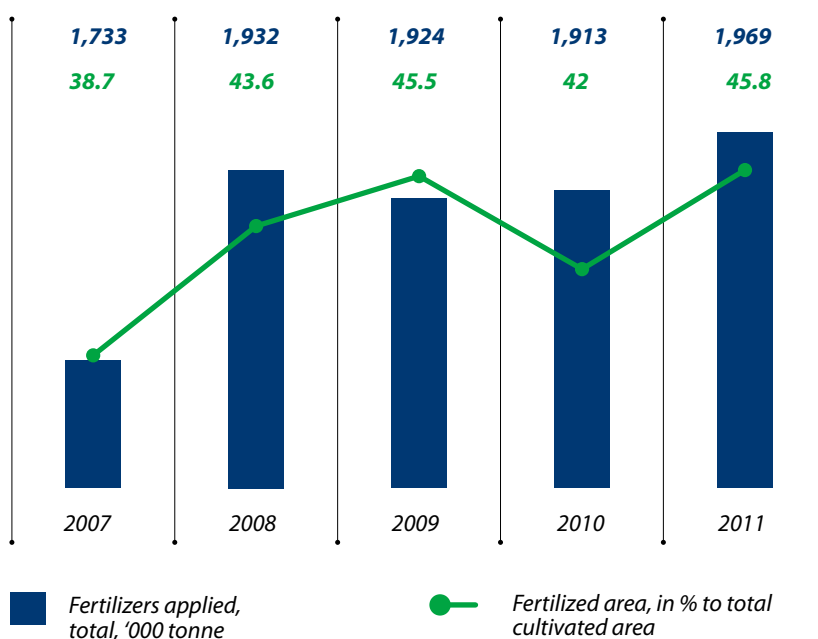
According to "The Agreement on interaction with a view to meeting requirements of agricultural producers of agro-industrial complex the Russian Federation in 2008-2012" between Agro-Industrial Union of Russia and Russian Association of Fertilizer Producers (RAPU), the leading Russian producers declare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

## MAJOR SUPPLIERS OF COMPLEX FERTILIZERS IN 2011



Source: "Metal-Courier" Information Agency

## FERTILIZERS APPLIED AND FERTILIZED AREA

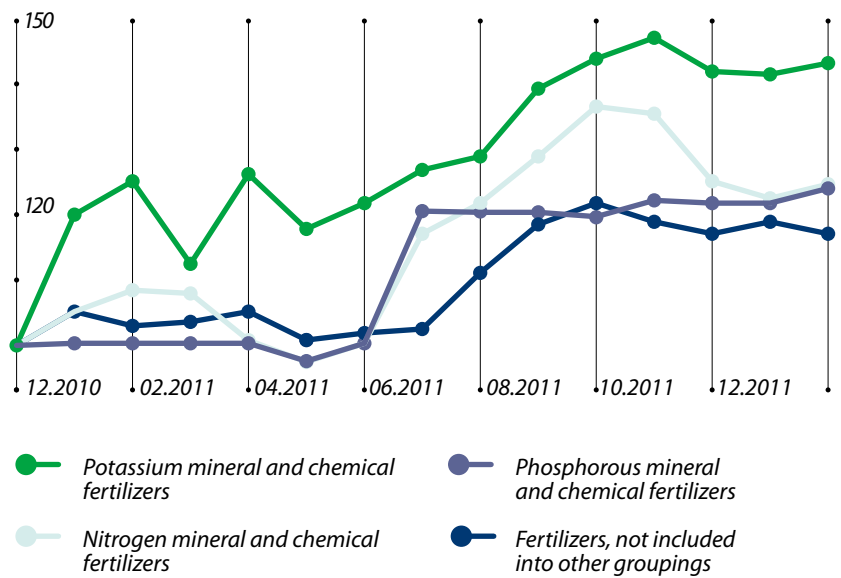


Source: Rosstat

key founder and active member of RAPU, is in favor of supporting Russian agriculture and supplying fertilizers to domestic market at preferential prices.

However purchasing power of Russian agricultural producers has been growing at a very slow pace, and therefore it is highly probable that the high export share in the sales of Russian companies including URALCHEM will remain unchanged.

**DYNAMICS OF FERTILIZER PRICE INDEX CHANGE IN THE RUSSIAN FEDERATION IN 2011, %**



Source: Rosstat

## Overview of Market Competition

There are more than 20 large mineral fertilizer plants in the Russian Federation. Most of them belong to four vertically integrated groups that have been formed in the Russian nitrogen and phosphate mineral fertilizer industry. They produce major share of Russia's mineral fertilizers (excluding potassium fertilizers).

### URALCHEM Market Share

As of date of the report, the Company has capacity to produce:

- 2.5 milliontonnes of ammonium nitrate;
- 2.8 milliontonnes of ammonia;
- 0.8 milliontonnes of complex fertilizers (NPK);
- 0.8 milliontonnes of monoammonium phosphate and diammonium phosphate;
- 1.2 milliontonnes of urea per annum.

In 2011, the Company's commercial output was 5.09 milliontonnes.

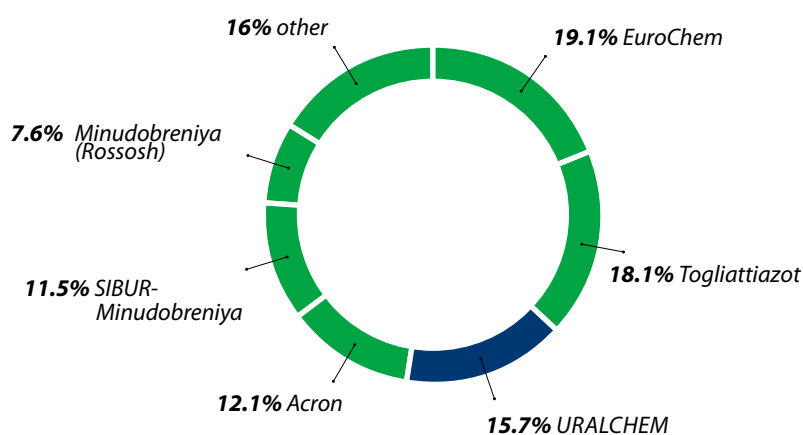
In 2011, the share of the Group in nitrogen and phosphate mineral fertilizers production in Russia was 14.9%.

### Perspectives and Implications of Russia's Accession to WTO

One can hardly expect that Russia's accession to WTO will significantly affect Russian mineral fertilizer market in the near future. Under current global market conditions, major part of the production of the industry remains competitive and sought for in the international and domestic markets. Appearance of cheap fertilizers in the Russian market is unlikely.

Holding Company	Nitrogen Assets	Phosphate Assets
Acron	Acron Dorogobuzh Hunzhi-Akron (China)	
EuroChem	Nevinnomyssky Azot Novomoskovsk joint-stock company Azot	EuroChem-Belorechensk Minudobreniya Liphosa (Lithuania) Phosphorit
URALCHEM	Azot Branch KCCW MFP Perm Mineral Fertilizers	Voskresensk Mineral Fertilizers
PhosAgro	Cherepovetsky Azot Agro-Cherepovets	Ammophos Balakovo Mineral Fertilizers

### URALCHEM – MARKET SHARE IN AMMONIUM PRODUCTION IN RUSSIA IN 2011



Source: AzotEcon Plus

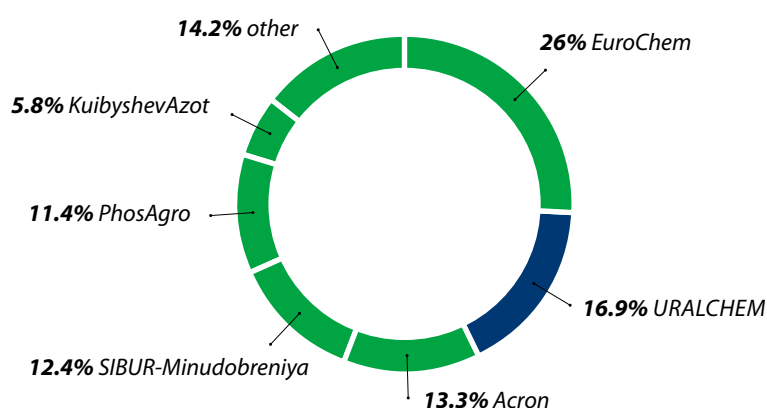
Over the long term, Russia's accession to WTO can become a good incentive to increase competitiveness of the production of the industry in the international market due to bringing production capacity in line with best foreign standards. First of all, it is necessary to substantially upgrade equipment, shift to resource-efficient technologies, tighten environmental regulations, etc. In this regard, the process of upgrading production facilities in the industry can be facilitated and accelerated to some extent due to reduction of the import duty on foreign equipment, including equipment for chemical industry, envisioned by the terms of WTO membership.

Moreover, Russia as a WTO member state, has various instruments to counteract anti-dumping restrictions and protect national market. URALCHEM will try to take advantage of them to improve trading conditions for the Company in international markets.

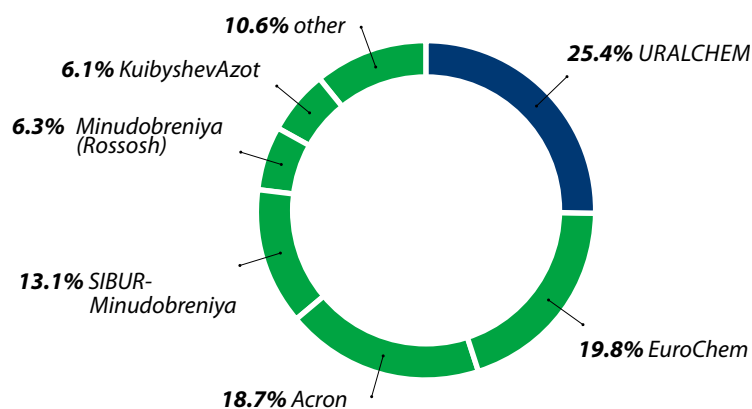
On the other hand, in connection with the implementation of the "Energy Strategy of the Russian Federation until 2030" and in accordance with the WTO requirements, substantial increase of natural gas tariffs, inter alia, for mineral fertilizer producers is underway, which can negatively affect competitive position of Russian products.

The Russia's accession to WTO does not automatically guarantee improvement of trade and political conditions. URALCHEM however will strive to use all WTO instruments to improve terms of access for its products to the global market.

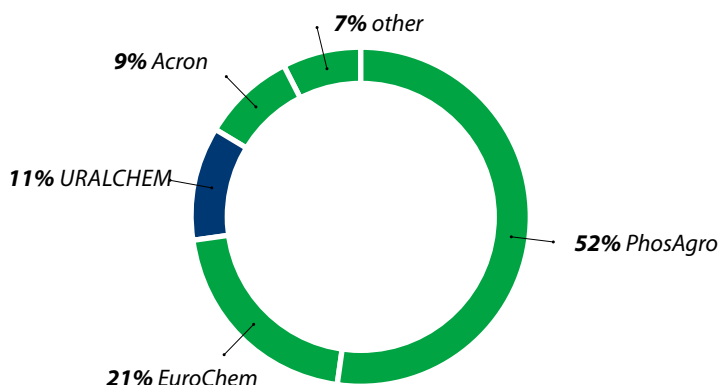
**URALCHEM – MARKET SHARE IN NITROGEN FERTILIZER PRODUCTION IN RUSSIA IN 2011**



**URALCHEM – MARKET SHARE IN AMMONIUM NITRATE PRODUCTION IN RUSSIA IN 2011**



**URALCHEM – MARKET SHARE IN PHOSPHATE FERTILIZER PRODUCTION IN RUSSIA IN 2011**



# CORPORATE HISTORY

## THE COMPANY IN THE MAKING

### 2007

URALCHEM, OJSC is established. Controlling stakes in Kirovo-Chepetsk Chemical Works, OJSC, named after B.Konstantinov (Kirovo-Chepetsk, Kirov region), the only party of MFP KCCW LLC, are acquired.

Controlling stakes of Azot, OJSC (Berezniki, Perm region) are acquired.

URALCHEM FREIGHT LIMITED (Cyprus) is established to provide forwarding services, trans-shipment in ports and shipment by water-transport of the Company's export production.

URALCHEM-TRANS, LLC is founded to manage the Company's rail freight requirements.

### 2008

A controlling stake in Voskresensk Mineral Fertilizers, OJSC is acquired.

100% of voting (ordinary registered) shares of KCCW OJSC are acquired.

URALCHEM Group acquired 100% of Azot OJSC stock.

URALCHEM TRADING DO BRASIL LTDA (Brasil) is established to develop marketing and sales networks in Central and South America.

7.5% stake in Togliattiazot, OJSC is acquired.

Trading House URALCHEM, LLC is established to promote URALCHEM products in Russia and the CIS.

Reorganization of MFP KCCW LLC – 100% subsidiary of KCCW OJSC into MFP KCCW CJSC.

### 2009

SIA "Riga fertilizer terminal" with SIA "Riga Commercial Port", a leading operator of ports and transportation infrastructure in Latvia, are established. URALCHEM's stake in SIA Riga fertilizer terminal is 51%. The main purpose of SIA Riga fertilizer terminal is the development of specialized terminal in the port of Riga for the trans-shipment and storage of fertilizer and related chemical products.

URALCHEM Group acquired a 44.3% stake in Perm Mineral Fertilizers resulting in increase of its shares to 46.5%.

Stake in Togliattiazot, OJSC increases to 9.7%.

### 2010

Reorganization of form of legal entity's incorporation of MFP KCCW CJSC – 100% subsidiary of KCCW OJSC into MFP KCCW OJSC.

Kirovo-Chepetsk Chemical Works, OJSC named after B.Konstantinov (KCCW OJSC) was dissolved after reorganization in the form of merger with Mineral Fertilizer Plant of Kirovo-Chepetsk Chemical Works, OJSC.

Azot, OJSC was dissolved after reorganization in the form of merger with URALCHEM, OJSC. All property of the production complex was transferred to Azot Branch of URALCHEM, OJSC in Berezniki.

## 2011

100% shares of Mineral Fertilizer Plant Kirovo-Chepetsk Chemical Works, OJSC (MFP KCCW OJSC) are acquired.

100% shares of Voskresensk Mineral Fertilizers, OJSC (VMF) are acquired.

## 2012 - January

41.2% of shares of Perm Mineral Fertilizers are acquired. As of the date of preparation of this Annual report the UCC URALCHEM OJSC's share together with affiliated parties amounts to 98.06% of the Perm Mineral Fertilizers charter capital.




## KEY ASSETS

The Company continues to strengthen its position in fertilizer market acquiring, inter alia, new strategic assets. The current asset structure of the Company breaks new strategic ground for its leadership position at nitrogen-phosphorous fertilizer market. The merger of the enterprises contributes to increasing efficiency of cash flow management within the Group, substantially cuts general and administrative expenses, and

increases investment attractiveness of the entire URALCHEM Group.

Having completed in early January 2012 the acquisition of majority share of stock of Perm Mineral Fertilizers, the Company strengthened its position in the nitrogen segment and ranked second in Russia in urea production capacity.



URALCHEM TRADING  
DO BRASIL LTDA.

Sao Paulo



## AZOT BRANCH



Azot Branch – one of the largest producers of ammonia and ammonia-based nitrogen fertilizers (ammonium nitrate and urea). Azot is the only producer of higher aliphatic amines, potassium and sodium nitrates, crystallized sodium nitrite.

### Main types of products:

- Ammonia;
- Ammonium nitrate;
- Porous ammonium nitrate;
- Urea;
- Nitric Acids;
- Potassium and Sodium nitrates;
- Sodium nitrite for industrial and food production;
- Argon;
- Higher aliphatic amines.

## Production

Modernization of main production facilities which has been carried out since 2010, allowed to increase ammonia and its derivatives production in 2011 and reduce specific natural gas discharge.

The introduction of micro integrated system of installation control and other undertakings will provide for sustainable growth in 2012.

## Innovations in 2011

The production line of anti-clodding agents was expanded, and the project to produce new anti-clodding agents "Steamine" continued. In addition to liquid surface-active additive this product was developed in granulated form making it more suitable for transportation and storage.

The food additive sodium nitrite E250 received certificate of state registration. Now sodium Nitrite produced at the plant can be supplied to the food industry enterprises thereby expanding the sales market for sodium nitrite and successfully compete with similar imported products.

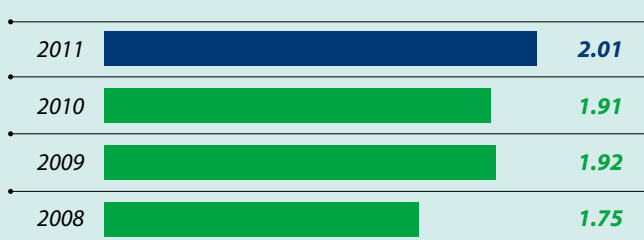
## Investments in 2011

The investments in Azot Branch totaled \$13.7 million.

The modernization of NS-fertilizer production facilities continued with investments of \$1.1 million.

Investments to improve ammonia production installations amounted to \$3.8 million.

## COMMERCIAL OUTPUT, MILLION TONNES



Source: URALCHEM

## MANAGEMENT SYSTEM COMPLIANCE WITH INTERNATIONAL STANDARDS

ISO 9001	ISO 14001	OHSAS 18001	GOST R ISO 9001 and GOST R 12.0.230
Certified since			
2011	2011	2011	2011

## KCCW MINERAL FERTILIZER PLANT



The enterprise has its own facilities for production of ammonia, some of which is sold as the final product and the rest is consequently used for further production of nitric acid and fertilizers.

Depending on market conditions, the proportion of different products in the whole volume of production can be significantly changed.

The plant is located 4 km away from Kirovo-Chepetsk and 15 km away from Kirov. The factory occupies an area of 263 hectares.

### Main types of products:

- Ammonia,
- Ammonium nitrate, Nitrogen phosphate,
- Complex fertilizers: NPK, ANP fertilizer, calcium-ammonium nitrate (CAN), Nitrogen-calcium fertilizer with added sulphur.

Based on its own R&D, the plant produces calcium-ammonium nitrate, the product unrivalled in Russia. This unique environmentally friendly product is very popular in Europe, and makes it possible to avoid waste storage at the Plant. NPKS 27:6:6:2 produced by KCCW MFP became an award-winner in an all-Russian Competition "The best 100 Russian products" in the nomination of "Producer goods". NPKS 27:6:6:2 is now labeled with the logo of this competition.

## Production

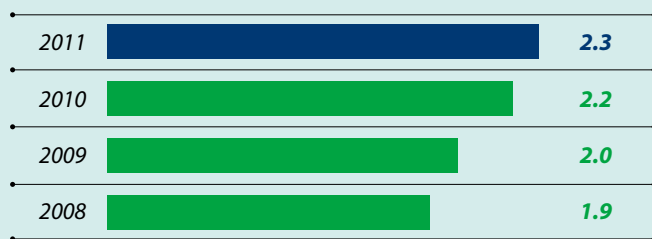
One million tonnes of ammonia were produced by November 2011, and the total annual production of gross ammonia amounted to 1,159,800 tonnes. Production of commercial ammonia increased by 15% to 430,900 tonnes compared to 2010. The total production by ammonium nitrate and Stabilized ammonium nitrate production facility amounted to 1.005 million tonnes. Production of stabilized ammonium nitrate, in particular, increased by 49% to 0.552 million tonnes compared to 2010. Production of complex fertilizers increased by 7% to 0.830 million tonnes.

Such successful results are due to technical upgrade of the equipment, rational utilization of resources, improvement in management system, which have contributed to the increase in labor productivity.

## Investments in 2011

The investments totaled \$9.4 million. KCCW MFP invested \$3.3 million to upgrade its production facilities with a view to improving environmental indicators, and \$2.9 million to upgrading ammonia installations.

## COMMERCIAL OUTPUT, MILLION TONNES



Source: URALCHEM

## MANAGEMENT SYSTEM COMPLIANCE WITH INTERNATIONAL STANDARDS

ISO 9001	ISO 14001	OHSAS 18001	GOST R ISO 9001 and GOST R 12.0.230
Certified since			
2012	2012	2012	2011

## VOSKRESENSK MINERAL FERTILIZERS



Voskresensk Mineral Fertilizers is one of the top four Russian producers of phosphate fertilizers, fodder additives, phosphoric and sulphuric acids.

Voskresensk Mineral Fertilizers is located in Voskresensk in the Moscow region. Production capacities of the enterprise form a complex on a separate territory.

### Main types of products:

- Monoammonium phosphate (MAP);
- Diammonium phosphate (DAP);
- Complex fertilizers NPS, NPK;
- Sulphuric acid of various grades;
- Wet-process phosphoric acid;
- Aluminum fluoride.

### Production Capacity

Monoammonium phosphate, diammonium phosphate, NPS and NPK - 770,000 tones;

Phosphoric acid - 325,000 tones;

Sulphuric acid –1,100,000 tones.

### Production

All the products are of high quality and comply with Russian and international standards.

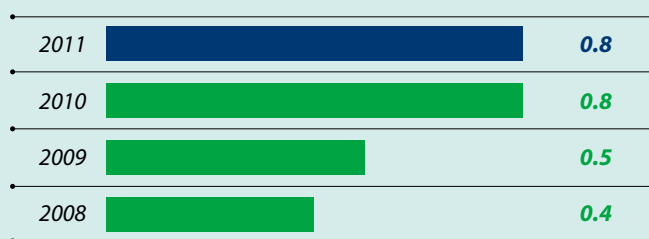
Apatite, potassium, and ammonia are the key feedstock used in the plant’s production process. Apatite and potassium are today purchased from third parties, while ammonia is supplied from the group’s enterprises.

### Investments in 2011

Total investments in 2011 amounted to \$6.4 million.

The enterprise doubled its capital expenditure and increased financing of production capacity by 67%. This resulted in effective equipment repairs and upgrades, and launch of new fore-reactor which increased production of phosphoric acid.

### COMMERCIAL OUTPUT, IN MILLION TONNESH



Source: URALCHEM

### MANAGEMENT SYSTEM COMPLIANCE WITH INTERNATIONAL STANDARDS

ISO 9001	ISO 14001	OHSAS 18001	GOST R ISO 9001	GOST R ISO 9001
Certified since				
2002	2006	2010	2011	2002

## PERM MINERAL FERTILIZERS



Perm Mineral Fertilizers is one of the largest producers of nitrogen fertilizers in the Urals.

Located in Perm.

### The enterprise produces:

- ammonia;
- urea;
- carbon dioxide;
- gaseous oxygen.

Commercial output in 2011 amounted to 0.8 million tones.

The production is based on modern technologies obtained from such firms as KELLOGG (USA) - manufacture of ammonia, and MITSUI TOATSU (Japan) - manufacture of high quality urea products that meet international standards. Quality management and environmental monitoring systems comply with international standards ISO 9001 and ISO 14001.

In January 2012 the enterprise became part of URALCHEM Group.

## URALCHEM TRADING HOUSE



Uralchem Trading House belongs to URALCHEM Group, and is actually a trading unit of the Company. Uralchem Trading House was established with a view to providing agricultural producers with tools of agricultural chemistry as well as rendering agricultural consulting services, fertilizer blending, freight handling, transportation services, and fertilizer storage.

Uralchem Trading House consists of the head office in Perm, representative offices (autonomous structural units) in Moscow, Nizhny Novgorod (city of Nizhny Novgorod), Kurgan (city of Kurgan), Kirov (city of Kirovo-Chepetsk), Perm (city of Berezniki) regions, and

in Tatarstan Republic (city of Chistopol), as well as the first storage base (in a planned chain) in the city of Sergach in Nizhny Novgorod region.

Total Uralchem Trading House's sales volume in 2011 was 1.2 million tonnes.

## SIA URALCHEM TRADING, LATVIA



Photo: Mercator Media 2011

SIA URALCHEM Trading belongs to URALCHEM Group and focuses on consolidating URALCHEM export sale.

In 2011, SIA URALCHEM Trading was the first among Russian fertilizer suppliers to have been certified within FIAS.

(Fertilizer Industry Assurance Scheme) – a scheme to provide security and traceability in the fertilizer industry. The accreditation was positively taken by the industry in general, and will become an important contribution to Company's status as "a vendor of choice."

Having met the EC standard requirements, SIA URALCHEM Trading has secured a competitive edge at the European fertilizer market.

The total sales volume of SIA URALCHEM Trading increased by 18% to 3.3 million tonnes in 2011 compared to 2010.

## URALCHEM-TRANS



Uralchem-Trans is a specialized logistics business unit within URALCHEM. The subsidiary manages a complete infrastructure that provides guaranteed rail transportation of raw materials and manufactured products. Uralchem-Trans operated more than 7000 cars by the end of 2011.

Its branches have all the necessary facilities and equipment to provide the pre-load servicing of the rolling stock. Routine repairs are carried out at the company's Murashi depot (Kirov Region).

# MANAGEMENT REPORT

## KEY EVENTS IN 2011

### 03.02

**The lab of the centralized department of technical inspection of Voskresensk Mineral Fertilizers took part in inter-laboratory testing, organized by the International Fertilizer Industry Association (IFA).**

A comparative analysis of the accuracy of total phosphates was carried out in 12 encrypted samples. Besides Voskresensk Mineral Fertilizers the labs of such major companies as BASF, Yara, Mosaic, and Intertek participated in the testing. The results achieved by Voskresensk Mineral Fertilizers turned out to be as accurate as those of BASF and Yara, and exceeded the accuracy achieved by Mosaic. Following the results of inter-laboratory testing, IFA decided to add GOST methodology, used in Russian Federation, to the list of peer-reviewed IFA procedures.

### 29.03

**Azot Branch expanded its production line of anti-clodding agents**

The engineers of Azot Branch in Berezniki in addition to liquid surface-active additive developed this product in granular form within the framework of the project to produce new anti-clodding agents "Steamine". The granular "Steamine" was produced in the workshop of higher aliphatic amines. The lab tests having been successful, "Steamine" is being tested at the URALCHEM enterprises.

### 04.05

**URALCHEM increases its transportation and logistics potential**

Uralchem-Trans purchased 100 new hopper-cars for mineral fertilizer transportation (mineral wagons) manufactured by Bryansk Machinery Plant.

### 23.05

**SIA URALCHEM Trading has been successfully certified within FIAS.**

SIA URALCHEM Trading has been successfully certified within Fertilizer Industry Assurance Scheme (FIAS) – which provides for the fertilizer industry compliance with the regulations and safety rules. Having met the requirements to comply with the EC standards, the Company has secured a substantial competitive advantage at the European fertilizer market.

### 16.06

**URALCHEM presented its complete product line to the British and Irish markets at the Cereals Event 2011 in Lincolnshire, UK**

URALCHEM, full member of the Agricultural Industries Confederation of the UK, exhibited at Cereals on June 15-16, the largest agricultural event in the United Kingdom. The company has for the first time presented the whole range of its fertilizers to the British and Irish markets.

## 17.06

### **Salamon & Seaber tests confirm that URALCHEM's methods of fertilizer analysis compare with those of EC Regulation methods**

Round robin tests of the company's fertilizer carried out by Salamon & Seaber, one of the leading UK analytical laboratories, with the participation of URALCHEM specialists, have been successfully completed. The main objective of the product sample analysis was to compare the results obtained by applying the methods used in URALCHEM laboratories for quality control to those used by Salamon & Seaber. The test results have proved that the methods certified by Rosstandard (the Russian Federal Agency for Technical Regulation and Metrology) for the analysis of mineral fertilizers, used at the Group's enterprises, fully compare with their European counterparts, and meet the demands of the buyers.

## 20.07

**URALCHEM, OJSC took part in a meeting of the Working Group of the European Committee of the Sulphur Institute (TSI).** The Company expressed its willingness to contribute to overcoming the growing shortage of soil-based sulphur, having become the first European agro-chemical company to join the Sulphur Institute.

TSI and URALCHEM, OJSC have already scheduled a plan of co-operative participation in various international programs, leading agrochemical conferences and exhibitions – IFA, FMB, TFI and others.

## 28.07

### **VTB-Leasing signed leasing agreement with Uralchem-Trans to supply 200 hopper-cars for mineral fertilizer transportation (mineral wagons) manufactured by Bryansk Machinery Plant.**

New specialized wagons, received through leasing, allowed Uralchem-Trans to significantly restock and expand its rolling stock, and therefore increase the reliability of transport operations for the URALCHEM Group.

## 06.09

### **URALCHEM representative appointed Senior Adviser to the Director General of the International Fertilizer Industry Association**

Head of the Market Research and Trade Policy Department, Foreign Affairs adviser at URALCHEM, Nina Khangaldyan, has been appointed Senior Adviser to the Director General of the International Fertilizer Industry Association (IFA) for Eastern Europe and Central Asia.

## 23.09

### **URALCHEM presents New Potassium Nitrate at AgroShow 2011 in Poland**

URALCHEM again took part in AgroShow, the largest agricultural show in Europe, which took place in Poland from 23 to 26 September 2011. As one of the largest importers of mineral fertilizers in Polish market since 2009, the Company presented its new potassium nitrate product with improved quality to European consumers.

## 22.11

### **Voskresensk Mineral Fertilizers won the “Moscow Region Ecologist of the Year” award.**

Voskresensk Mineral Fertilizers took part in a regional conference entitled “The Problems of Moscow Region Environmental Security”, organized by the Moscow regional ministry of environment and natural resources.

High level of industrial and environmental safety at the plant was duly noted.

## 23.12

### **URALCHEM signed an agreement on acquisition of Perm Mineral Fertilizers**

SIBUR Group and URALCHEM signed a contract of sale of 41.23% of stock of Perm Mineral Fertilizers, which was approved by the Boards of Directors of both companies. The purchase of the enterprise will allow URALCHEM to more than double the production of urea and increase its total production to 5.8 million tonnes per annum.

## 30.01.2012

### **URALCHEM acquired 43.42% of Perm Mineral Fertilizers, and its share together with affiliated parties amounted to 87.69% of the Perm Mineral Fertilizers charter capital.**

URALCHEM Group currently owns 98.06% of Perm Mineral Fertilizers stock.

## 28.11

### **URALCHEM has completed consolidation of the assets of its enterprises.**

URALCHEM has become the single owner of its productive assets - Mineral Fertilizer Plant of Kirovo-Chepetsk Chemical Works and Voskresensk Mineral Fertilizers.

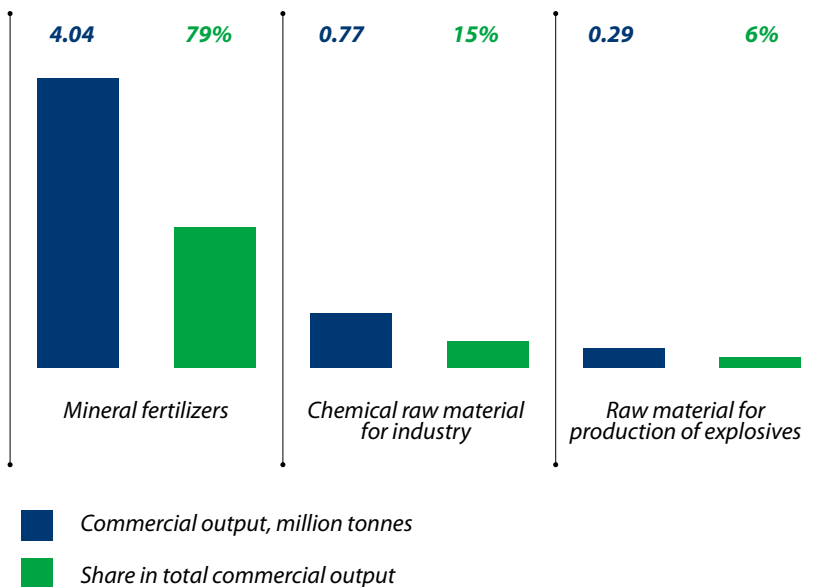
The productive asset consolidation allowed the Company to optimize the cash flow management within the Company, substantially reduce overhead, improve financial indicators, and increase investment attractiveness of URALCHEM.

## PRODUCTION ACTIVITY

On mineral fertilizer market URALCHEM has confidently deserved the right to be reckoned as the producer of one of the most balanced and extensive product lines. Effective organization of the production processes allows the Company to be in line with market conditions and shift when necessary to those fertilizer types, which are in greatest demand by consumers and can thereby generate maximal income.

URALCHEM is putting out wide product line including specially created products, designed for countries, markets and their segments. The production portfolio of the Company nowadays comprises more than 30 items which allows to meet specific clients' demands. These are both standard types of mineral fertilizers designed for mass demand, and special products for niche segments targeting specific markets and crops.

### PRODUCTION OF MAIN TYPES OF PRODUCTS IN 2011



## MINERAL FERTILIZERS

Production of mineral fertilizers is one of the main directions of the Company's activity. URALCHEM is producing basic selection of

mineral fertilizers as well as big assortment of products with high added value, based on them.

Products	Key Components	Application/Key markets
Ammonium nitrate (AN)	34% Nitrogen	<p>Nitrogen fertilizers containing nitrogen in the form most suitable most for quick absorption by the plants</p> <p>Basis for production of such premium nitrogen fertilizers as CAN/CNS, NPK  NPK(S)</p> <p>Main markets for ammonium nitrate and its derivatives produced by URALCHEM are Russia, Latin American countries, and Turkey</p>
Urea	46% Nitrogen	<p>One of the most common nitrogen fertilizers</p> <p>URALCHEM produces prilled urea and supplies it primarily to the countries of Latin America as well as to other countries.</p>
Diammonium phosphate (DAP)	DAP contains 18% of Nitrogen and 47% of phosphorus ( $P_2O_5$ )	Complex mineral fertilizer based on two active substances: phosphorus and nitrogen
Monoammonium phosphate (MAP)	MAP contains 12% of Nitrogen and 52% phosphorus ( $P_2O_5$ )	Main markets for both MAP and DAP are Europe, Asia, Russia, and Latin America

Base products	Products with high added value
Ammonium nitrate (AN)	Stabilized ammonium nitrate (SAN)
UREA	Calcium-ammonium nitrate (CAN)
Ammonium	Calcium ammonium nitrate with sulphur (CNS)
Monoammonium phosphate (MAP)	+P Ammonium sulphate nitrate (NS)
Diammonium phosphate (DAP)	+K NPK with higher content of nitrogen
	+S NPK with lower content of nitrogen
	NPK+S
	NP+S

## Formation of premium product line

Creation of specialized products for niche segments, tailored to specific markets and crops – is a reply of the Company to the challenge of our time, calling for transformation of fertilizer production from commodity-driven to highly technological business.

Products	Key Components	Application/Key markets
<b>Premium fertilizers</b>		
Stabilized ammonium nitrate (SAN)	33% nitrogen and 3% phosphorus	High quality mineral fertilizer with high content of nitrogen and highly absorbent water dissolvent “springtime” phosphorus allows to receive additional ~4% to the harvest compared to ammonium nitrate.  URALCHEM produces SAN specifically for Latin American and European markets
Calcium-ammonium nitrate (CAN)	27% nitrogen and 17% calcium (CaO)	Granular fertilizer containing calcium carbonate and ammonium nitrate  Designed for acidic soils
Calcium nitrogen sulfate (CNS)	27% nitrogen, 4% sulphur and 7% calcium (CaO)	Premium version of calcium ammonium nitrate with sulphur (CNS).  Developed for acid soils with sulphur deficit (countries of Northern Europe).

Products	Key Components	Application/Key markets
Nitrogen sulfate(NS)	Level of nitrogen content from 26% to 32%, sulphur: from 5% to 14%	Premium nitrogen fertilizer with sulphur Developed for the crops sensitive to sulphur such as grain varieties and oleiferous. Sold in the markets of Europe and Latin America.
Complex fertilizers (NPK, NPKS)	NPK-fertilizers contain three main nutrient elements: nitrogen, phosphorus and potassium in different proportions  NPKS also contains sulphur	URALCHEM can produce up to 20 items of NPK-fertilizers with variable nitrogen share from 9% up to 27%, phosphorus – from 6% to 30%, and potassium – from 6% to 30%.  Sulphur content in NPKS-fertilizers may reach 2%  URALCHEM sells NPK products in the markets of European countries – Sweden, Denmark, Ireland, and the UK.  Fertilizers with NPK formulas with high nitrogen content have been popular in the markets of both Northern Europe and Asia.  NPK-fertilizers with low nitrogen content have primarily been used in Latin American and European countries first of all for production of sugar beet and potatoes.

### CHEMICAL RAW MATERIAL FOR THE INDUSTRY

- Ammonium;
- Nonorganic (mineral) acids, including sulphuric acid, phosphoric acid, nitric acid; their salts as well;
- other chemical products, such as potassium nitrate; aluminum fluoride, steamine, argon.

### RAW MATERIALS FOR PRODUCTION OF THE EXPLOSIVES

- Porous, modified, and water resistant ammonium nitrate;
- Ammonium nitrate solutions;
- Sodium nitrate
- Chile nitrate
- Strong nitric acid

HIGH PRODUCTION QUALITY CONFIRMED BY EUROPEAN CHEMICAL AGENCY. ALL CHEMICAL SUBSTANCES PRODUCED BY URALCHEM ARE REGISTERED IN ACCORDANCE WITH EUROPEAN REGULATIONS REGARDING "REGISTRATION, EVALUATION AND AUTHORIZATION OF CHEMICALS» №1907/2006 (REACH).

## PRODUCT QUALITY

URALCHEM has been consistently engaged in centralization and computerization of quality management processes and quality control.

- LIMS (Laboratory Information Management System) is being introduced and developed in all production facilities. Not only does the system computerize the process, minimize the human factor, but creates unified data base renewable in real time which allows to perform quality monitoring. Due to immediate access to the required reliable information, LIMS is the key factor for taking correct timely management decisions with regard to production.
- The process of unification and certification of the used methods was initiated with a view to making the Company's quality control methods fully conform with both Russian and international standards (including all its production facilities).

The Company is also carrying out the program of evaluation of consumer satisfaction with quality, of forecasting and meeting market demands, including as follows:

- The action plan based on benchmark studies is being realized so as to improve product characteristics with a view to making them conform to market and consumer demands.
- Application of new knowledge and technologies obtained in scientific and research laboratories helps improve the quality of production. High production quality confirmed by European Chemical Agency. All chemical substances produced by URALCHEM are registered in accordance with European regulations regarding "registration, evaluation and authorization of chemicals» №1907/2006 (REACH).
- "Feedback" program for evaluation of consumer satisfaction in the Russian Federation and in export markets is underway. On top of that, collection of the objective market demands, requests and wishes for improvement of the products, its properties, quality, and market positioning has been taking place.

## PRODUCTION OF MINERAL FERTILIZERS AND CHEMICAL RAW MATERIALS FOR INDUSTRY

The company is developing reliable plans which allow it to realize big growth potential in accordance with the Company's strategy. These plans were successfully implemented in 2011.

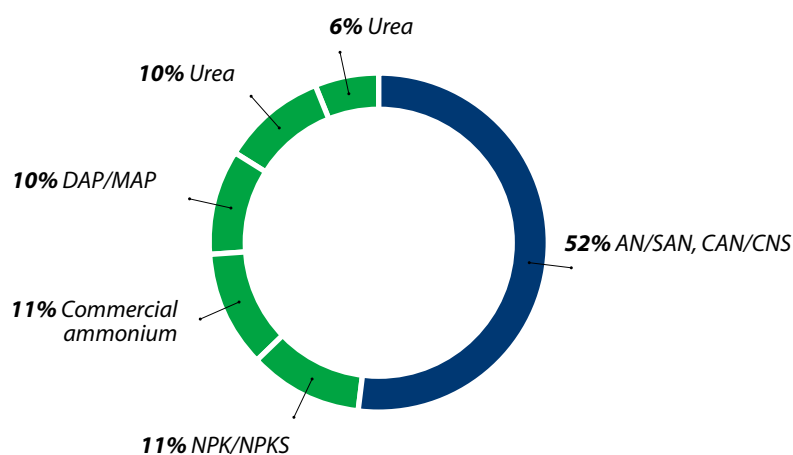
This year was marked by the breakthrough in production. Commercial output of the Company grew by 5% and exceeded 5 million tonnes.

The driving forces for reaching high results were access to the unique raw material base, full loading of production capacity and production efficiency growth which were based on growth of labor productivity, reduction of resource consumption rates, and adoption of the Company's own scientific and research developments. Favorable market conditions and high demand from both Russian and foreign consumers have also been giving considerable impetus to production growth.

### COMMERCIAL OUTPUT, MILLION TONNES

Product	2008	2009	2010	2011
Commercial ammonium	0.46	0.42	0.52	0.56
AN/SAN, CAN/CNS	2.22	2.48	2.51	2.65
Urea	0.43	0.53	0.45	0.50
NPK/NPKS	0.44	0.59	0.59	0.56
DAP/MAP	0.22	0.07	0.55	0.52
Other, including acids	0.32	0.32	0.25	0.30
<b>Total:</b>	<b>4.09</b>	<b>4.41</b>	<b>4.86</b>	<b>5.09</b>

### COMMERCIAL OUTPUT STRUCTURE IN 2011, BY TYPE OF PRODUCTS



Source: URALCHEM

Production of the Company's main product – ammonium nitrate was growing by an outstripping rate of 6% and amounted to 2.65 million tonnes.

Increase of complex fertilizer production was connected mainly with high production figures of KCCW MFP as well as with the change of production structure at Voskresensk Mineral Fertilizers in favor of complex fertilizers.

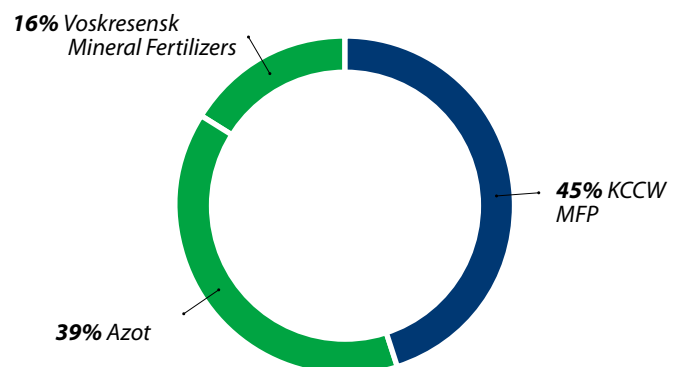
Decrease of phosphate fertilizer production was caused by the change of product line of Voskresensk Mineral Fertilizers in favor of complex fertilizers following the market trends.

Output of chemical products increased by 14% in response to increased home market demand in sulphuric and nitric acids.

#### COMMERCIAL OUTPUT, MILLION TONNES

Asset	2008	2009	2010	2011
Azot	1.75	1.92	1.91	2.01
KCCW MFP	1.93	1.99	2.17	2.27
Voskresensk Mineral Fertilizers	0.41	0.50	0.77	0.81
<b>Total:</b>	<b>4.09</b>	<b>4.41</b>	<b>4.85</b>	<b>5.09</b>

#### COMMERCIAL OUTPUT STRUCTURE IN 2011, BY ASSETS



Source: URALCHEM

#### PRODUCTION OF CHEMICAL RAW MATERIALS FOR INDUSTRY DYNAMICS, '000 TONNES

	2008	2009	2010	2011
Ammonium	462.9	416.9	515.9	558.8
Sulphuric acid	174.0	69.4	73.1	102.2
Phosphoric acid	16.3	4.3	0.8	2.2
Potassium nitrate	11.7	6.6	6.4	11.6
Other chemical products	54.6	45.3	23.9	32.2
<b>Total:</b>	<b>719.5</b>	<b>542.5</b>	<b>620.1</b>	<b>707.0</b>

## RESOURCE CONSUMPTION AND UTILIZATION OF EQUIPMENT

Main resources consumed for the sake of production at URALCHEM plants are natural gas, apatite concentrate, potassium, and electric power.

URALCHEM has consistently worked on reducing resource-intensiveness of production. Considerable savings in consumption rates of natural gas per tonne of ammonium were reached at KCCW MFP in 2011 (more than 2%) compared to 2010.

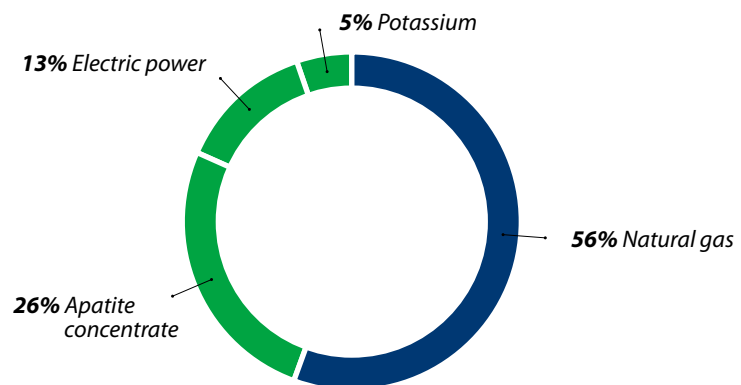
URALCHEM signs long-term contracts for supplying strategic raw materials at fixed prices with a view to increasing its influence on formation of prices for raw materials of natural monopolies.

### Utilization of resources for production of urea, ammonium nitrate, and nitric acid

Consumption rates of the Company's plants producing urea, ammonium nitrate, and nitric acid correspond to the average level in the industry.

The company pays much attention to efficient use of raw materials, inter alia, by optimizing distribution of apatite concentrate and sylvinitite among the Group's enterprises.

### COST STRUCTURE OF RAW MATERIALS IN 2011



Source: URALCHEM

## SALES

Export-oriented trade policy and the Company's presence in all strategic markets on almost all continents allows to use to full extent the seasonal demand factor in the world market, characterized by diversity of purchases in various world regions which provides for steady supplies and year-round production load.

To strengthen its position in international markets the Group is taking a set of measures with a view to further developing its own distribution network in Europe and South America directed at increasing sales income through direct access to end users in each region of its presence.

With a view to optimizing mineral fertilizer sales in domestic market the Company is developing its own distribution network in the Russian regions on the basis of trading structure of URALCHEM Trading House. Availability of its own warehouses in the regions will allow for shipping of the products for storage to be followed by sales in high season. Besides, the Company is developing a full complex of agricultural services which will soon be offered to agricultural producers.

URALCHEM is planning to increase capacities for fertilizer packing that will help differentiate methods of shipping the fertilizers depending on buyers' requirements, and be more flexible in developing its sales strategy.

**URALCHEM PROVIDES TO DOMESTIC CUSTOMER SPECIAL SET OF SERVICES WHICH INCLUDES INNOVATIVE IT-SERVICES FOR CLIENTS THAT ALLOWS TO TRACK THEIR ORDERS ONLINE VIA THE INTERNET, OFFER FINANCIAL SERVICES FOR CLIENT'S ACCOUNTING DEPARTMENTS PROVIDING OPTIMAL LOGISTICS SOLUTIONS.**

The Group's main buyers are the distributor networks of major local market operators. The Company is concurrently working with farmer cooperatives also.

The Company's products were supplied to 47 countries and 70 regions of Russia around the world in 2011.

Potassium nitrate with improved characteristics, as well as stabilized ammonium nitrate, SAN 33:3, were the products most actively exploited in export markets.

Potassium nitrate is an entirely water soluble nitrogen-potassium fertilizer. European countries (including major agricultural markets such as Poland, Germany, Turkey, etc.) have become key markets to exploit this product.

SAN 33:3 is a fertilizer of new generation combining high content of nitrogen with "spring" phosphorus which is digestible by plants. Among targeted markets for exploiting SAN 33:3 in 2011 were the UK, Baltic countries, as well as the agricultural producer countries of Latin America.

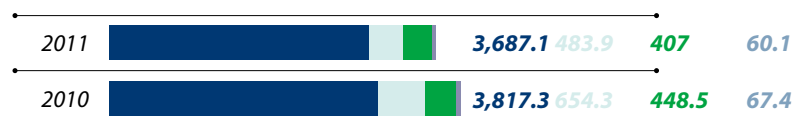
Due to sharp increase of demand for Monoammonium phosphate (MAP) in Latin America, the Company promptly redirected MAP supplies there from Asian market having gained both in prices and freight costs.

Total sales of commercial output increased by 7.5% in 2011 to 4.9 million tonnes.

Sales of mineral fertilizers and chemical products for industry grew by 3.5% and 35.2%, respectively, in 2011, primarily due to demand for these products backed up by the increase in their production.

THE GROUP'S MAIN BUYERS ARE THE DISTRIBUTOR NETWORKS OF MAJOR LOCAL MARKET OPERATORS. THE COMPANY IS CONCURRENTLY WORKING WITH FARMER COOPERATIVES AND SCIENTIFIC CENTERS – RESEARCH INSTITUTES, LABORATORIES, AND AGRICULTURAL COMMUNITY.

#### DYNAMICS OF CONSOLIDATED SALES OF COMMERCIAL OUTPUT, '000 TONNES



■ Mineral fertilizers

■ Products for industrial consumption (technical nitrates, acids)

■ Commercial ammonium

■ Other chemical products

## LOGISTICS

In 2011, the Company's logistics segment has significantly strengthened. It has been developing in three focus areas:

- Infrastructure development providing for secure shipment of raw materials and finished products of the Company by rail;
- Development of shipment by river;
- Port infrastructure development for fertilizer shipment by sea.

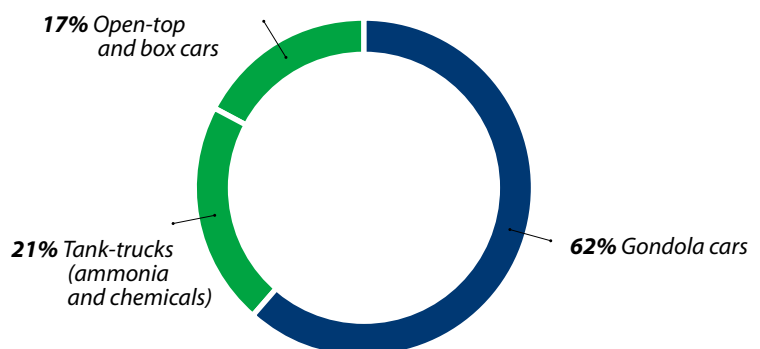
Transportation development will allow to substantially reduce logistics costs, secure sustainable sales channels, and minimize the intermediary impact on final price of products.

## RAILWAY TRANSPORTATION

Railway logistics consolidation of URALCHEM Group allows for integrated management of the Company's transportation and redistribution of the rolling stock among production facilities taking into account emerging situations, and prompt interaction with contracting forwarding agents as well as reduction of transportation costs, thereby significantly improving logistics operations' efficiency in general.

In order to set up a single point of responsibility for railway logistics of the Group, the process of transfer of the functional of plants' railway shops to Uralchem-Trans was initiated in 2011. Respective units of KCCW MFP and Azot were transferred to Uralchem-Trans in 2011.

### ROLLING-STOCK STRUCTURE IN 2011 (AVERAGE ANNUAL FIGURES)



Source: URALCHEM

To reduce transportation costs of Uralchem-Trans and minimize idle runs after unloading mineral fertilizers, transportation services to outsider clients are provided.

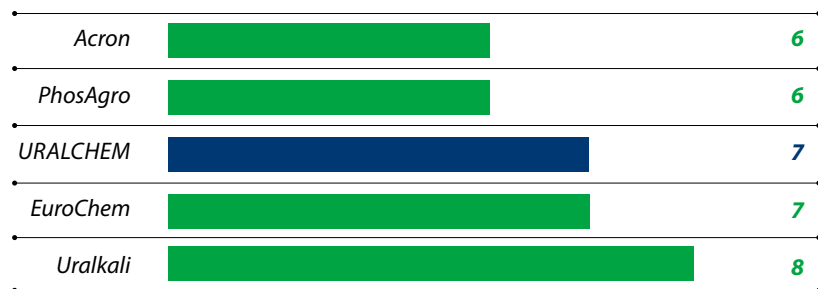
Over 95% of the Company's production is transported by rail. In 2011, the Company acquired 400 gondola cars. As of the end of 2011, rolling stock under Uralchem-Trans management increased by 2,000 to 7,000 cars compared to 2010.

The program to increase car loading is underway in the Company. The savings due to increase of open-top and gondola car loading in 2011 amounted to \$3.2 million compared to loading in January 2010 or \$0.8 million compared to loading in December 2010.

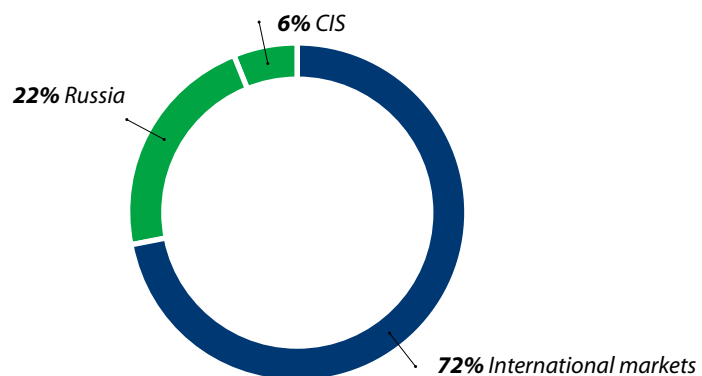
Total volume of transportation by rail of the Group increased in 2011 by 6% to 5.9 million tonnes.

**OVER 95% OF THE COMPANY'S PRODUCTION IS TRANSPORTED BY RAIL. IN 2011, THE COMPANY ACQUIRED 400 GONDOLA CARS. AS OF THE END OF 2011, ROLLING STOCK UNDER URALCHEM-TRANS MANAGEMENT INCREASED BY 2,000 TO 7,000 CARS COMPARED TO 2010.**

**ASSESSMENT OF ROLLING-STOCK UNDER MANAGEMENT OF MAJOR RUSSIAN MINERAL FERTILIZER HOLDINGS, PCS.**



**STRUCTURE OF GRANULAR MINERAL FERTILIZERS BY SHIPPING DIRECTIONS IN 2011**



**WATER CARRIAGE BY THE COMPANY'S OWN TRANSPORT AMOUNTED IN 2011 TO 2.4 MILLION TONNES, INCLUDING RIVER FREIGHT.**

**TRANSSHIPMENT AND FREIGHT**

The Company launched and realizes infrastructure projects. The construction of transshipment terminal in Riga is underway, and expansion of loading berth of Azot Branch on Kama river has been successfully completed. The Company's own port capacity will allow to substantially improve turnover of rolling stock, and thereby decrease the cost of its maintenance.

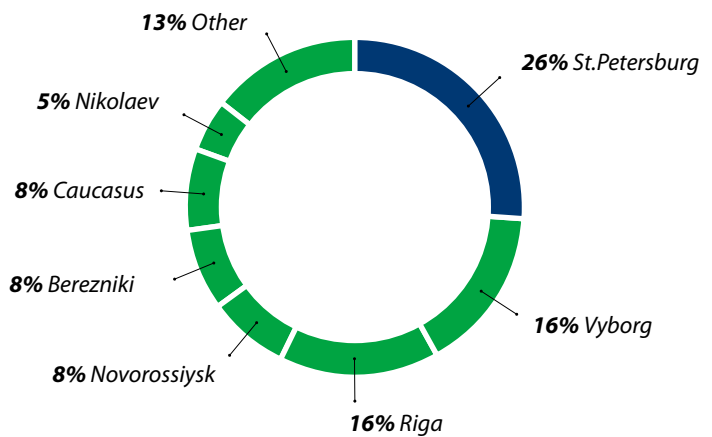
Water carriage by the Company's own transport amounted in 2011 to 2.4 million tonnes, including river freight.

In 2011, transshipment volume grew primarily due to increase of river freight. Shipping by river from Berezniki city increased during summer shipping season by 16% to 240,000 tonnes. Merchandise inventory accumulated in the ports in early 2011 (due to severe winter) as well as favorable market conditions for export shipments, including by sea, during the year, accounted for the growth of transshipment volume.

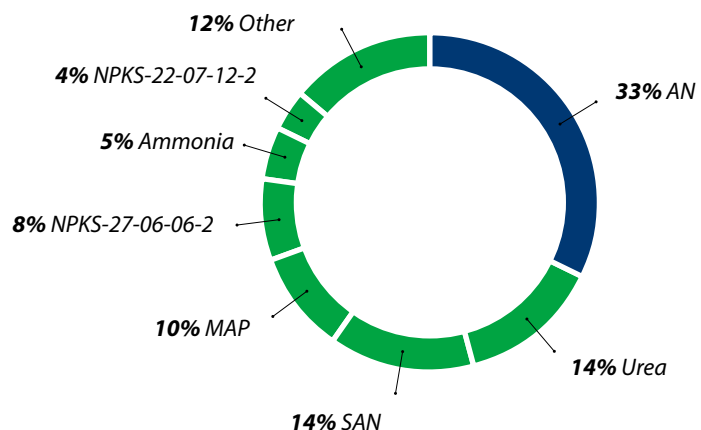
**TRANSSHIPMENT VOLUMES IN PORTS, IN MILLION TONNES**



**TRANSSHIPMENT BY PORTS IN 2011 ГОДУ**



**THE COMPANY'S CARGO TRAFFIC (BY TYPE OF PRODUCTS) IN 2011**



## INVESTMENT ACTIVITIES

In accordance with the approved investment plan in 2011 the Company invested into new production projects and re-equipment of existing production facilities which allowed to increase production volume and reduce consumption rates of required resources.

Total investments of URALCHEM amounted to \$44.1 million, including \$9.4 million into KCCW MFP, \$13.7 million into Azot, and \$6.4 million into Voskresensk Mineral Fertilizers, and more specifically:

- The modernization of NS-fertilizer production facilities continued at Azot in 2011 with investments to effect of \$1.1 million. Investments to improve ammonia production installations amounted to \$3.8 million.
- KCCW MFP invested \$3.3 million to upgrade its production facilities with a view to improving environmental indicators, and \$2.9 million to upgrading ammonia installations.
- \$3.0 million were invested in Voskresensk Mineral Fertilizers into the project of increasing production of phosphoric acid, and processing of phosphates.

The Company is carrying out a large-scale project to build transshipment capacity in the sea port of Riga. In 2011, \$14.5 million were invested into project design works and initial stage of construction.

Besides, sustaining investments were additionally made into existing facilities. In 2011, these investments amounted to \$11.2 million at KCCW MFP, \$6.2 million at Azot, and \$5.4 million at Voskresensk Mineral Fertilizers and \$18.7 million at Uralchem-Trans.

## INNOVATIVE TECHNOLOGIES AND R&D

URALCHEM is an innovation-driven Company, and therefore it focuses on the most advanced methods of improving production quality and introducing advanced technologies into production process.

Within the framework of integrated program of scientific expert support, elaboration of progressive solutions, monitoring and introduction of innovations, URALCHEM actively cooperates with leading Russian and international research centers, prominent scientists, and key experts all over the world.

Analysis of agronomic efficiency of the standard product portfolio, and of new products, is one of the priority activities. Agricultural efficiency tests on various crops in various soil types and climate conditions are performed on an annual basis.

Within the framework of the program to maintain high production quality, geared at developing new fertilizer grades, planned and independent tests are performed. Independent trial runs are carried out jointly and on the basis of long-established Russian and European research centers.

Besides, great attention is paid to scientific research, including experiments.

**URALCHEM IS AN INNOVATION-DRIVEN COMPANY, AND THEREFORE IT FOCUSES ON THE MOST ADVANCED METHODS OF IMPROVING PRODUCTION QUALITY AND INTRODUCING ADVANCED TECHNOLOGIES INTO PRODUCTION PROCESS.**

The Company has succeeded in some areas of fundamental research. In 2011, an installation for producing phosphorous acid was built. The installation was successfully tested, and will be put in operation at projected capacity in 2012.

Research on extraction of phosphogypsum from rare-earth metals was also conducted in 2011. In 2012, it is planned to work out technology on the basis of this research and launch a pilot production unit.

URALCHEM is also successfully carrying out design and development activities to work out engineering and technological documentation.

In 2011, the technology was worked out at Voskresensk Mineral Fertilizers plant to use Egoryevsk rock phosphate, which will allow the Company to use in future its own, less expensive, raw material.

The key tests included as follows:

- Agronomic efficiency tests conducted both on the open ground and under cover;
- Integrated research of conformity of physical and chemical properties with such important consumer attributes as granule strength, their granulometric texture, friability, solubility, resistance to caking, etc.
- Spreading tests, demonstrating fertilizer distribution efficiency in the field in disc spreading.

Inter-laboratory tests which support the conformity of intra-corporate test reports with the international requirements.

The entire research effort allows to control the compliance of the products with the declared consumer attributes, and carry out planned activities toward their improvement.

#### COOPERATION WITH LEADING UNIVERSITIES, LABORATORIES, AND SCIENTIFIC CENTERS IN THE FIELD OF TESTS:

1. Analysis of agronomic efficiency of the products:
  - Lithuanian Research Center for Agriculture and Forestry;
  - Poznan University of Life Science;
  - Moscow State University;
  - Leading experimental farm facilities in France and Russia (FITO research center);
  - Russian regional agronomic centers.
2. Spreading tests:
  - Jointly and on the technical basis of Amazone, the key spread in technology producer.
3. Inter-laboratory tests in major European analytical centers:
  - INTertek (UK);
  - Salamon&Seaber (UK);
  - Eurofins (Scandinavian countries);
  - INSPECTORATE Laboratories (Estonia, St. Petersburg)

## INFORMATION ON SHARE CAPITAL

Chartercapital of Uralchem, OJSC: **2,000,000,000 (Two billion) RUB**

**500,000,000 (Five Hundred Million)**  
Shares Issued

**4 (Four) RUB**  
Par Value per share

## STRUCTURE OF SHARE CAPITAL

Shareholders of Uralchem, OJSC:

**URALCHEM HOLDING P.L.C.** – 99.9999998% of share capital

**CI-CHEMICAL INVEST LIMITED** –  
0.0000002% of share capital

## INFORMATION ON THE REGISTRAR

Full official name: **Open joint stock company “Registrar NIKoil”**

Short official name: **“Registrar NIKoil” OJSC**

Address: **121108. Moscow. 8 IvanaFranko Street.**

INN (Individual Taxpayer’s Number): **7730081453**

OGRN (Primary State Registration Number): **1027700060607**

Information on License to maintain a share register

Number: **10-000-1-00290**

Issued: **17.06.2003**

Valid until: **Permanent**

Name of organization which issued license: **FCCB (FCSM) of Russia**

Date since which the registrar maintains share register of URALCHEM: **03.03.2008**

## COMPANY INFORMATION

Open Joint Stock Company United Chemical Company URALCHEM (Uralchem, OJSC) is registered by Inter-District Inspectorate of the Federal Tax Service of the Russian Federation No. 46 in Moscow on October 30, 2007, and is filed in the single state register of legal entities under primary state registration number (OGRN) 1077761874024.

Full official name in Russian:

**Открытое акционерное общество  
«Объединенная химическая Компания «УРАЛХИМ»**

Short official name in Russian:

**ОАО «ОХК «УРАЛХИМ»**

Full official name in English:

**Open Joint Stock Company United Chemical Company Uralchem**

Short official name in English:

**Uralchem, OJSC**

Legal and postal address:

**10 Presnenskaya Naberezhnaya, Moscow, Russia, 123317**

Regulations on Dividend Policy of Open Joint Stock Company United Chemical Company Uralchem were approved by resolution of the Board of Directors (Minutes No. 1 of 17 September, 2008). The Regulations determine the Company's dividend policy and provide for the conditions and procedure for approval of the respective resolution and payment of dividends.

In 2011, no general shareholders' meeting considered the question of distribution of dividends, no resolution to distribute dividends was taken, and no dividends were paid.

# FINANCIAL PERFORMANCE OVERVIEW

## THE GROUP'S KEY FINANCIAL AND OPERATING RESULTS, IN MILLION US DOLLARS

Description	2011	2010
Revenue	2,080	1,389
Operating profit/(loss)	661	205
Adjusted EBITDA*	752	309
Adjusted EBITDA margin	36%	22%
Net profit/(loss)	445	35
Net profit margin	21%	3%
Net debt	931	1 356
Net debt/EBITDA	1.2	4.4

## COMMERCIAL OUTPUT, IN MILLION TONNES

Product	2011	2010
Commercial ammonia	0.56	0.52
AN/SAN, CAN/CNS	2.65	2.51
Urea	0.50	0.45
NPK/NPKS	0.56	0.59
DAP/MAP	0.52	0.55
Other, including acids	0.30	0.25
<b>Total:</b>	<b>5.09</b>	<b>4.86</b>

In 2011, the Group increased production and sales of mineral fertilizers, having made another step toward implementation of its long-term development strategy. Production volume increased by 5% to 5.09 million tonnes.

The revenue growth rate in 2011 was outstripping that of main expenditures, resulting in Company's EBITDA growth by 143% to \$752 million (\$309 million in 2010). Average exchange rate of the Central Bank of Russian Federation in 2010 and 2011, which was 30.3692 RUB/USD and 29.3874 RUB/USD respectively, was used in calculating EBITDA in US dollars.

Due to increase of operating profit and profit from investments into associates the Company's net profit grew 12.7 times to \$445 million (2010: \$35 million).

## FINANCIAL ANALYSIS

Description	2011	2010	Change, %
<b>Revenue</b>	<b>2,080</b>	<b>1,389</b>	<b>50</b>
<b>By product</b>			
Mineral fertilizers:			
Nitrogen fertilizers	984	648	52
Phosphate fertilizers	344	245	40
Complexfertilizers	290	191	52
Ammonia	231	132	75
Technical nitrates	74	51	45
Non-organic acids	30	19	58
Other chemical products	45	33	36
Other revenue	82	70	17

In 2011 consolidated revenue of the Company grew by 50% to \$2.08 billion (2010: \$1.389 billion). This growth was primarily due to increase of sales volume by 7.4% compared to 2010 and due to the increase of product prices.

The revenue from other activities grew by 17% to \$82 million in 2011 (2010: \$70 million).

Other revenue grew primarily due to other sales in Russia (electric power and repair works).

### EXPENSES, IN MILLION US DOLLARS

	2011	2010	Change, %
Cost	868	726	20
Commercial Expenses	443	322	38
Administrative Expenses	119	121	(2)
Other Operating Income	(18)	(5)	260
Other Operating Expenses	7	20	(65)

In 2011, cost of production (\$868 million) increased by 20% compared to the same period last year (\$726 million). The major factors contributing to the change in cost of production were increase of the cost of raw materials and supplies, as well as increase of cost of power, utilities and spare parts.

In 2011, selling, administrative and other operating expenses increased by 20% from \$458 million to \$551 million.

**OPERATING PROFIT, EBITDA, AND NET PROFIT, IN MILLION US DOLLARS**

	2011	2010	Change, %
<b>Operating profit</b>	<b>661</b>	<b>205</b>	<b>222</b>
Adjustments:			
Depreciation	91	104	(13)
<b>EBITDA</b>	<b>752</b>	<b>309</b>	<b>143</b>
<b>Net profit</b>	<b>445</b>	<b>35</b>	<b>1 171</b>

In 2011 operating profit grew by 222% to \$661 million (2010: \$205 million).

EBITDA grew by 143% to \$752 million compared to \$309 million in 2010. EBITDA margin grew during this period from 22% to 36%. Significant factors affecting EBITDA growth are described above.

Net profit amounted to \$445 million, i.e. increased by 1,171% compared to 2010. Net profit margin increased from 3% to 21%.

**DEBT BURDEN, IN MILLION US DOLLARS**

	2011	2010	Change, %
Long-term borrowings	792	881	(10)
Long-term finance lease liabilities	40	37	5
Short-term borrowings	338	473	(29)
Short-term finance lease liabilities	13	11	18
<b>Total debt, including:</b>	<b>1,183</b>	<b>1,402</b>	<b>(16)</b>
In Russian Roubles	181	191	(5)
In Foreign currency	1,002	1,211	(17)
Cash and cash equivalents	252	46	448
<b>Net debt</b>	<b>931</b>	<b>1,356</b>	<b>(31)</b>
Interest paid	115	150	23

Last year, the Group managed to substantially reduce its loan portfolio. As a result, the total debt decreased by 16% to \$1.183 billion (2010: \$1.402 billion), while net debt was \$931 million as of the end of the year (2010: \$1.356 billion). The share of short-term borrowings was only 28.5% of total debt. In 2011, 85% of the Company's debt was in US dollars, the rest being borrowings in Russian roubles. Due to continuous activities of Financial directorate of the Company with a view to optimizing loan portfolio, the average interest rate on borrowings decreased to 6.35% from 9.07% in 2010. The interest payments in 2011 decreased by 22.3% to \$115 million (2010: \$150 million). The Group intends to reduce debt by \$200 million in 2012.

As a result of the factors described above the Net debt/EBITDA ratio was 1.2 at the end of 2011 compared to 4.4 in 2010.

#### CASH FLOW, IN MILLION US DOLLARS

	2011	2010	Change, %
Cash flow from operating activities	525	135	289
Cash flow from investing activities	(58)	4	-
Cash flow from financing activities	(256)	(145)	77
Net increase/(decrease) in cash and cash equivalents	211	(6)	-

In 2011, cash inflow from operating activities increased by 289% to \$525 million (2010: \$135 million) due to profit growth, reduction of interest payments, as well as release of cash from working capital, etc.

In 2011, cash outflow from investing activities increased to \$58 million (compared to cash inflow of \$4 million in 2010). Total amount of purchases of property, plant and equipment in 2011 was \$89.5 million.

In 2011 cash outflow from financing activities was \$256 million (2010: \$145 million).

Due to cash flows described above, net cash and cash equivalents increase in 2011 was \$211 million compared to net cash outflow of \$6 million in 2010.

**BALANCE SHEET, IN MILLION US DOLLARS**

	2011	2010	Change, %
Non-current assets	1,157	1,219	(5)
Current assets	598	371	61
<b>Comprehensive assets</b>	<b>1,755</b>	<b>1,590</b>	<b>10</b>
<b>Equity, including:</b>	<b>324</b>	<b>(64)</b>	<b>-</b>
Retained profit/(accumulated loss)	251	(181)	-
Equity surplus	166	152	9
Long-term liabilities	891	980	(9)
Short-term liabilities	540	674	(20)
<b>Comprehensive liabilities</b>	<b>1,431</b>	<b>1,654</b>	<b>(13)</b>
<b>Equity and liabilities</b>	<b>1,755</b>	<b>1,590</b>	<b>10</b>

Comprehensive assets of the Group as of the end of 2011 increased by 10% to \$1.755 billion (2010: \$1.590 billion).

Non-current assets of the Company decreased by 5% over a year to \$1.157 billion (2010: \$1.219 billion). The value of non-current assets was significantly affected by decrease of deferred tax assets by 29% due to deferred tax loss carry-back.

Current assets increased by 61% to \$598 million in 2011 (2010: \$371 million). In 2011 cash flows significantly increased, as described above, affecting the value of current assets to a large extent.

In 2011, the Group's equity increased to \$324 million due to profit growth of the Group in 2011 to \$445 million and increase of equity surplus of the Group by \$13 million.

Total liabilities of the Company in 2011 reduced by 13% to \$1.431 billion (2010: \$1.654 billion). Long-term and short-term liabilities reduced by 9% and 20% to \$891 million and \$540 million, respectively (2010: \$980 million and \$674 million) mainly due to reduction of loan portfolio of the Company described in detail in the "Debt Burden" section.

Consolidated IFRS financial statements of the Group for the year 2011 are available on the website as follows: [www.uralchem.com/rus/to\\_shareholders\\_and\\_investors/1399/3199/5921\\_Uralchem%20IFRS%20Cons%20FS%2011.pdf](http://www.uralchem.com/rus/to_shareholders_and_investors/1399/3199/5921_Uralchem%20IFRS%20Cons%20FS%2011.pdf)

# RISK MANAGEMENT

Risk management is an important part of URALCHEM Group's corporate strategy. The Company tries to effectively manage risks thereby providing for stability of financial situation, strategy of business development and realization of its mission in accordance with modern standards of production and management quality while fully taking into account interests of all interested parties.

In its business activities the URALCHEM Group takes into account commercial risks and both internal and external uncertainty factors which may affect future development of the Company. The risk management contributes to short- and long-term predictability of the Company's activities and minimization of potential losses.

External factors arising from economic and political situation, situation in the labor and capital markets as well as other risks whose character and level are not directly affected by URALCHEM are taken into account. Besides, the Company singles out risks resulting from main business and technological processes whose minimization can be managed by the Company. Considering some risks as insignificant URALCHEM realizes that they may turn into significant in future.



**THE RISK MANAGEMENT CONTRIBUTES TO SHORT- AND LONG-TERM PREDICTABILITY OF THE COMPANY'S ACTIVITIES AND MINIMIZATION OF POTENTIAL LOSSES.**

Since UCC URALCHEM OJSC is a part of URALCHEM Group (hereinafter referred to as the Group, URALCHEM Group, URALCHEM Group of companies, URALCHEM, the Company), and its risks are fully dependent upon the risks of the Group, the analysis of the risks provided in this section is that of the Group's risks.

## MAIN RISK GROUPS

### Risks related to acquisition of shares

As a result of its reorganization by acquisition of Azot OJSC and KCCW OJSC by URALCHEM the Company expanded its sphere of activities. The Company currently combines production activities – production of fertilizers, nitrogen compounds and other organic substances – with investments into securities. Securities management, management of financial and industrial groups and holding companies, rendering other services are referred to as other activities. URALCHEM owns shares in charter capital of commercial organizations operating in chemical industry.

### Industry Risks

The processes, market trends which affect one way or another its structure and situation, constitute one of the basic factors in the Company's short-term and long-term development strategy, and may become a reason for immediate adjustment of operating activity. The ongoing industry risks capable of affecting business conditions of URALCHEM Group are as follows:

- Higher railway and trans-shipment tariffs, as well as higher freight cost may reduce profitability of both domestic and export sales.
- Instability of international financial credit system may lead to disruptions in smooth payments flow for the Group's products as well as to decrease of world prices for mineral fertilizers. In case of changes in the situation in the industry the Group plans to carry out its strategy to expand sales, improve quality of the products, diversify production and further develop its services.
- The principle of equal rate of return in price formation for domestic market applied by Gasprom may lead to the increase of cost in fertilizer industry in general and for production assets of the Group in particular. As a result of application of equal domestic and export prices Russia may turn into a marginal supplier in the international nitrogen fertilizer market.
- Monopoly position of phosphatic raw materials suppliers, Apatit OJSC and Kovdorskiy GOK OJSC, may lead to a deficit in the domestic market because of prioritized supplies to integrated structures and for export.
- Fertilizer prices fixed by RAPU (Russian Association of Fertilizer Producers) for supplies to domestic market may against the background of increase of prices for raw materials and railway tariffs and the Company's commitment to supply its products to domestic market adversely affect the revenue of the URALCHEM Group of companies.
- Old and new anti-dumping and other restrictive measures in lucrative markets (European Union, United States) may reduce export sales and may force to redirect shipments of the Group's subsidiaries and affiliates' products to other countries less favorable in terms of logistics.
- Possible introduction of export quotas and duties for the Group's products in Russia may reduce the Group's export sales.
- Introduction of new production capacities in fertilizer producing countries having cheaper resources brings on more severe competition in the world market, makes the market tighter and decreases sale prices.

## Regional Risks

URALCHEM Group of companies is doing its business mostly in Russian Federation which has investments ratings assigned by leading international rating agencies. Thus, Standard & Poors assigned Russian Federation long-term foreign currency credit rating BBB ("Stable" forecast) while Fitch rating agency assigned BBB rating (long-term foreign currency credit rating ("Positive" forecast).

In case of serious political or economic instability in Russia or in any individual region which may adversely affect activities and income of the Group, URALCHEM intends to take a number of anti-crisis management measures with a view to mitigating as much as possible negative impact of political or economic situation in this country or in an appropriate region:

- To retain fixed assets where possible until the situation changes to the better;
- To take measures tailored at providing life necessities for and working capacity of the Group's employees;
- Optimize costs;
- To review investment program.

Over the last years positive social changes have been taking place in Russia – a certain political stability has been reached, economic reforms have been underway. Stability and Russian economic development depend to a large extent on the efficiency of economic measures taken by the Government of the Russian Federation. It is worth noting that banking, judicial, tax and administrative reforms have not been completed yet.

One can not guarantee that tentative positive trends in Russian economy over the recent years, including growth of GDP, relative Rouble stability and reduced inflation rate will remain unchanged.

Due to growing globalization of the world economy substantial deterioration of the international economic situation may also bring on significant economic recession in Russia and consequently lower demand for the Group's products and services.

High level of wear-out and deterioration of production and transport infrastructure and communication systems as well as aging population may also contribute to slower social and economic development of the Russian Federation.

URALCHEM is carrying out its own activities in Moscow region. The Governments of Moscow and Russian Federation affect the activities of URALCHEM via legislative and regulatory measures which may have significant impact on financial situation and performance of the Company.

Moscow region is the financial center and the focal point of activities of foreign financial institutions. This is a positive factor for the Company's development. Moscow region is one of the most promising regions in terms of economic development.

URALCHEM considers political and economic situation in the region to be stable and believes that currently the risk of changes to the worse in the region is insignificant.

URALCHEM subsidiaries and affiliates, its branches and representative offices are registered as taxpayers and carry out their activities in Berezniki (Perm region), Kirivo-Chepetsk (Kirov region), Perm and Voskresensk (Moscow region).

Perm, Kirov and Moscow regions' economies are characterized by high level of industrial development. Geographical situation of these regions determines the need in full-scale transportation network. Transcontinental railway, automobile and air routes intercross the territories of these regions. Infrastructure of these regions was built primarily during Soviet era and has not been sufficiently financed and maintained. Therefore plants' key assets required for normal development of all the economic and social processes in the state and society have been significantly worn out. Transportation, power and communications industries as well as capital development segment are in dire need of being upgraded. If the state of infrastructure continues to worsen it may increase the cost of production in the Group and lead to interruptions of financial and economic activity which may have significant negative impact on the Group's performance.

The Company does not regard risks related to geographical and climatic factors as significant. URALCHEM's subsidiaries and affiliates are located in the regions characterized by moderately continental climate with long and relatively dry winter. According to general seismic risk zoning of the Russian Federation the regions of Berezniki, Kirovo-Chepetsk, Perm and Voskresensk are seismically safe.

## Financial Risks

The activities of the URALCHEM Group of companies are subject to risk of interest rate fluctuations because contracted bank loans carry the provisions for floating interest rate. Operations with the high-rate banks have become an important element of financial risks management policy.

Since the world prices for main Group's products, mineral fertilizers, are set in US dollars, the majority of the Group's enterprises' contracts are in US dollars. To minimize losses related to US dollar exchange rate fluctuations with regard to major currencies and Rouble the Company and its subsidiaries and affiliates resort to hedging.

Fluctuations of monetary policies in this country and abroad may lead to acceleration of inflation, interest rate growth with regard to the Company's borrowings, and consequently to the cost increase. With a view to mitigating possible negative implications of the fluctuations at the currency market, the Company plans to diversify currency risks by converting its cash into the most stable hard currencies.

Since the Company is not actively involved in foreign currency operations the risks related to fluctuations of foreign currencies are negligible.

In case of negative effect of currency fluctuations (devaluation of Rouble) on the Group's enterprises the Company plans to do as follows:

- To review structure of financing of the Group's enterprises;
- To review program of investments and borrowings;
- To take measures to increase accounts receivable turnover.

Subsidiaries and affiliates of URALCHEM have carried out gradual diversification of their business portfolio currencies, the number of contracts in Euro has increased and the sales in Roubles in domestic market have grown. Taking into account the above mentioned measures taken by the Group, negative affect of the currency fluctuations on the activities of UCC URALCHEM OJSC and the Group as a whole will gradually decrease.

The Company has borrowings with floating interest rate. The floating interest rate growth will increase debt service costs and will affect financial performance. With a view to mitigating negative consequences of interest rates fluctuations the Company plans to combine borrowings with both fixed and floating interest rate in its credit portfolio.

#### Inflation and proceeds from securities

Inflation indicators which are critical in view of the Company, as well as prospective activities of the Issuer to mitigate the above risk:

After the crisis of 1998 inflation level has been going down, and according to Rosstat of the Russian Federation was 6.1% in 2011. Nevertheless inflation level depends directly upon political and economic situation in this country.

In view of the Issuer, inflation level of 55% is considered critical, and this significantly surpasses the level of ongoing inflation. The inflation growth may become a reason for the increase of due interest, increase of product cost, labor cost and services due to indexation of fuel tariffs, purchased power tariffs, payroll, etc.

Negative effect of inflation on financial and economic performance of the Company is limited to the factors as follows:

- Risk of losses related to losses in real value of accounts receivable as a result of substantial deferment of or delay in payment;
- Risk of increase of due interest;
- Risk of increase of product cost, labor cost and services due to price increase of fuel and power supply, transport expenses, payroll, etc.

Inflation may also significantly affect the performance of the URALCHEM Group of companies' enterprises. In setting the price of an export contract the Group's enterprises do not use internal price indexes because the prices are determined by international fertilizer market. The cost of natural gas is the major expense item in the cost structure of URALCHEM subsidiaries and affiliates. Domestic prices for natural gas are getting closer to the world prices. In its long-term projections the Company took into account the convergence of domestic and world natural gas prices based on world price indexes. This risk is singled out and is under control by the Company.

In case of significant surplus of actual inflation figures over projections by the Russian Government, i.e. when inflation increases to 30% per annum, the Company intends to take measures to limit cost increase, increase accounts payable and increase their average terms.

#### Legal Risks

While carrying out its financial and economic activities in export markets the URALCHEM Group of companies, like other organizations registered in accordance with the laws of the Russian Federation, is subject to legal risks including risks related to legal and regulatory compliance practices and changes in foreign exchange control law. Effective legal system, required for market economy performance in Russia, is still in the making.

Many key laws were enacted fairly recently. Insufficient consensus regarding scope, content and time range of economic and political reforms, rapid development of Russian legal system which did not always coincide with vector of market relations development, manifested themselves in some cases in ambiguousness, incoherence and inconsistency of laws and regulations.

In addition to that, Russian legislation is often governed by the rule of reference to legally enforceable enactments which are yet to be enacted, leaving substantial lacunae in the mechanisms of legal regulation. In certain cases new laws and regulations are adopted without comprehensive review and discussion by interested participants of civil-law relations and do not contain adequate transitional provisions resulting in significant difficulties in their application. Defects of Russian legal system may adversely affect the Company's capacity to enjoy its rights as per the contracts and its ability to defend itself against third party claims.

Besides, the Company can not guarantee that government and law-enforcement agencies as well as third parties will not question URALCHEM Group of companies' compliance with appropriate provisions of laws and regulations. In this regard, the Company's activities are in general subject to risks related to frequent changes of legislation governing its activities, as well as not quite adequate regulation of some issues directly related to the Group's activities. Below follow main categories of legal risks facing the Company.

### Risks related to changes in foreign exchange control legislation

Major part of the URALCHEM products is exported and therefore the Company is highly dependent upon changes in foreign exchange control legislation. The Company keeps a close watch on all foreign exchange control regulations and complies with all requirements of current Russian foreign exchange control legislation. The probability of drastic changes in foreign exchange control regulations which would worsen the performance of URALCHEM's subsidiaries and affiliates in the export markets is considered to be low.

Nevertheless foreign exchange control legislation of the Russian Federation is subject to frequent changes and restrictions. These restrictions may affect the ability of the Company to make freely some transactions required for successful business activity. Substantial changes in foreign exchange control legislation may hamper realization of the contractual obligations.

## Risks of changes in tax and customs legislation

Given that the majority of the issues are codified and settled in legislation (both as Federal laws and regulatory legal acts), legal risks related to changes in tax legislation are considered by the Company as medium. The Company on a continuous basis monitors the changes in tax legislation with a view to fully and adequately complying with its requirements and preparing as a result optimum tax returns. Tax legislation of the Russian Federation is subject to rather frequent changes. In view of URALCHEM, these risks affect the Company to the same extent as all other market players. The performance of URALCHEM Group of companies can be adversely affected due to as follows:

- changes in or additions to legislative acts on taxes and levies related to increase of tax rates;
- Introduction of new taxes;
- other changes in Russian taxation system.

Such significant changes, like other changes in tax legislation, may lead to the increase of tax payments and consequently to decrease of the Company's net profit. Changes in Russian taxation system may have significant adverse impact on investment attractiveness of the Company's stock. Russian companies effect significant tax payments for a large number of taxes.

Laws and regulations governing the above taxes do not have extensive application history compared to other countries, and therefore legislative and regulatory compliance practices are often ambiguous or still rudimentary. Currently there exist very limited number of generally accepted clarifications and interpretations of tax legislation.

Various ministries and legislative bodies often differ regarding interpretation of tax legislation thereby creating uncertainty and room for conflict. These factors create Russian tax risks which are significantly higher than same risks in the countries with more developed taxation system. Russian taxation system often changes while tax legislation is sometimes applied inconsistently at federal, regional and local levels. In some cases new tax regulations apply retroactively. In addition to the existing tax burden these circumstances complicate tax planning and adoption of appropriate decisions.

Lack of legal clarity exposes the Company to the risk of effecting substantial penalty fee payments in spite of attempts to comply with legislation and may lead to the increase of the tax burden. New taxes can be introduced in Russia. And therefore the Company may be forced to pay higher taxes which may have significant adverse impact on the Group's performance.

The taxation system of the Russian Federation has undergone significant changes within the framework of tax reform over the recent years. New laws reduced the number of taxes and general tax burden on business in Russia as well as simplified tax legislation. Nevertheless new tax legislation still leaves ample scope for arbitrary actions by tax authorities and significant number of open questions which complicate tax planning and adoption of appropriate decisions.

In case of changes in tax legislation the Company intends to plan its financial and economic activities taking into account such changes. Similar circumstances exist in evaluating legal risks related to changes in customs and duty regulations.

Over the last two years synchronizing amendments to the Customs Code of the Russian Federation were introduced and the package of other documents related to customs procedural formalities and filling out various customs declarations adopted. The changes deal with customs tariff policy and transfer to the Unified customs tariff for member states of the Customs Union, classification of goods falling under the system of non-tariff regulation of foreign trade activities, computation, payment and collection of customs duties, etc. For participants of foreign trade activities, the key issue among the number of amendments and changes is determination and control of customs value, based on which the customs duties are calculated. This factor has immediate impact on commercial activities of URALCHEM Group of companies.

### Risk related to licensing

Legal risks related to changes in standards for licensing of the Company's core business or licensing of the rights to use property of limited transferability (including natural resources), are also considered as not high by the Company because the list of licensable activities as well as legal regulation of licensing are relatively standard and are governed by the Russian Federal law "Concerning Subsurface Resources", Federal Law "On Licensing of Certain Types of Activity" as well as other federal laws and regulations.

General orientation of Russian policy in this field is tailored at reducing administrative barriers for business and eliminating excessive functions of the ministries and government agencies, simplifying procedures for licensing and re-licensing, ensuring transparency and accessibility of information about licensing to businesses. In case of substantial changes in licensing the Company's activities or in licensing of the rights to use property of limited transferability, the Company will take necessary measures to receive appropriate licenses and permits.

### Risks related to litigation

As of the last date of the reporting year the Company is not involved in any litigation which might significantly affect its financial and economic performance. In this regard, legal risks related to changes in judicial practice regarding the field of activity of URALCHEM and its subsidiaries and affiliates, which may adversely affect their performance, are considered as not high.

The Company has been scrutinizing changes in judicial practices related to the field of activity of URALCHEM and its subsidiaries and affiliates, with a view to taking such changes into account in their activities on an on-going basis. The Company analyses judicial practices both at the level of the Supreme Court of the Russian Federation, the Supreme Commercial Court of the Russian Federation and at the level of district federal commercial courts; legal view of the Constitutional Court of RF regarding individual issues of law enforcement is also analyzed.

In case of changes in judicial practices regarding issues related to activities of URALCHEM and its subsidiaries and affiliates, the Company intends to plan its financial, economic and production activities taking into account such changes.

### Risks related to activities of the Company

There are no risks related to inability to have license to carry out certain activities or to use property of limited transferability (including natural resources) extended. URALCHEM's liability regarding debts of third parties including subsidiaries is minimal because the Company bears joint and several liability regarding obligations of the third parties, and URALCHEM's subsidiaries and affiliates have sufficient funds to discharge the obligations.

# DEVELOPMENT STRATEGY

## MAIN DIRECTIONS OF STRATEGIC DEVELOPMENT

Strategic goal of URALCHEM is to develop dynamically and to progressively expand the Company's strategic positions in Russian and international markets with a view to providing our consumers with top-quality products at competitive prices.

The following strategic directions which take into account the whole multitude of emerging risks, were worked out in order to carry out the Company's strategy:

- To expand investment program;
- To expand product line through adding innovative products;
- To increase energy efficiency of production;
- To improve logistics and increase sale effectiveness;
- To improve financial resources management;
- To strengthen corporate governance;
- To pursue Human Resources policy resulting in the employees being capable of meeting current challenges.

Such a strategy allows the Company to increase its competitive edge and strengthen its leadership position in the market.

The following factors serve as catalysts for realization of strategic goals:

- To shape positive attitude to the Company's products among clients;
- To Improve quality of the products;
- To demonstrate good corporate conduct.

**STRATEGIC GOAL OF URALCHEM IS TO DEVELOP DYNAMICALLY AND TO PROGRESSIVELY EXPAND THE COMPANY'S STRATEGIC POSITIONS IN RUSSIAN AND INTERNATIONAL MARKETS WITH A VIEW TO PROVIDING OUR CONSUMERS WITH TOP-QUALITY PRODUCTS AT COMPETITIVE PRICES.**

### Production

The main task of the Company is to use existing production facilities to full extent and keep reducing cost of production.

Taking into account the acquisition of Perm Mineral Fertilizers, commercial output is projected to reach 6.0 million tonnes.

Projected ammonia production by Azot and KCCW MFP for 2012-2015 is as follows:

#### PRODUCTION OF AMMONIA, IN '000 TONNES



## Sales

URALCHEM plans to increase fertilizer packing capacities which will help differentiate loading opportunities for fertilizers according to consumer needs and form its own flexible sales strategy. The development of sales networks will allow to further form and keep a stable client base and significantly increase the Company's competitive edge.

It is planned to further develop interaction with local key market distributors for niche products, - NPK/NPKS, CAN/CNS, NS, SAN, special types of nitrates and urea, portfolio of water soluble fertilizers, including potassium nitrate, water soluble MAP, complex brands.

## Investment program

In 2012, it is planned to increase investments, including investment projects and supporting investments, by 2.4 times compared to previous year.

In the short term, the main task is to gradually shift from sales of commercial ammonia in favor of it being further processed into granular fertilizers. The main part of the Group's investment program in 2012 is devoted to this goal.

Great attention will be paid to technical overhaul of the installations in order to reduce pollution emissions into atmosphere.

The Company worked out a 4-year program to increase energy efficiency. Investments into the program in 2012-2015 will be around \$75million.

**THE COMPANY WORKED OUT A 4-YEAR PROGRAM TO INCREASE ENERGY EFFICIENCY. INVESTMENTS INTO THE PROGRAM IN 2012-2015 WILL BE AROUND \$75MILLION.**

## Products and innovations

URALCHEM will continue activities which will allow in a very short time to introduce new products to the market- water-soluble fertilizers. The Company also plans to consistently expand the line of sulphur-containing products for its key markets.

## Logistics and Sales

In 2012, the Company plans to increase the investments into construction of trans-shipment capacity by 2.5 times; within this project construction of the Company's own sea terminal in Riga is underway the first phase of which is projected to be launched by the end of 2012, and the second phase - by the end of 2013.

The Group's own port capacity will allow to increase the turnover of rollingstock by approximately 15%, thereby reducing its maintenance cost.

It is also planned to increase the share of the Company's own freight to 85% (82.5% in 2011) and to increase shipments via ports with competitive logistics: St. Petersburg's PSK – minimum 450,000 tonnes. St. Petersburg's Baltic Bulk Terminal – minimum 700,000 tonnes, Vyborg – minimum 500,000 tonnes. River freight – 300,000–330,000 tonnes if feasible.

The Group plans to keep increasing its rolling stock by 300–400 railway cars per annum.

Besides, URALCHEM-TRANS LLC wagon fleet will increase in 2012 by 684 units due to integration of the rolling stock of Perm Mineral Fertilizers.

### Resource Consumption

It is planned to annually reduce consumption of main raw material, natural gas, as part of the program to increase energy efficiency.

It is also planned to begin energy audit of all Company's plants with assistance of ESO KCCW OJSC, a power supply organization of KCCW MFP.

Within the framework of activities to improve information systems, work will continue to introduce hardware-software complex of resource monitoring and accounting and Laboratory Information Management Systems (LIMS).

In 2012, there will be two key corporate goals: growth of production volume and growth of net profit.

**IN 2012, THERE WILL BE TWO KEY CORPORATE GOALS:  
GROWTH OF PRODUCTION VOLUME  
AND GROWTH OF NET PROFIT.**

### Personnel

In 2012, training programs will continue with a view to developing human resources of the Company.

Within the framework of the strategy of personnel management priority will be given to activities catered to:

- Improve skills and responsibility of employees;
- Increase employees' motivation.

# CORPORATE SOCIAL RESPONSIBILITY

## HUMAN RESOURCES MANAGEMENT

As of 31.12.2011 the Company had about 11.5 thousand employees.

Personnel management projects are underway in the Company and are tailored at attracting the best candidates and keeping skilled employees.

For that purpose the Company has improved the system of employee motivation, applied an integrated approach to the evaluation and development of personnel, realized projects geared to increase level of employee involvement and productivity of labor.

The main principles of human resources policy of the Company are as follows:

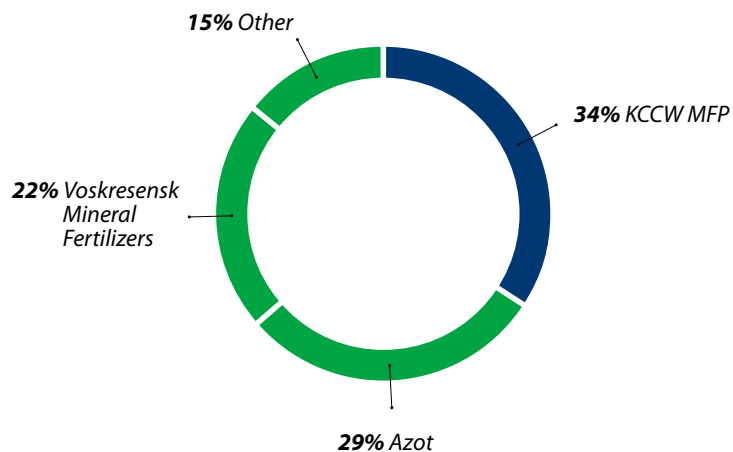
- To contribute to successful business development.
- To set up teams of professionals.
- To apply the most advanced and efficient technologies in attracting, motivating, retaining and developing its employees.

The corporate training program is underway in the Company which consists of as follows:

- Compulsory training.
- Occupational training.
- Continuing education of employees at specialized courses, seminars, participation in corporate professional conferences.
- Training tailored at developing corporate and management competencies.

**PERSONNEL MANAGEMENT PROJECTS ARE UNDERWAY IN THE COMPANY AND ARE TAILORED AT ATTRACTING THE BEST CANDIDATES AND KEEPING SKILLED EMPLOYEES.**

### THE COMPANY'S HEADCOUNT BREAKDOWN



Source: URALCHEM

The program of employee advanced training has been expanded by means of distance learning. In 2011, the Company launched its advanced training program on the basis of Chemical Department of Moscow State University; employees began studies based on university syllabi in all regions of the Company's presence.

Constant phased-out employee training helps to form the pool of future managers. In filling out the vacancies the Group gives priority to corporate candidates; in 2011 over 70% of key vacancies were filled by corporate candidates.

The Company does its best to attract and keep skilled employees, their core being young professionals who mastered new technologies.

Human resources Directorate has been working out programs directed at establishing partner relations with universities, the work being underway not only with senior university but also with high school students. The programs are underway to attract and orient young professionals in their career paths and professional development; they are provided with social security safeguards and financial stability. The Councils of young professionals formed at the enterprises help new employees to readjust to new working environment. The Councils review and introduce initiatives of young professionals which bring on improvement of the Company's performance and social setting as well increase of productivity of labor.

Personnel motivation system of the Company includes bonuses and remuneration stimulating the growth of productivity of labor and effectiveness of team work. URALCHEM top management creates all conditions for professional and personal growth of each employee. The program of recognition of the best employees is underway in the Company.

URALCHEM employees are active initiators and participants of sport competitions in practically all sports. Healthy life style is a firm tradition in our Company. Sport and social events constitute an important part of corporate culture.

## SOCIAL POLICY AND CHARITY

Social and charity programs are one of the most important parts of URALCHEM Group's corporate strategy and are quite specific.

The main directions of the Company's charitable activities are as follows:

- To develop children's and youth sport.
- To support children's and youth programs geared to improve health, receive education, cater for leisure activities.

- To help veterans.
- To support cultural establishments; organize cultural events.

In 2011 the URALCHEM Group spent over \$3.1 million for charity and sponsorship programs, including \$1.7 million for children's and youth sport development, educational programs, and leisure activities. More than \$0.5 million were spent to help veterans and handicapped persons.

## INDUSTRIAL SAFETY

All safety activities in Group's production facilities are carried out in accordance with regulatory acts, planned safety measures, and collective agreements. The system of HSE (Health, Safety, and Environment) management is in effect in all Company's enterprises with a view to preventing occupational injuries, improving working conditions and employees' health. This system is regulated by the accepted standards of the organization.

The main objective of URALCHEM in the field of safety is to further improve working and safety conditions, increase industrial and environmental safety of its production facilities.

**THE MAIN OBJECTIVE OF URALCHEM IN THE FIELD OF SAFETY IS TO FURTHER IMPROVE WORKING AND SAFETY CONDITIONS, INCREASE INDUSTRIAL AND ENVIRONMENTAL SAFETY OF ITS PRODUCTION FACILITIES.**

Industrial process supervision is carried out by HSE departments by means of organization of and participation in integrated and targeted inspections of industrial safety conditions at the plants.

## PROTECTION OF ENVIRONMENT

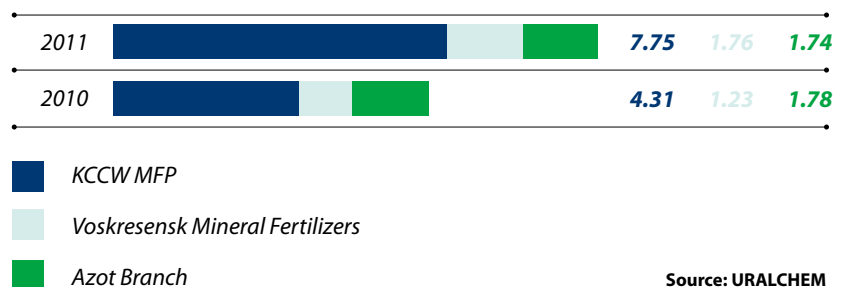
The Company is committed to the concept of sustainable development, i.e. the most complementary harmony of economic, social, and environmental components of business strategy.

In 2011, expenses for protection of environment increased by 54% to more than \$11 million compared to 2010. Main expenses were incurred in order to mitigate negative effect of production on bodies of water.

The Group has been consistently reducing man-induced impact on environment as follows:

- Technical re-equipment on the basis of the best available technologies with high environmental and economic characteristics.  
In 2011, work continued to technically upgrade production facilities of the Group's plants to improve environmental indicators.
- Improvement of environmental characteristics of existing production systems: improvement of main production technologies, development and introduction of new engineering principles, application of environmentally friendly materials.  
High level of industrial and environmental safety of Voskresensk Mineral Fertilizers was specifically noted in November 2011 at the annual "Moscow region Ecologist of the year" competition. The enterprise once again became a prize winner of this competition and was awarded a diploma.

### TOTAL EXPENSES FOR PROTECTION OF ENVIRONMENT, IN MILLION US DOLLARS



Source: URALCHEM

- Construction and reconstruction of environmental facilities.  
In spring of 2011, a set of measures was taken to reduce consumptive use of Kama river water and reduce waste discharge into sewage system. The project was simultaneously realized in three workshops – of ammonium nitrate production, of nitric acid, and of concentrated nitric acid. Closed-loop water circulation will eliminate the waste discharge into sewage system.

## Greenhouse Gas Emissions and Energy Efficiency

In its activities URALCHEM takes into account the obligations taken by Russia as a result of ratification of United Nations Framework Convention on Climate Change. The Company takes measures which provide for a systemic approach to greenhouse gas emissions control.

In 2011, the Company developed and introduced, at Azot, the system of energy management in accordance with the requirements of ISO 50001 international standard. The energy audit was also carried out at the Group's enterprises.

Besides, some measures were taken directed at reducing greenhouse gas emissions and energy consumption.

Due to taken measures the specific total of atmospheric emissions of the Group decreased by 7% in 2011 compared to the previous year to 2.5 kg/tonne of commercial output.

The Group's total atmospheric emissions decreased by 3% in 2011, or by 385.8 tonnes, compared to 2010.

KCCW MFP accounted for major part of decrease of atmospheric emissions in 2011, having reduced emissions by 592.4 tonnes despite increase of production and shift in its product line.

**THE GROUP'S TOTAL ATMOSPHERIC EMISSIONS DECREASED IN 2011 COMPARED TO 2010**

## Observance of European Legislation in the field of Chemical Substances Treatment (REACH)

Activities continued with a view to implementing requirements of European legislation in the field of chemical substances treatment (REACH):

- In accordance with REACH requirements, translation of expanded safety passports (eSDS) to the languages of supplier countries was done. Overall, 128 translations of SDS for the Company's products to 17 languages of EC were done.
- Within the framework of activities in consortia to register the Company's substances at the request of European Chemicals Agency, work continued to improve registration dossiers. Consortium of inorganic phosphates (IP) began additional research with a view to studying remote consequences of human exposure to phosphates.
- Together with leading registrant scenarios were made regarding exposure to substances produced by the Group; areas of application of produced substances were specified.

### Observance of Requirements of the European Union Regulation concerning Classification, Labeling and Packaging (CLP)

- In compliance with CLP requirements classification and labeling of the products produced by the Company's plants were done. Complex products (complex fertilizers) were classified ahead of schedule (2015). Based on classification new labeling of packing stickers was done.
- Labeling the products to be delivered to EC, the Company complies with REACH requirements. under Regulation (EC) No1272/2008 (CLP Regulation). Having products to be delivered all over the world, the Company takes into account the requirements of Globally Harmonised System of Classification and Labeling of Chemicals (GHS), as well as the requirements of the laws of the countries importing the Group's products.
- With a view to meeting the requirements of Chinese national standards in the field of labeling and packaging GB20576-2006, GB20599-2006 и GB20601-2006~GB20602-2006 the products were classified. Safety passports were also translated to Chinese.
- Safety passports for the products supplied to Central America (Mexico, Brasil) were issued in accordance with the requirements of national legislation of these countries.

### Observance of national legislation on regulation of chemical substances

- In accordance with the requirements of Turkish legislation on regulation of chemical substances notification of the Company's products exported to Turkey was performed in the Ministry of Environment and Forestry (MoEF) of Turkey through the offices of the only URALCHEM Assist GmbH representative to EC. In compliance with the same legislation, the safety passports for the products exported to Turkey were translated into Turkish and registered in MoEF.

### Responsible Care Program

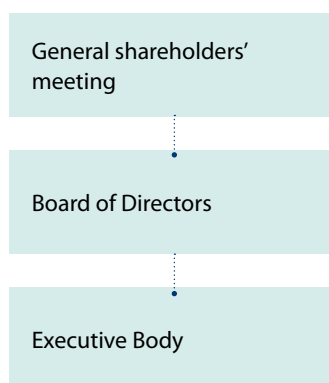
Accession of URALCHEM to the international program Responsible Care is a vivid demonstration of the Company's transparency in the field of industrial safety and environment. Responsible Care is both ethics and responsibility geared to strengthen consumers' and Government's confidence in URALCHEM which is an important prerequisite for improving wellbeing, quality of life and sustainable development. Responsible Care program currently carried out by 54 associations received high evaluation of its results. Kofi Annan, former UN Secretary-General, described it as "a wonderful model of self-regulation which must be emulated by other industries".

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

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE STRUCTURE

Our approach to corporate governance in subsidiaries of Uralchem, OJSC depends on their legal form and general importance for URALCHEM's business, and consists of the following:



General shareholders' meeting and the General meeting of members (hereinafter referred to as general shareholders' meeting) are the supreme governing bodies of the companies that make up the Group.

The companies are managed by the Boards of Directors that are in their turn elected by the general shareholders' meetings for the period until the next annual general shareholders' meeting or for the term specified in the articles of association.

An executive body - sole (Chief Executive Officer or Managing Company) or collective (Board) carries out day-to-day management of the companies.

To improve management of business processes in the Group and increase management responsibility in October 2010 the general shareholders' meeting of Uralchem, OJSC approved new version of the Company's Articles of Association. The new articles provided for a collective executive body – Management Board. This collective body operated until April of 2011.

## THE GENERAL MEETING OF SHAREHOLDERS

URALCHEM's general shareholders' meeting is the supreme governing body. Procedures for the general shareholders' meeting are set in the Articles of Association and Regulations on the General Shareholders' Meeting of Uralchem, OJSC, approved by resolution of the annual general shareholders' meeting (Minutes No. 5 of June 3, 2008). The Articles of Association and the Regulations on General Shareholders' Meeting of Uralchem, OJSC are available on our official website ([www.uralchem.com](http://www.uralchem.com)).

At one annual and four extraordinary general meetings of the Company's shareholders, the following principal issues were included in the agenda:

- Approval of the Company's auditor ("BDO" CJSC);
- Approval of major transactions;
- Amendment of the Company's Articles of Association;
- Election of the Company's Board of Directors;
- Election of the Company's Revision Commission;
- Approval of the Regulations on the Company's Board of Directors;
- Approval of the Regulations on the Company's Revision Commission;
- Approval of internal regulations governing activities of the Company's bodies.

## BOARD OF DIRECTORS

Forty nine meetings of the Board of Directors were held in 2011, including thirteen in the form of joint presence, and thirty six meetings in the form of absentee vote.

Before the Annual General Shareholders' Meeting the Company's Board of Directors (elected at Extraordinary General Shareholders' meeting on November 26, 2010) consisted of the following members:

1. Dmitry Mazepin  
(Chairman of the Board of Directors)
2. Dmitry Osipov
3. Sergey Drinevskiy
4. Yuliya Orlovskaya
5. Vladimir Orlovskiy
6. Dimitry Tatyandin
7. Elena Papsheva
8. Felix Palyutin
9. Dmitry Sakhno

At the Extraordinary general shareholders' meeting held on April 1, 2011 (Minutes No. 11 of April 4, 2011) the composition of the Board of Directors was changed to the following:

1. Dmitry Mazepin
2. Dmitry Konyaev
3. Dmitry Osipov
4. Yuliya Orlovskaya
5. Mixim Bakov
6. Dimitry Tatyandin
7. Nina Korotkova
8. Mikhail Genkin
9. Dmitry Sakhno
10. Sergey Gurnakov
11. Alexei Strakhov

At the Annual General Shareholders' Meeting of Uralchem, OJSC held on June 29, 2011 (Minutes No. 22 of June 30, 2011) the composition of the Board of Directors was changed and as of December 31, 2011 was as follows:

1. Dmitry Mazepin
2. Mikhail Genkin
3. Dmitry Konyaev
4. Peter Krupnov
5. Dmitry Osipov
6. Yuliya Orlovskaya
7. Dimitry Tatyandin
8. Sophie Vergnas Sokolov

## Members of the Board of Directors



**Dmitry Mazepin**  
(Chairman)

Date of Birth: 1968

Education:

1992 – Moscow State Institute of International Relations;

2004 – “VNIINeft” post-graduate school

Period		Organization	Title
From	To		
2005	2007	Constructive Bureau LLC	General Director
2007	2007	UCC URALCHEM OJSC	Chief Executive Officer
2008	UP TO DATE	UCC URALCHEM OJSC	Chairman of the Board of Directors
2008	UP TO DATE	HaloPolymer OJSC	Chairman of the Board of Directors
2010	UP TO DATE	URALCHEM HOLDING P.L.C.	Chairman of the Board of Directors

Does not have any shares in the Company's equity/common shares.

During the reporting period did not make any transactions related to acquisition or transfer of the Company's shares.



### Dimitry Tatyatin

Date of Birth: 1967

Education:

1993 – Voronezh State University, Legal Department

Period		Organization	Title
From	To		
2005	2007	"Legal Invest Group" LLC	Director of Legal Department
2007	2010	HC URALCHEM LLC	Chief Legal Officer
2010	2010	UCC URALCHEM OJSC	Chief Legal Officer
2007	2010	UCC URALCHEM OJSC	Chief Legal Officer (by-work)
2010	UP TO DATE	UCC URALCHEM OJSC	Chief Legal Officer
2008	UP TO DATE	Voskresensk Mineral Fertilizers, OJSC	Member of the Board of Directors
2007	UP TO DATE	UCC URALCHEM OJSC	Deputy Chairman of the Board of Directors
2005	2010	KCCW MFP OJSC	Member of the Board of Directors
2007	2010	Azot OJSC	Member of the Board of Directors
2010	UP TO DATE	HaloPolymer OJSC	Member of the Board of Directors
2011	2011	UCC URALCHEM OJSC	Member of the Board

Does not have any shares in the Company's equity/common shares.

During the reporting period did not make any transactions related to acquisition or transfer of the Company's shares.



### Dmitry Osipov

Date of Birth: 1963

Education:

1990 – Lobachevsky Gorky State University, Department of Radio Physics and Electronics

Period		Organization	Title
From	To		
2005	2007	KCCW MFP OJSC	Chief Executive Officer
2007	2007	Constructive Bureau LLC	Executive Director
2007	2010	HC URALCHEM LLC	Chief Executive Officer
2010	2010	HC URALCHEM CJSC	Chief Executive Officer
2010	2010	HC URALCHEM CJSC	Chairman of the Board
2007	2010	UCC URALCHEM OJSC	Chief Executive Officer (by-work)
2010	2010	UCC URALCHEM OJSC	Chief Executive Officer
2006	2010	KCCW MFP OJSC	Member of the Board of Directors
2007	2010	Azot OJSC	Member of the Board of Directors
2008	UP TO DATE	KCCW MFP OJSC	Member of the Board of Directors
2008	UP TO DATE	Voskresensk Mineral Fertilizers, OJSC	Member of the Board of Directors
2008	UP TO DATE	HaloPolymer OJSC	Member of the Board of Directors
2007	UP TO DATE	UCC URALCHEM OJSC	Member of the Board of Directors
2010	2011	UCC URALCHEM OJSC	Chairman of the Board
2011	UP TO DATE	UCC URALCHEM OJSC	Deputy Chairman of the Board of Directors
2011	UP TO DATE	SKB MT LLC	Chairman of the Board of Directors
2011	UP TO DATE	SIA Riga fertilizer terminal	Member of the Board of Directors
2011	UP TO DATE	KCCW MFP LLC Repair and Engineering Works	Member of the Board of Directors

Does not have any shares in the Company's equity/common shares.

During the reporting period did not make any transactions related to acquisition or transfer of the Company's shares.



### Dmitry Konyaev

Date of Birth: 1971

Education:

1993 – Moscow State University, Department of Economics;

2003 – Institute of Business and Economics, MBA, Marketing

Period		Organization	Title
From	To		
2005	2007	Constructive Bureau LLC	Commercial Director
2007	2010	Azot OJSC	Member of the Board of Directors
2007	2010	HC URALCHEM LLC	Commercial Director
2010	2010	HC URALCHEM CJSC	Commercial Director
2010	2010	HC URALCHEM CJSC	Member of the Board
2008	2011	Uralchem-Trans LLC	Chairman of the Board of Directors
2010	2010	Azot OJSC	Member of the Board of Directors
2010	2011	UCC URALCHEM OJSC	Commercial Director
2009	UP TO DATE	SIA Riga fertilizer terminal	Chairman of the Board of Directors
2011	UP TO DATE	UCC URALCHEM OJSC	Chief Executive Officer
2011	2011	UCC URALCHEM OJSC	Member of the Board
2011	UP TO DATE	UCC URALCHEM OJSC	Member of the Board of Directors
2011	UP TO DATE	Voskresensk Mineral Fertilizers, OJSC	Member of the Board of Directors
2011	UP TO DATE	KCCW MFP LLC Repair and Engineering Works	Member of the Board of Directors
2011	UP TO DATE	KCCW MFP OJSC	Member of the Board of Directors

Does not have any shares in the Company's equity/common shares.

During the reporting period did not make any transactions related to acquisition or transfer of the Company's shares.



### Mikhail Genkin

Date of Birth: 1967

Education:

1991 – Gorky State University, Department of Radio Physics and Electronics

Period		Organization	Title
From	To		
2006	2007	Constructive Bureau LLC	Executive Director
2007	2010	HC URALCHEM LLC	Adviser/Director for Business Development
2010	2010	HC URALCHEM CJSC	Director for Business Development
2007	2010	UCC URALCHEM OJSC	Director for Business Development (by-work)
2010	UP TO DATE	UCC URALCHEM OJSC	Director for Business Development
2008	2010	KCCW OJSC	Member of the Board of Directors
2007	2010	Azot OJSC	Member of the Board of Directors
2008	UP TO DATE	Voskresensk Mineral Fertilizers, OJSC	Chairman of the Board of Directors
2007	2009	Halogen OJSC	Member of the Board of Directors
2008	UP TO DATE	HaloPolymer OJSC	Member of the Board of Directors
2008	2010	UCC URALCHEM OJSC	Member of the Board of Directors
2010	2011	UCC URALCHEM OJSC	Member of the Board
2011	UP TO DATE	UCC URALCHEM OJSC	Member of the Board of Directors
2011	UP TO DATE	KCCW MFP OJSC	Member of the Board of Directors
2011	UP TO DATE	SKB MT LLC	Member of the Board of Directors

Does not have any shares in the Company's equity/common shares.

During the reporting period did not make any transactions related to acquisition or transfer of the Company's shares.



### Yuliya Orlovskaya

Date of Birth: 1972

Education:

1994 – Moscow State Institute of International Relations,  
Department of International Economic Relations

Period		Organization	Title
From	To		
2005	2008	Confectionary Association SladCo CJSC	Marketing Department Director
2008	2009	GE Money Bank CJSC	Marketing Department Director
2009	UP TO DATE	UCC URALCHEM OJSC	Member of the Board of Directors
2009	UP TO DATE	UCC URALCHEM OJSC	Adviser to the Chairman of the Board of Directors
2009	2010	UCC URALCHEM OJSC	Executive Director
2010	2010	HC URALCHEM CJSC	Executive Director
2010	2010	UCC URALCHEM OJSC	Executive Director
2010	2010	HC URALCHEM CJSC	Member of the Board
2010	2011	UCC URALCHEM OJSC	Member of the Board
2011	UP TO DATE	KCCW MFP LLC Repair and Engineering Works	Member of the Board of Directors

Does not have any shares in the Company's equity/common shares.

During the reporting period did not make any transactions related to acquisition or transfer of the Company's shares.



### Peter Krupnov

Date of Birth: 1962

Education:

1986 – Novopolotsk Polytechnical Institute, Chemical Engineer

Period		Organization	Title
From	To		
2003	2010	SIBUR-Neftechim OJSC	Chief Executive Officer
2010	2010	SIBUR OJSC	Adviser to the President
2007	2007	RusVinil OJSC	Member of the Board of Directors
2011	UP TO DATE	UCC URALCHEM OJSC	Member of the Board of Directors

Does not have any shares in the Company's equity/common shares.

During the reporting period did not make any transactions related to acquisition or transfer of the Company's shares.



### Sophie Vergnas Sokolov

Date of Birth: 1963

Education:

1987 – ESCP Europe, Paris, France

Period		Organization	Title
From	To		
2001	UP TO DATE	KBS Associates Ltd., Moscow representative office	Director, Head of representative office
2004	UP TO DATE	Moscow representative office of KBS Internationale S. A., Switzerland	Head of representative office
2011	UP TO DATE	UCC URALCHEM OJSC	Member of the Board of Directors

Does not have any shares in the Company's equity/common shares.

During the reporting period did not make any transactions related to acquisition or transfer of the Company's shares.

## COMMITTEES OF THE BOARD OF DIRECTORS

URALCHEM's Board of Directors has four committees:

### Strategy and Investment Committee

Regulations on the Strategy and Investments Committee were approved by the Company's Board of Directors, Minutes No. 14 of 17.06.2011. As of the date of this Annual Report the Strategy and Investments Committee is using a new version of the Regulations on the Strategy and Investments Committee, approved by the Board of Directors, Minutes No. 27 of 07.02.2012.

#### Goals and Objectives of the Committee

The main goal of the Committee is to ensure effective work of the Company's Board of Directors in dealing with issues within its competence.

The objectives of the Committee are to work out and submit recommendations (opinions) to the Board of Directors on the following issues:

- Determination of priorities in the Company's business, strategic goals and main principles of the Company's strategic development;
- Growth of the Company's attractiveness as an investment;
- Improvement of the investment process activities in the Company and reasonable decision-making.

### Audit Committee

Regulations on the Audit Committee were approved by the Company's Board of Directors, Minutes No. 14 of 17.06.2011.

#### Goals and Objectives of the Committee

The main goal and function of the Audit Committee is as follows:

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

### Remunerations Committee

Regulations on the Company's Remunerations Committee were approved by the Company's Board of Directors, Minutes No.14 of 17.06.2011.

As of the date of this Annual Report the Remunerations Committee is using a new version of the Regulations on the Remuneration Committee, approved by the Company's Board of Directors, Minutes No.27 of 07.02.2012).

### Goals and Objectives of the Committee

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

- To ensure effective work of the Board of Directors of the Company with regard to decisions in the field of control over the system of remuneration and compensations.
- To build proper remuneration system for members of the Board of Directors, senior executives at subsidiaries and affiliates. Such system should take into account the shareholders interests, be consistent with the Company's general labor compensation policy and remuneration of other employees, as well as be competitive and comply with current laws.

### Nominations Committee

The Provisions for the Nominations Committee was approved by the Board of Directors of URALCHEM, Protocol #14 of 17.06.2011. As of the date of this Annual report approval the Provisions for the Remunerations Committee exist in new wording approved by the URALCHEM Board of Directors (Protocol #27 of 07.02.2012).

#### Goals and Objectives of the Committee

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

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

## EXECUTIVE BODIES

In 2011 Uralchem, OJSC had the below executive bodies.

- collective executive body – the Management Board, and
- individual executive body – Chief Executive Officer.

As of the date of this Annual Report individual executive body of URALCHEM is Chief Executive Officer.

### Management Board

A collective executive body – Management Board, was included in URALCHEM's management structure in October 2010 after the Company's general shareholders' meeting approved a new version of the Company's Articles of Association (Minutes No.18 of 04.10.2010). The new Articles of Association provided for the distribution of powers between the Chief Executive Officer and the Management with respect to the day-to-day management of the Company.

In 2011, the general shareholders' meeting approved another version of the Articles of Association (Minutes No. 21 of 04.04.2011) that no more provided for a Management Board as one of the Company's executive bodies.

## The Chief Executive Officer

Dmitry Osipov was the Chief Executive Officer of URALCHEM from 2007 to 25.01.2011 (Minutes No.1 of 07.12.2010).

Dmitry Konyaev was appointed the Chief Executive Officer of URALCHEM on 25.01.2011 (Minutes No.4 of 24.01.2011).



### Dmitry Konyaev

Date of Birth: 1971

Education:

1993 – Moscow State University, Department of Economics;

2003 – Institute of Business and Economics, MBA, Marketing

Period		Organization	Title
From	To		
2005	2007	Constructive Bureau LLC	Commercial Director
2007	2010	Azot OJSC	Member of the Board of Directors
2007	2010	HC URALCHEM LLC	Commercial Director
2010	2010	HC URALCHEM CJSC	Commercial Director
2010	2010	HC URALCHEM CJSC	Member of the Board
2008	2011	Uralchem-Trans LLC	Chairman of the Board of Directors
2010	2010	Azot OJSC	Member of the Board of Directors
2010	2011	UCC URALCHEM OJSC	Commercial Director
2009	UP TO DATE	SIA Riga fertilizer terminal	Chairman of the Board of Directors
2011	UP TO DATE	UCC URALCHEM OJSC	Chief Executive Officer
2011	2011	UCC URALCHEM OJSC	Member of the Board
2011	UP TO DATE	UCC URALCHEM OJSC	Member of the Board of Directors
2011	UP TO DATE	Voskresensk Mineral Fertilizers, OJSC	Member of the Board of Directors
2011	UP TO DATE	KCCW MFP LLC Repair and Engineering Works	Member of the Board of Directors
2011	UP TO DATE	KCCW MFP OJSC	Member of the Board of Directors

Does not have any shares in the Company's equity/common shares. During the reporting period did not make any transactions related to acquisition or transfer of the Company's shares.

## REMUNERATION OF KEY MANAGEMENT

Total remuneration paid to the Company's Chief Executive Officer, members of the Management Board, and members of the Board of Directors in 2011 amounted to \$13.7 million.

## INTERNAL CONTROL AND AUDIT

### The Revision Commission

The Revision Commission was created to control financial and economic activity of the Company.

The Revision Commission, elected by resolution of the general shareholders' meeting on June 29, 2011, is made up of three members.

Its Chairperson is elected out of the members of the Commission. Members of the Revision Commission are as follows:

- Maria Kuzmina – Chairperson of the Revision Commission.
- Natalya Soboleva – member of the Revision Commission.
- Andrey Ermizin – member of the Revision Commission.

The Members of the Revision Commission audit financial and economic activities of the Company at any time at their own discretion, by resolution of the general shareholders' meeting, or at the request of a shareholder (shareholders) holding the total of at least 10% of the Company's voting stock.

In 2011 no remuneration was paid to members of the Revision Commission.

In accordance with the Regulations on the Policy of Internal Control over the Financial and Economic Activities of Uralchem, OJSC apart from the Revision Commission, in 2011 the below management bodies of Uralchem, OJSC carried out internal audit of financial and economic activities of Uralchem, OJSC and the Group:

- Board of Directors of the Company and the Audit committee,
- Revision Commissions of URALCHEM's subsidiaries;
- Internal Audit and Control Department of URALCHEM;
- Department of internal control of Azot Branch;
- Department of internal control of KCCW Branch;
- Internal Audit and Control Service of Voskresensk Mineral Fertilizers.

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

In their work internal control bodies are governed by the Regulations on the Policy of Internal Control over the Financial and Economic Activities of Uralchem, OJSC (approved by the Board of Directors, (Minutes No. 1 of 17.09.2008)). Full text of the Regulations is available on our official website ([www.uralchem.com](http://www.uralchem.com)).

The United Internal Audit Team of URALCHEM has operated since 2008. As of 31.12.2011 it consisted of:

- Internal Audit and Control Department (since July 2011 – IACD), reporting administratively and functionally to the Company's CEO;
- Internal Control Administration of Azot Branch and Internal Control Administration of KCCW Branch which are structural units of the branches, and report functionally – to Head of CRD, and administratively – to Directors of URALCHEM branches;
- Internal Audit and Control Division of Voskresensk Mineral Fertilizers which is a structural unit of Voskresensk Mineral Fertilizers, and reports to CEO of Voskresensk Mineral Fertilizers.

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

### Information about the auditors

Auditor is entirely independent of the executive bodies of the Issuer in accordance with provisions of Article 12 of the Federal law "On Auditing Activities", and its remuneration does not depend on the results of the audits.

BDO CJSC, an independent auditor, was invited to conduct the audit of URALCHEM Group's financial statements for 2011 in accordance with Russian accounting standards.

BDO CJSC (formerly called Closed joint stock company BDO Unicon).

Deloitte & Touche CIS CJSC was invited to conduct the audit of URALCHEM Group's financial statements for 2011 in accordance with International Financial Reporting Standards.

# ANNEXES

## Annex 1: Major Transactions and Related-Party Transactions

### List of transactions in 2011

1. Additional agreement No. 9 to Contract No. 5015 on opening non revolving line of credit of 04.06.2008 between URALCHEM, OJSC and "Sberbank of Russia" OJSC. Transaction is approved by URALCHEM, OJSC General shareholders meeting (Minutes No. 20 of 22.02.2011).
2. Additional agreement No. 8 to Contract No. 3804 on opening non revolving line of credit of 27.07.2007 between URALCHEM, OJSC and "Sberbank of Russia" OJSC. Transaction is approved by URALCHEM OJSC General shareholders' meeting (Minutes No. 20 of 22.02.2011).
3. Additional agreement No. 4 to Securities pledge agreement No. 5154/ZAL-3 of 30.11.2009. Transaction is approved by URALCHEM, OJSC General shareholders' meeting (Minutes No. 20 of 22.02.2011).
4. Direct debit agreement No. 3804-BS. Transaction is approved by URALCHEM, OJSC General shareholders' meeting (Minutes No. 20 of 22.02.2011).
5. Direct debit agreement No. 5015-BS. Transaction is approved by URALCHEM, OJSC General shareholders meeting (Minutes No. 20 of 22.02.2011).
6. Additional agreement No. 10 to Contract No. 5015 on opening non revolving line of credit of 04.06.2008 between URALCHEM, OJSC and "Sberbank of Russia" OJSC. Transaction is approved by URALCHEM, OJSC General shareholders' meeting (Minutes No. 20 of 22.02.2011).
7. Additional agreement No. 2 to Securities pledge agreement No. 5015/ZAL-6 of 28.02.2011 between URALCHEM, OJSC and "Sberbank of Russia" OJSC. Transaction is approved by URALCHEM, OJSC General shareholders meeting (Minutes No. 24 of 27.10.2011).
8. Additional agreement No. 5 to Securities pledge agreement No. 5154/ZAL-3 of 30.11.2009 between URALCHEM, OJSC and "Sberbank of Russia" OJSC. Transaction is approved by URALCHEM, OJSC General shareholders' meeting (Minutes No. 24 of 27.10.2011).
9. Contract No. 5464 on opening non revolving line of credit between URALCHEM, OJSC and "Sberbank of Russia" OJSC. Transaction is approved by URALCHEM, OJSC General shareholders meeting (Minutes No. 24 of 27.10.2011).
10. Contract No. 5463 on opening non revolving line of credit between URALCHEM, OJSC and "Sberbank of Russia" OJSC. Transaction is approved by URALCHEM, OJSC General shareholders' meeting (Minutes No. 24 of 27.10.2011).
11. Additional agreement to Contract No. 3804 on opening non revolving line of credit of 27.07.2007 between URALCHEM, OJSC and "Sberbank of Russia" OJSC. Transaction is approved by URALCHEM, OJSC General shareholders' meeting (Minutes No. 23 of 24.08.2011).
12. Additional agreement No. 1 to Securities pledge agreement No. 5015/ZAL-6 of 28.02.2011 between URALCHEM, OJSC and "Sberbank of Russia" OJSC. Transaction is approved by URALCHEM, OJSC General shareholders' meeting (Minutes No. 23 of 24.08.2011).
13. Additional agreement No. 2 to Securities pledge agreement No. 5015/ZAL-6 of 28.02.2011 between URALCHEM, OJSC and "Sberbank of Russia" OJSC. Transaction is approved by URALCHEM, OJSC General shareholders' meeting (Minutes No. 23 of 24.08.2011).
14. Additional agreement No. 5 to Securities pledge agreement No. 5154/ZAL-3 of 30.11.2009 between URALCHEM, OJSC and "Sberbank of Russia" OJSC. Transaction is approved by URALCHEM, OJSC General shareholders' meeting (Minutes No. 23 of 24.08.2011).
15. Security offers for four non-convertible interest-bearing documentary bearer bonds series 01,02,03,04,05 issued by URALCHEM-FINANCE. Transactions are approved by URALCHEM, OJSC Board of Directors (BD Minutes No. 3 of 15.04.2011).

16. Security offers for three non-convertible interest-bearing documentary bearer bonds series 05,06,07 issued by URALCHEM-FINANCE. Transactions are approved by URALCHEM, OJSC Board of Directors (BD Minutes No. 2 of 11.07.2011).
17. Contract No. 5464 on opening non revolving line of credit between URALCHEM, OJSC and "Sberbank of Russia" OJSC. Transactions are approved by URALCHEM, OJSC Board of Directors (BD Minutes No. 10 of 26.09.2011).
18. Additional agreement No. 2 to Securities pledge agreement No. 5015/ZAL-6 of 28.02.2011 between URALCHEM, OJSC and "Sberbank of Russia" OJSC. Transactions are approved by URALCHEM, OJSC Board of Directors (BD Minutes No. 10 of 26.09.2011).
19. Credit agreement for \$300,000,000 between URALCHEM, OJSC and Bank of Moscow OJSC. Transaction are approved by URALCHEM, OJSC Board of Directors (BD Minutes No. 23 of 26.12.2011).
20. Additional agreement No. 1 OF 03.10.2011 to Contract No. D/O-131-10 of 13.12.2010 between Open Joint Stock Company United Chemical Company URALCHEM (Seller) and Limited Liability Company URALCHEM Trading (SIA URALCHEM Trading) (Buyer). The transaction exceeds 25% of book value of URALCHEM, OJSC assets (as of the date of transaction), but it is not a major transaction, for it is made in the ordinary course of business. The transaction was approved by the URALCHEM, OJSC Board of Directors in accordance with the URALCHEM, OJSC Articles of Association requirements.

## Related-Party Transactions

Related-Party Transactions which according to the laws of the Russian Federation are subject to approval by executive bodies of URALCHEM, OJSC were not performed in 2011.

## Annex 2: Compliance with Corporate Code of Conduct

In 2011 the Company's corporate policy was based on the corporate governance code as follows:

Nº	Corporate Governance Code Provision	Compliance (YES/NO)
1	Shareholders shall be given at least 30-day notice of a general meeting, irrespective of the matters included in its agenda, unless the law provides for a longer notice period.	YES
2	Shareholders may review the list of persons entitled to attend general meetings, starting from the date of the meeting notice up through the closing of the meeting session or, in the event of absentee voting, up through the closing of ballot submission.	YES
3	Each shareholder may propose an item for the agenda of the general meeting or request that a general meeting be convened without submitting an excerpt from the share register, provided its title to shares is recorded in the share register system; if such title is recorded in the deposit account, a balance statement of such deposit account shall be sufficient for the shareholder to exercise the above rights.	YES
4	The company's Articles of Association authorize the board of directors to approve the company's financial and business plan each year.	YES
5	The company's Articles of Association authorize the board of directors to approve the contracts of the chief executive officer and members of the board.	YES
6	The company's board of directors includes at least one independent director who meets the eligibility criteria of the Corporate Governance Code.	YES
7	None of the company's directors has been convicted of any economic violation or violation against the government, government operations or the operations of local authorities; or who has been subjected to administrative penalty for any violation committed in the capacity of an entrepreneur or a member of the financial industry or securities market, or for tax violations.	YES
8	None of the company's directors is a member, chief executive officer (manager), member of governing bodies or employee of the company's competitors.	YES
9	The company's Articles of Association provide for cumulative voting for elections to the board of directors.	YES
10	The company's bylaws require members of the board of directors to refrain from actions that lead to a conflict of interests or have the potential to do so; if there is a conflict of interests, the member involved shall notify the board of directors of the same.	YES
11	The company's bylaws require the members of the board of directors to provide written notice to the board of their intent to perform any transactions with the company's securities or securities of its subsidiaries/affiliates, and to disclose the details of such transactions.	YES
12	The company's board of directors shall meet at least once every six weeks in the year covered by the annual report.	YES

Nº	Corporate Governance Code Provision	Compliance (YES/NO)
13	The company's bylaws set the procedure for holding board of directors meetings.	YES
14	The board of directors has an audit committee, nomination and remuneration committee, strategic planning and development committee	YES
15	The company's board of directors has approved bylaws setting the procedure for forming its committees and regulating their proceedings.	YES
16	The company's Articles of Association or bylaws require proposed loans to be approved by the management board, unless such transactions are major transactions or outside the Company's ordinary business.	YES
17	None of the members of the company's executive bodies are chief executive officers (managers), members of governing bodies or employees of any of the company's competitors.	YES
18	None of the members of the company's executive bodies has been convicted of any economic violation or violation against the government, government operations or the operations of local authorities; or subjected to administrative liability for any violation committed in the capacity of an entrepreneur or a member of the financial industry or securities market, or for tax violations. If the sole executive officer of the company is a managing company or a manager, the chief executive officer and members of the managing board of such managing company or manager must comply with the requirement to CEO and managing board.	YES
19	The company's bylaws do not allow its executive bodies to take any actions which will result or may result in a conflict of interests; if such conflict of interests has occurred, the company's executive bodies shall duly notify the board of directors.	YES
20	The company's contracts with its chief executive officer (managing company/ manager) provide for liability for failure to comply with regulations on insider and sensitive information.	YES
21	The company's Articles of Association do not relieve a purchaser from his/her obligation to offer the remaining shareholders an opportunity to sell their common shares (or other securities convertible into shares) in the event of a merger.	YES
22	The company's board of directors has approved a regulation describing the company's disclosure rules and procedures (Regulation on Information Disclosure).	YES
23	The company's bylaws contain a list of information, documents and materials to be submitted to shareholders for transacting the matters on the agenda of a general meeting.	YES
24	The company has a website that is regularly updated.	YES
25	The company's board of directors has adopted internal financial and business controls.	YES
26	The company has a department supervising compliance with internal control procedures (internal control or audit department).	YES
27	The company's bylaws require the board of directors to outline the structure of and appoint members to the company's internal audit department.	YES

№	Corporate Governance Code Provision	Compliance (YES/NO)
28	The company's bylaws set the deadline for submission to the company's internal audit department of documents or materials necessary to evaluate a financial or business transaction, and determine officers' and employees' liability for failure to comply with the deadline.	YES
29	The company's board of directors has issued guidelines for determining recommendations on dividends (dividend policy provisions).	YES
30	Dividend policy provisions establish the procedure for determining the minimum percentage of the company's net profit to be distributed as dividends, as well as the conditions under which the preferred share dividends stipulated in the company's Articles of Association are not paid or are not paid in full.	YES
31	The company discloses its dividend policy and any amendments to the policy in the periodical publication listed in the company's Articles of Association for publishing information regarding general meetings, as well as on its website.	YES

## ANNEX 3: LEGEND AND ACRONYMS

Short name as used in this Annual Report	Officialshortname
Uralchem, OJSC	Uralchem, OJSC
EuroChem	«MCC «EuroChem» OJSC
Acron	JSC Acron
Apatit	OJSC "Apatit".
Dorogobuzh	JSC Dorogobuzh
Phos Agro	OJSC "PhosAgro"
Uralkali	OJSC Uralkali
Silvinit	n/a
Minudobreniya (Rossosh)	OJSC MINUDOBRENIYA (Rossosh)
Perm Mineral Fertilizers	J.S.Co. «Minudobrenia»
SIBUR-Minudobreniya	n/a
Nevinnomyssky Azot	OJSC «NevinnomysskyAzot»
Cherepovetsky Azot	JSC"Cherepovetsky"Azot"
Ammophos	OJSC «Ammophos»
Azot (Kemerovo)	n/a
PhosphoritIndustrial Group	n/a
Balakovo Mineral Fertilizers	n/a
Belorechensk Mineral Fertilizers	n/a
Liphosa (Lithuania)	n/a
Voskresensk Mineral Fertilizers	OJSC «Voskresensk Mineral Fertilizers»
AzotBranch; Azot	Azot Branch of Uralchem, OJSC in Berezniki/ Azot, OJSC (Berezniki)
KCCW Branch	KCCW Branch of Uralchem, OJSC in Kirovo-Chepetsk
Uralchem-Trans	«URALCHEM-TRANS», LLC
Uralchem Trading House	Trading house URALCHEM, LLC
KCCW Mineral Fertilizer Plant	Kirovo-Chepetsky Khimichesky Kombinat, Open Joint Stock Company
URALCHEM Assist	URALCHEM Assist, GmbH (Germany)
SIA URALCHEM Trading	SIA URALCHEM Trading (Latvia)
SIA Riga fertilizer terminal	SABIEDRIBAS AR IEROBEZOTU ATBILDIBU Riga fertilizer terminal
URALCHEM FREIGHT	URALCHEM FREIGHT LIMITED(Cyprus)
URALCHEM Brasil	URALCHEM TRADING DO BRASIL LTDA

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